

Independent auditor's report
on the consolidated financial statements of
PJSC Magnit and its subsidiaries
for the year ended 31 December 2020

March 2021

**Independent auditor's report
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Independent auditor's report

To the Shareholders and
Board of Directors of PJSC Magnit

Opinion

We have audited the consolidated financial statements of PJSC Magnit and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for 2020 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter

How our audit addressed the key audit matter

Recognition of vendors allowances

The Group receives various types of allowances from vendors in the form of volume rebates and other forms of payments that effectively reduce the cost of goods purchased from the vendor. We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group's obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories. Information about accounting policy for vendor allowances is disclosed in Note 3 to the consolidated financial statements.

We compared a sample of accruals of volume rebates and other rebates, recorded based on management assumptions, to supporting documents from vendors and vendor agreements. We also compared the outstanding allowances receivable to the direct confirmations from vendors on a sample basis. We tested cut-off of vendor allowances recorded during a period shortly before and after year-end to supporting documents from vendors.

Valuation of goods for resale

The Group has significant balance of goods for resale. In accordance with IAS 2 *Inventories*, inventories are recorded at the lower of cost and net realizable value. In estimating the carrying amount of goods for resale, the Group's management uses judgments to estimate the net realizable value of goods for resale and the amount of handling costs to be included in the carrying amount of goods for resale. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Note 11 to the consolidated financial statements.

We assessed the assumptions used by the Group's management in the valuation of goods for resale. We assessed the Group's methodology in respect of valuation of net realizable value, analysed the dynamics of goods for resale turnover ratios taking into consideration seasonality and other applicable factors. We compared carrying values of goods for resale with subsequent sales proceeds by certain type of goods. We verified the mathematical accuracy of goods for resale net realisable value calculation. We assessed the process of allocation of handling costs to the carrying amount of goods for resale. We analysed the structure of costs included in the value of goods for resale. We compared the amount of costs with supporting documents received from suppliers and the Group's internal documents.



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Key audit matter

How our audit addressed the key audit matter

Impairment testing of property, plant and equipment and right-of-use assets

Impairment testing for property, plant and equipment and right-to-use assets was one of the key audit matters because the balance of property, plant and equipment and right-to-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate.

Information about property, plant and equipment, right-to-use assets and results of impairment testing is disclosed in Notes 7 and 8 to the consolidated financial statements.

Our audit procedures included an assessment of key management assumptions used by the Group, including those in respect of forecasted revenue and operating expenses.

We also analyzed discount rates used by management of the Group. We engaged our internal valuation experts in performing these procedures.

We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumption and assessed the Group's disclosures of these assumptions to which impairment testing is most sensitive, i.e., those that have the most significant impact on the recoverable amount of property, plant and equipment and right-of-use assets.

Impairment testing of goodwill from acquisition of the SIA Group

As at 31 December 2020, the balance of goodwill is 26,879,317 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC. As a result of this transaction, the Group obtained control over the SIA Group.

Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of goodwill includes numerous assumptions made by the Group's management, including the estimated effect of synergies, determination of a cash-generating unit for impairment testing purposes, forecasted revenue and gross margin, long-term growth rates and discount rates.

Information about goodwill is disclosed in Note 10 to the consolidated financial statements.

Our audit procedures included an assessment of assumptions used by the Group and reasonableness of forecasted data.

We assessed the judgment used by management in testing goodwill for impairment with respect to goodwill allocation to the relevant cash-generating unit.

We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumptions and assessed the Group's disclosures of those assumptions that have the most significant impact on the recoverable amount of cash generating unit to which goodwill is allocated.

Application of IFRS 16 Leases

The application of IFRS 16 was one of the key audit matters because the effect of the standard is significant to the consolidated financial statements, as the Group has large number of lease contracts and significant judgments were made by the management in assessing initial value of right-to-use assets and related liabilities with respect to ability to extend these lease contracts and, thus, determine a lease term.

Information about the application of IFRS 16 Leases is disclosed in Notes 3 and 8 to the consolidated financial statements.

We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with the Group's accounting records.

We analyzed management's judgments made to determine the lease term in agreements with extension options and to calculate the discount rates.

We analyzed information on IFRS 16 application disclosed in the consolidated financial statements.

Other information included in the Annual report of PJSC Magnit for 2020

Other information consists of the information included in the Annual report of PJSC Magnit for 2020 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report of PJSC Magnit for 2020 is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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



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

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

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



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

The partner in charge of the audit resulting in this independent auditor's report is I.Y. Ananyev.

I.Y. Ananyev
Partner
Ernst & Young LLC

12 March 2021

Details of the audited entity

Name: PJSC Magnit
Record made in the State Register of Legal Entities on November 12, 2003, State Registration Number 1032304945947.
Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5.

Details of the auditor

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

PJSC Magnit and its subsidiaries

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2020

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of PJSC Magnit and its subsidiaries ("the Group").

Management is responsible for the preparation of these consolidated financial statements that present fairly the financial position of the Group as at 31 December 2020 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- ▶ Selecting and applying accounting policies;
- ▶ Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ▶ Providing additional disclosures when compliance with the specific requirements of IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- ▶ Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- ▶ Designing, implementing and maintaining an effective and sound system of internal controls;
- ▶ Maintaining appropriate accounting records to ensure compliance of the consolidated financial statements of the Group with IFRS, local legislation and local GAAP;
- ▶ Preventing and detecting material misstatements due to fraud or error.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by management on 12 March 2021.

On behalf of the Management as authorised by the Board of Directors.

The Chief Executive Officer of PJSC Magnit

12 March 2021



J.G. Dunning

PJSC Magnit

Consolidated statement of financial position

as at 31 December 2020

(In thousands of Russian rubles)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	7	336,513,344	352,985,987
Right-of-use assets	8	308,444,695	313,566,212
Intangible assets	9	5,506,252	3,914,677
Goodwill	10	26,879,317	26,879,317
Long-term financial assets		1,117,551	314
		678,461,159	697,346,507
Current assets			
Inventories	11	205,949,194	218,873,586
Trade and other receivables	12	8,563,822	13,993,440
Advances paid	13	5,581,366	5,769,958
Taxes receivable, excluding income tax		75,650	1,464,207
Prepaid expenses		1,081,971	656,210
Short-term financial assets		317,672	553,697
Income tax receivable		661,791	1,130,420
Cash and cash equivalents	14	44,699,581	8,901,298
		266,931,047	251,342,816
Total assets		945,392,206	948,689,323
Equity and liabilities			
Equity attributable to the shareholders of the parent			
Share capital	15	1,020	1,020
Share premium	15	87,390,921	87,379,413
Treasury shares	15	(16,021,596)	(16,454,110)
Share-based payments reserve	31	2,055,322	1,623,268
Retained earnings		109,463,257	115,983,222
Total equity		182,888,924	188,532,813
Non-current liabilities			
Long-term loans and borrowings	20	147,694,926	119,632,362
Long-term lease liabilities	8	316,141,855	320,600,953
Long-term advances received		-	244,623
Long-term government grants	21	2,167,641	3,206,076
Deferred tax liabilities	29	12,225,590	16,073,679
		478,230,012	459,757,693
Current liabilities			
Trade and other payables	17	161,072,294	161,631,006
Accrued expenses	18	23,252,598	17,020,105
Taxes payable, excluding income tax	19	11,854,351	4,291,007
Dividends payable	16	24,094,729	14,452,943
Short-term advances received		955,732	696,526
Contract liabilities	22	2,592,558	1,056,711
Short-term government grants	21	627,304	62,857
Short-term loans and borrowings	20	18,391,601	64,578,456
Short-term lease liabilities	8	41,432,103	36,609,206
		284,273,270	300,398,817
Total liabilities		762,503,282	760,156,510
Total equity and liabilities		945,392,206	948,689,323

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.

PJSC Magnit

Consolidated statement of comprehensive income

for the year ended 31 December 2020

(In thousands of Russian rubles)

	Note	2020	2019
Revenue	23	1,553,777,351	1,368,705,394
Cost of sales	24	(1,188,021,688)	(1,056,706,053)
Gross profit		365,755,663	311,999,341
Rental and sublease income		3,153,243	3,143,997
Selling expenses	25	(16,887,124)	(15,686,379)
General and administrative expenses	26	(279,538,315)	(254,961,673)
Interest income		504,476	272,595
Finance costs	27	(44,772,274)	(47,781,649)
Other income	28	17,069,195	16,396,467
Other expenses		(1,129,018)	(1,676,061)
Foreign exchange (loss)/gain		(1,453,331)	872,834
Profit before tax		42,702,515	12,579,472
Income tax expense	29	(9,709,223)	(3,015,250)
Profit for the year	30	32,993,292	9,564,222
Total comprehensive income for the year, net of tax		32,993,292	9,564,222
Profit for the year			
Attributable to:			
Shareholders of the parent		32,993,292	9,564,222
		32,993,292	9,564,222
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		32,993,292	9,564,222
		32,993,292	9,564,222
Earnings per share (in RUB per share)			
- basic profit for the year attributable to the shareholders of the parent	30	337.95	97.98
- diluted profit for the year attributable to the shareholders of the parent	30	336.07	97.68

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.

PJSC Magnit
Consolidated statement of cash flows
for the year ended 31 December 2020
(In thousands of Russian rubles)

	Note	2020	2019 Restated (Note 4.2)
Cash flows from operating activities			
Profit before income tax		42,702,515	12,579,472
<i>Adjustments for:</i>			
Depreciation and impairment of property, plant and equipment and right-of-use assets	7, 8	88,061,585	87,117,847
Amortization of intangible assets	9	1,703,793	976,589
(Gain)/loss from disposal of property, plant and equipment	28	(1,165,190)	358,190
Loss from disposal of intangible assets	9	45,065	23,164
Gain from sales of investments		-	(47,511)
Provision for expected credit losses on trade and other receivables	26	451,920	405,773
Provision for expected credit losses on financial assets		247,436	-
Expense for inventories carried at net realizable value		597,351	358,375
Share-based payments reserve	31	876,076	2,452,342
Gain from cancellation of lease contracts	8	(1,687,459)	(1,985,180)
Gain from Covid-19 related rent concessions	8	(1,481,968)	-
Income from government grants	21	(664,257)	(383,086)
Foreign exchange loss/(gain)		1,453,331	(872,834)
Finance costs	27	44,772,274	47,781,649
Investment income		(504,476)	(272,595)
Operating cash flows before working capital changes		175,407,996	148,492,195
Decrease/(increase) in trade and other receivables		4,021,037	(6,787,427)
Decrease/(increase) in advances paid		188,592	(322,155)
Increase/(decrease) in advances received		14,583	(132,870)
Decrease/(increase) in taxes receivable other than income tax		1,388,557	(1,397,460)
Increase in prepaid expenses		(425,761)	(134,189)
Decrease/(increase) in inventories		12,327,041	(37,091,458)
(Decrease)/increase in trade and other payables		(2,133,884)	31,320,853
Increase in accrued expenses	18	6,232,493	3,935,220
Increase/(decrease) in taxes payable other than income tax		7,563,344	(500,829)
Increase/(decrease) in contract liabilities	22	1,535,847	(390,341)
Cash generated from operations		206,119,845	136,991,539
Income tax paid		(13,088,683)	(2,896,680)
Interest paid	8, 33	(43,820,851)	(46,732,567)
Interest received		400,901	251,870
Net cash from operating activities		149,611,212	87,614,162
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(28,136,397)	(53,911,476)
Purchase of intangible assets	9	(3,340,433)	(3,237,281)
Proceeds from sale of property, plant and equipment		2,069,928	672,002
Loans provided		-	(539,032)
Loans repaid		196,832	692,806
Proceeds from government grants	21	190,269	614,318
Net cash used in investing activities		(29,019,801)	(55,708,663)
Cash flows from financing activities			
Proceeds from loans and borrowings	33	452,555,765	695,756,324
Repayment of loans and borrowings	33	(471,761,619)	(677,163,335)
Dividends paid	16, 33	(29,871,472)	(29,993,007)
Repayment of lease liabilities	8	(35,715,802)	(33,242,289)
Purchase of treasury shares		-	(5,109,648)
Net cash used in financing activities		(84,793,128)	(49,751,955)
Net increase/(decrease) in cash and cash equivalents		35,798,283	(17,846,456)
Cash and cash equivalents at the beginning of the year	14	8,901,298	26,747,754
Cash and cash equivalents at the end of the year	14	44,699,581	8,901,298

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.

PJSC Magnit

Consolidated statement of changes in equity

for the year ended 31 December 2020

(In thousands of Russian rubles)

	Attributable to shareholders of the parent					Equity attributable to shareholders of the parent
	Share capital	Share premium	Treasury shares	Provision for share-based payments	Retained earnings	
Balance at 1 January 2019	1,020	87,257,340	(12,051,463)	-	137,235,129	212,442,026
Profit for the year	-	-	-	-	9,564,222	9,564,222
Total comprehensive income for the year	-	-	-	-	9,564,222	9,564,222
Dividends declared (Note 16)	-	-	-	-	(30,816,128)	(30,816,128)
Purchase of treasury shares (Note 15)	-	-	(5,109,648)	-	-	(5,109,648)
Share-based payments (Notes 15, 31)	-	-	-	2,452,342	-	2,452,342
Transfer of rights to equity instruments for share-based payments (Notes 15, 31)	-	122,073	707,001	(829,074)	-	-
Balance at 31 December 2019	1,020	87,379,413	(16,454,110)	1,623,268	115,983,223	188,532,814
Balance at 1 January 2020	1,020	87,379,413	(16,454,110)	1,623,268	115,983,223	188,532,814
Profit for the year	-	-	-	-	32,993,292	32,993,292
Total comprehensive income for the year	-	-	-	-	32,993,292	32,993,292
Dividends declared (Note 16)	-	-	-	-	(39,513,258)	(39,513,258)
Share-based payments (Notes 15, 31)	-	-	-	876,076	-	876,076
Transfer of rights to equity instruments for share-based payments (Notes 15, 31)	-	11,508	432,514	(444,022)	-	-
Balance at 31 December 2020	1,020	87,390,921	(16,021,596)	2,055,322	109,463,257	182,888,924

The accompanying notes on pages 14-73 are an integral part of these consolidated financial statements.

PJSC Magnit

Notes to the consolidated financial statements

for the year ended 31 December 2020

(In thousands of Russian rubles)

1. Corporate information

Closed 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 name 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, supermarkets 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:

Company name	Principal activity	Ownership interest as at 31 December 2020	Ownership interest as at 31 December 2019
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, vehicles maintenance services for the Group	100%	100%
LLC TD-holding	Production and processing of food for the Group	100%	100%
LLC MagnitEnerg	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 Volshebnaya 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%	100%
LLC Magnit IT Lab	Innovative software product development	100%	100%
LLC TH SIA Group*	Pharmaceutical wholesale	-	100%
LLC MF-SIA	Management activities	100%	100%
JSC SIA International Ltd*	Pharmaceutical wholesale	-	100%
JSC RINK*	Production of medical devices	-	100%
LLC MC SIA Group*	Management activities	-	100%

PJSC Magnit

Notes to the consolidated financial statements (continued)

1. Corporate information (continued)

Company name	Principal activity	Ownership interest as at 31 December 2020	Ownership interest as at 31 December 2019
JSC 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 - Vladivostok	Commission trade of medicines and medical products	100%	100%
LLC SIA International - Tambov*	Commission trade of medicines and medical products	-	100%
LLC SIA International - Volgograd*	Commission trade of 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 - Krasnoyarsk*	Commission trade of medicines and medical products	-	100%
LLC SIA International - Nizhniy Novgorod	Commission trade of medicines and medical products	100%	100%
LLC SIA International - Novosibirsk*	Commission trade of medicines and medical products	-	100%
LLC MFS - Samara*	Commission trade of medicines and medical products	-	100%
LLC MFS - Yaroslavl*	Commission trade of medicines and medical products	-	100%
LLC SIA International - Saint Petersburg*	Commission trade of medicines and medical products	-	100%
LLC SIA International - Khabarovsk	Commission trade of medicines and medical products	100%	100%
Stellary Cosmetic GmbH**	Holder of intangible assets	100%	-

* In 2020, the management of the Group decided to liquidate a number of the SIA group companies engaged in pharmaceutical wholesale and commission trade of medicines and medical products, production of medical devices and management activities. Liquidation of these companies did not have a significant impact on the consolidated financial statements of the Group and its operations.

** During the 2020 year, the Group acquired 100% of Stellary Cosmetic GmbH equity shares. This change did not have any material effect on the Group's consolidated financial statements and its operations.

2. Basis of preparation

Statement of compliance

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

Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Basis of accounting

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

The consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand, except when otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS.

Functional currency

The Russian ruble is the functional currency of all the companies within the Group and the currency in which these consolidated financial statements are presented.

Going concern

In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2021, taking into account Russia's current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones.

Management considers that operating cash flows and the available sources of credit are sufficient to meet the Group's liabilities during the next year. Thus, these consolidated financial statements have been prepared on a going concern basis.

3. Summary of significant accounting policies

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 entitled to, or is exposed to a variable return on the investment or is exposed to the risk of its change 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 to risk, 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more 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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders 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. The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company. 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.

If the Group loses control over a subsidiary, it derecognizes the respective assets (including goodwill), liabilities, non-controlling interests, and other components of equity, and recognizes any resultant gain or loss in profit or loss. Any investment retained is recognized at fair value.

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 are expensed and included in administrative expenses as incurred.

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 held 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held 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 recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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 of assets and liabilities

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

- ▶ expected to be realised or intended to be 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Current versus non-current classification (continued)

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

Fair values of financial instruments measured at amortised cost are disclosed in Note 33.

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)**Fair value measurement (continued)**

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

Revenue from contracts with customers

The Group is engaged in both retail and wholesale activities; goods are sold through a network of own stores and distribution centers. Revenue is recognized when control of the goods passes to the customer, i.e., sales to retail customers are recognized at the point of sale in stores and to wholesale customers - at the point of sale in distribution centres or stores, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is reduced by the expected amount of returns to which customers are entitled under Russian law within 14 days of the purchase except for certain categories of goods. The Group uses historical data on the term and frequency of returns from customers to estimate and recognize provisions for such returns at the time of sale. Because the level of returns has been steady for several years, it is highly probable that no significant changes in cumulative revenue recognized will occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Customer loyalty program

For the purpose of promoting sales and building customer loyalty, the Group establishes promotion programs to allow customers accumulate loyalty points and exchange them for a discount on goods of the main assortment or for goods specially purchased for promotions.

The loyalty program gives rise to a separate performance obligation because it provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty points awarded to the customer based on their relative stand-alone selling price and recognizes that portion as a contract liability until the points are redeemed by the customer. Revenue is recognized when the customer redeems their loyalty points against goods. The relative stand-alone selling price of the loyalty points is estimated based on the probability that the customer will redeem their points. The Group updates its estimate of the number of loyalty points that will be redeemed regularly, and the adjusted balance of contract liabilities is charged against revenue.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Customer loyalty program (continued)

Expenses related to loyalty programs in respect for goods purchased for the purpose of promotion and not sold in the retail chain, are recognized in selling expenses and classified as advertising expenses.

Revenue from advertising services and packaging materials

Revenue from advertising services and packaging materials is recognized in the reporting period when the services are provided. The Group classifies such revenue within other income and recognizes it over the period, during which a customer receives the services and obtains benefit from them at the same point of time. The Group recognizes revenue in proportion to the services received out of total services per contract

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing major parts or components of the property, plant and equipment and borrowing costs for long-term construction projects given the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at certain intervals, the Group depreciates them separately based on their specific useful lives.

Historical cost information was not available in relation to buildings purchased prior to transition to IFRS (1 January 2004). Therefore, management used valuations performed by independent professional appraisers to establish the fair value as at the date of transition to IFRS and used that value as the deemed cost at that date.

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

Depreciation is charged so as to write off the cost 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 perspective basis as a change in an accounting estimate.

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

	<u>Useful life in years</u>
Buildings	10-50
Machinery and equipment	1-14
Other fixed assets	1-10

Other fixed assets consist of vehicles and other miscellaneous groups of fixed assets. Depreciation of vehicles is included in selling expenses.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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 consolidated statement of comprehensive income.

Government grants

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

Government grants provided to finance specific expenses are recognized 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. Grants provided to finance an asset are recognized in profit or loss on a straight-line basis over the expected useful life of that asset.

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized software development costs, as well as websites and electronic applications that meet the criteria for recognition, are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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

Description	Useful life in years
Licenses	1-25
Software	1-25
Trademarks	1-10
Other	1-7

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Intangible assets (continued)

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

Leases

Group as a lessee

The Group's leases mainly include lease agreements for land and retail store premises.

The Group has applied a uniform recognition and measurement approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities in relation to its obligation to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below is a summary of the Group's accounting policies for lease:

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group uses the following useful lives:

	<u>Useful life, years</u>
Buildings	1-34
Land	1-65

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)**Leases (continued)**

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-to-use assets capitalized to the carrying value of assets under construction during the construction and redesign period necessary to bring the property into a condition suitable for use in accordance with the objectives of the Group. Right-of-use assets are tested for impairment.

Lease liabilities

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

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

Short-term leases

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue from lease or sub-lease in the consolidated statement of comprehensive income.

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Impairment of non-current assets (continued)

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.

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 recognized immediately in the consolidated statement of comprehensive income. 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 recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

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 recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)**Vendor allowances**

The Group receives various types of allowances from vendors in the form of volume discounts (rebates) and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates 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 tax legislation.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. 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 recognized 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 recognized for all taxable temporary differences, except:

- ▶ where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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 realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

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

Current and deferred taxes are recognized as an expense or income in the consolidated statement of comprehensive income, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also 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.

At the reporting date the Group did not have any pension plans accounted for in accordance with IAS 19 *Employee Benefits*.

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, supermarkets and others, and determined that the stores have 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of that asset, other borrowing costs are recognized 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 capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset (until the qualifying asset is put into operation).

Contract balances with customers*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 recognized 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 recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees receive equity instruments as consideration for rendered services. (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 recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service conditions and, where applicable, the performance conditions are fulfilled (the vesting period).

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Share-based payments (continued)

The cumulative expense recognized 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 consolidated statement of comprehensive income for a period represents the movement in cumulative expense recognized 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 recognized 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 recognized 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 recognized 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, 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.

Financial assets

Initial measurement

At initial recognition, 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; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVPL).

With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

The Group only measures loans given 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

At the first stage 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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

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

For all financial instruments measured at amortised cost and debt financial assets, interest income is recorded using the effective interest rate method. Interest income is recognized in the consolidated statement of comprehensive income.

Impairment of financial assets

The Group recognizes 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 original effective interest rate or approximation value. 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 recognized 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 ECLs). 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 ECLs).

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 recognizes 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 major banks and financial institutions.

Derecognition of financial assets and liabilities

A financial asset is removed from the consolidated statement of financial position when:

- ▶ contractual rights to cash flows from this financial asset expire; or
- ▶ the Group transfers the financial asset (substantially all the risks and rewards of ownership of the financial asset): or (a) transfers contractual rights to receive cash flows from the financial asset; or (b) reserves contractual rights to receive cash flows from the financial asset while assuming contractual obligations to repay these cash flows to one or several beneficiaries under the contract.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. When substantially all the risks and rewards are transferred, the Group derecognizes the financial asset. When the Group has not transferred all the risks and rewards and retained control over such financial asset, the financial asset continues to be recognized to the extent of the Group's continuing involvement in such asset.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments (treasury shares) are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized 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. Treasury shares may be purchased and held by the Company or other subsidiaries of the Group. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Treasury shares are used to settle share-based payments during the period.

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Share premium also includes a difference between the carrying amount of treasury shares and fair value of consideration transferred in business combination.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the 12 months ended 31 December 2020 and 2019.

Diluted earnings per share have been determined using the weighted average number of the Group's shares outstanding during the 12 months ended 31 December 2020 and 2019 increased by the expected number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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.

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.

Notes to the consolidated financial statements (continued)

3. Summary of significant accounting policies (continued)

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

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.

Derecognition of financial liabilities

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The right to offset should not be caused by a future event and should be legally enforceable in all the following cases:

- ▶ operating activity;
- ▶ default;
- ▶ insolvency or bankruptcy of the Group or any of 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.

4. Summary of changes in accounting policies and disclosures

4.1 Changes in accounting policies and disclosures

During the preparation of the consolidated financial statements for 2020, the Group decided to change its accounting policies as regards accounting for the effect from Covid-19 related rent concessions.

In its consolidated financial statements for 2020, the Group applied an exemption from the requirements of IFRS 16 concerning lease modification accounting for rent concessions arising as a direct consequence of Covid-19. The Group applied the practical expedient and did not analyze whether its rent concessions were lease modifications. The approach to amendments to IFRS 16 *Covid-19 Related Rent Concessions* disclosed in Note 4.3. The amendment was applied retrospectively.

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Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.1 Changes in accounting policies and disclosures (continued)

During the preparation of the interim condensed consolidated financial statements for the six months of 2020, the Group did not apply the practical expedient and accounted for changes in lease payments as lease modifications.

The table below shows the effect of applying the new approach on information included in the Group's interim condensed consolidated financial statements for the six months ended 30 June 2020.

Impact on the interim condensed consolidated statement of financial position as at 30 June 2020 (increase/(decrease) per line item):

	30 June 2020 as previously reported	Effect of restatement	30 June 2020 as restated
Non-current assets			
Right-of-use assets	306,122,243	(1,004,158)	305,118,085
Total non-current assets	680,089,706	(1,004,158)	679,085,548
Total assets	936,276,458	(1,004,158)	935,272,300
Equity and liabilities			
Retained earnings	114,334,304	728,562	115,062,866
Total equity	187,301,865	728,562	188,030,427
Non-current liabilities			
Long-term lease liabilities	315,005,878	(1,515,608)	313,490,270
Deferred tax liabilities	14,109,880	182,141	14,292,021
Total non-current liabilities	449,589,875	(1,333,467)	448,256,408
Current liabilities			
Short-term lease liabilities	38,301,842	(399,253)	37,902,589
Total current liabilities	299,384,718	(399,253)	298,985,465
Total equity and liabilities	936,276,458	(1,004,158)	935,272,300

Impact on the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 (increase/(decrease) in income and decrease/(increase) in expenses):

	For the six months ended 30 June 2020 as previously reported	Effect of restatement	For the six months ended 30 June 2020 as restated
General and administrative expenses	(139,032,804)	15,825	(139,016,979)
Finance costs	(23,265,342)	(58,918)	(23,324,260)
Other income	6,767,975	953,796	7,721,771
Profit before tax	17,947,775	910,703	18,858,478
Income tax expense	(4,176,629)	(182,141)	(4,358,770)
Profit for the year	13,771,146	728,562	14,499,708
Total comprehensive income for the year, net of tax	13,771,146	728,562	14,499,708
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	13,771,146	728,562	14,499,708
Basic and diluted earnings per share for the year attributable to the shareholders of the parent	141.11	7.47	148.58

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)**4.1 Changes in accounting policies and disclosures (continued)**

Impact on the interim condensed consolidated statement of cash flows for the six months ended 30 June 2020:

	For the six months ended 30 June 2020 as previously reported	Effect of restatement	For the six months ended 30 June 2020 as restated
Cash flows from operating activities			
Profit before income tax	17,947,775	910,703	18,858,478
<i>Adjustments for:</i>			
Depreciation and impairment of property, plant and equipment and right-of-use assets	44,371,294	(15,825)	44,355,469
Gain from Covid-19 related rent concessions	-	(953,796)	(953,796)
Finance costs	23,265,342	58,918	23,324,260
Cash flows from operating activities before changes in working capital	87,006,937	-	87,006,937
Cash generated from operations	58,845,657	-	58,845,657
Cash generated from operations			
Interest paid	(22,462,135)	(58,918)	(22,521,053)
Net cash from operating activities	32,403,518	(58,918)	32,344,600
Cash flows from financing activities			
Repayment of lease liabilities	(17,761,266)	58,918	(17,702,348)
Net cash used in financing activities	(8,635,012)	58,918	(8,576,094)

4.2 Reclassification in the consolidated statement of cash flows

The Group changed the presentation of certain items of the consolidated statement of cash flows for the year ended 31 December 2020. The comparative amounts for the year ended 31 December 2019 have been aligned with the newly adopted format of presenting the information. The Group made the following changes with respect to comparative data:

- ▶ provision for inventory in the amount of RUB 358,375 thousand was reclassified to line "Expenses on inventories recorded at net realizable value" from "Increase in inventories";
- ▶ government grants received to purchase property, plant and equipment in the amount of RUB 614,318 thousand were reclassified from cash flows from operating activities to cash flows from investing activities.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.2 Reclassification in the consolidated statement of cash flows (continued)

The table below shows the effect of changes on the consolidated statement of cash flows for the year ended 31 December 2019:

	2019 as previously reported	Effect of reclassification	2019 as restated
Cash flows from operating activities			
Expenses on inventories recorded at net realizable value	-	358,375	358,375
Income from government grants	-	(383,086)	(383,086)
Operating cash flows before working capital changes	148,516,906	(24,711)	148,492,195
Increase in inventory	(36,733,083)	(358,375)	(37,091,458)
Increase in government grants	231,232	(231,232)	-
Cash generated from operations	88,228,480	(614,318)	87,614,162
Cash flows from investing activities			
Proceeds from government grants	-	614,318	614,318
Net cash used in investing activities	(56,322,981)	614,318	(55,708,663)

4.3 New and amended standards and interpretations

Except for the changes mentioned above and the adoption of new standards and interpretations effective as of 1 January 2020, the accounting policies adopted in the preparation of the annual consolidated financial statements for 2020 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 7, IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.3 New and amended standards and interpretations (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group, nor is there expected to be any future impact.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework: to assist the IASB in developing standards; to help preparers develop consistent accounting policies where there is no applicable standard in place; and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework.

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Group has used the right to the exemption from the requirements of IFRS 16 in accounting for lease modifications. The decrease in lease payments resulting from Covid-19-related rent concessions was recorded as a decrease in the lease liability in the consolidated statement of financial position and as an increase in other income in the consolidated statement of comprehensive income. The decrease in the lease liability was determined as the difference between its carrying amount immediately prior to the rent concessions and the present value of future lease payments, with concessions included, discounted using the original discount rate.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.3 New and amended standards and interpretations (continued)

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

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 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

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 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ what is meant by a right to defer settlement;
- ▶ that a right to defer must exist at the end of the reporting period;
- ▶ that classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact which the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.3 New and amended standards and interpretations (continued)

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued *Property, Plant and Equipment - Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Amendments to IAS 37 - Onerous Contracts - Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.3 New and amended standards and interpretations (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS.

This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have any impact on the consolidated financial statements of the Group.

IAS 41 Agriculture - Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 *Agriculture*. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have any impact on the Group.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

In February 2021 the IASB issued amendments to IAS 1 and IFRS *Practice Statement 2*. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS *Practice Statement 2* provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Notes to the consolidated financial statements (continued)

4. Summary of changes in accounting policies and disclosures (continued)

4.3 New and amended standards and interpretations (continued)

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

In February 2021 the IASB issued amendments to IAS 8. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

5. 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.

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

Judgements

Lease term for contracts with a renewal option

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Under some of its leases, the Group has the option to lease the assets for an additional term, generally of one to ten years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Notes to the consolidated financial statements (continued)

5. Significant accounting judgements and estimates (continued)**Estimates and assumptions**

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

Valuation of inventory

Management reviews inventory balances to determine if the inventories can be sold at a price equal to or greater than their carrying amount plus costs to sell. The review also identifies slow-moving inventories that are written-off if obsolete or during physical inventory counts.

Impairment of non-current assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Management necessarily applies 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, future cash flows are estimated for each store based on cash flow projections using the latest forecast 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 future return on sales. Due to their subjective nature, these estimates will likely differ from actual future results of operations and cash flows, and it is possible that these differences could be material.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Notes to the consolidated financial statements (continued)

5. Significant accounting judgements and estimates (continued)

Estimates and assumptions (continued)

Useful lives of property, plant and equipment and intangible assets

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

The Group's leasehold improvements in convenience stores used under leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of lease agreements assuming leases will be renewed.

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 benefits to the Group, historical information on similar assets and industry tendencies and changes in the Group's development strategy.

Taxation

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

Expected credit losses (hereinafter "ECLs") for trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for long-term, 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.

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.

Assessment of the correlation between historical observable default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Group's credit loss experience and forecast economic conditions are not necessarily indicative of the customer's actual default in the future.

Notes to the consolidated financial statements (continued)

5. Significant accounting judgements and estimates (continued)**Incremental borrowing rate**

The Group determines lease liabilities by discounting lease payments and applying interest rate implicit in lease contracts. If the rate cannot be readily determined, the Group applies its incremental borrowing rate, adjusted to take into account the specific terms and conditions of a lease and to reflect the interest rate that the Group would pay to borrow:

- ▶ over a similar term to the lease term;
- ▶ the amount needed to obtain an asset of a similar value to the right-of-use asset; and
- ▶ in a similar economic environment.

6. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business.

The Group purchases materials from related parties, receives loans, places deposits, receives rental income.

Related parties of the Group are represented by the shareholders that have significant influence over the Group, and companies, which are the members of the same Group with shareholders (other related parties).

Bank VTB PJSC and VTB Capital JSC represent the related parties being shareholders of the Group and having significant influence over the Group.

Transactions with related parties can be carried out on terms different to transactions with third parties.

Related parties' balances as at 31 December 2020 and 31 December 2019 are presented as follows:

	Shareholders		Other related parties	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Other payables (Note 17)	20,583	94,502	165,670	58
Advances received	11,890	3,585	492	-
Other receivables (Note 12)	2,567	1,834	3,114	-
Loans received (Note 20)	-	33,200,000	-	-
Short-term loans receivable	-	-	-	247,761

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Notes to the consolidated financial statements (continued)

6. Balances and transactions with related parties (continued)

The Group's transactions with related parties for the years ended at 31 December 2020 and 31 December 2019 are presented as follows:

	Shareholders		Other related parties	
	2020	2019	2020	2019
Repayment of loans received, incl. finance costs	33,509,193	2,784,279	-	-
Finance costs	309,193	2,565,727	-	-
Other expenses	91,134	42,995	52,946	-
Interest income	49,429	14,611	-	30,228
Rent and utilities income	28,839	26,632	2,041	73
Other income	61	19,809	23,998	-
Loans receivable repayment	-	15,202	-	278,721
Loans received	-	5,218,552	-	-
Purchases of inventory	-	-	564,472	911,273
Loans issued	-	-	-	236,780
Purchase of property, plant and equipment	-	-	-	171,232
Purchase of intangible assets	-	-	-	45,248
Rent expenses	-	27,368	26,282	2,683

No guarantees have been given or received.

No significant expense has been recognized in the period for expected credit losses on amounts due from related parties.

Short-term remuneration of the key management and members of the Board of Directors of the Group for 2020 amounted to RUB 1,733,030 thousand (2019: RUB 2,067,900 thousand). Payments to the Group's management include remuneration under an employment contracts, social contributions and payments to members of the Board of Directors of the Group. The Group also accrued share-based payments to its key management personnel for 2020, information on these accruals is disclosed in the Note 31.

7. Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2020	14,013,576	327,078,060	131,244,831	42,265,508	12,329,092	526,931,067
Additions	-	-	12,840,791	1,432,848	13,992,898	28,266,537
Transfers	-	14,965,156	-	-	(14,965,156)	-
Disposals	(8,590)	(3,817,335)	(3,978,170)	(7,227,977)	(159,982)	(15,192,054)
At 31 December 2020	14,004,986	338,225,881	140,107,452	36,470,379	11,196,852	540,005,550
Accumulated depreciation and impairment						
At 1 January 2020	-	(65,460,025)	(83,753,846)	(24,467,009)	(264,200)	(173,945,080)
Depreciation for the year	-	(18,795,931)	(18,131,764)	(5,065,408)	-	(41,993,103)
Impairment for the year	-	(1,315,750)	(13,064)	-	(812,743)	(2,141,557)
Reversal of impairment losses	-	288,314	11,904	-	-	300,218
Disposals	-	3,764,278	3,464,916	6,955,165	102,957	14,287,316
At 31 December 2020	-	(81,519,114)	(98,421,854)	(22,577,252)	(973,986)	(203,492,206)
Net book value						
At 1 January 2020	14,013,576	261,618,035	47,490,985	17,798,499	12,064,892	352,985,987
At 31 December 2020	14,004,986	256,706,767	41,685,598	13,893,127	10,222,866	336,513,344

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Notes to the consolidated financial statements (continued)

7. Property, plant and equipment (continued)

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2019	14,004,240	294,355,010	114,262,265	43,165,668	23,156,927	488,944,110
Additions	19,019	-	22,869,304	1,723,433	30,024,652	54,636,408
Transfers	-	40,690,438	-	-	(40,690,438)	-
Disposals	(9,683)	(7,967,388)	(5,886,738)	(2,623,593)	(162,049)	(16,649,451)
At 31 December 2019	14,013,576	327,078,060	131,244,831	42,265,508	12,329,092	526,931,067
Accumulated depreciation and impairment						
At 1 January 2019	-	(50,803,350)	(71,203,070)	(22,100,208)	-	(144,106,628)
Depreciation for the year	-	(21,212,009)	(17,760,147)	(4,934,458)	-	(43,906,614)
Impairment for the year	-	(1,264,805)	(21,144)	(947)	(264,200)	(1,551,096)
Disposals	-	7,820,139	5,230,515	2,568,604	-	15,619,258
At 31 December 2019	-	(65,460,025)	(83,753,846)	(24,467,009)	(264,200)	(173,945,080)
Net book value						
At 1 January 2019	14,004,240	243,551,660	43,059,195	21,065,460	23,156,927	344,837,482
At 31 December 2019	14,013,576	261,618,035	47,490,985	17,798,499	12,064,892	352,985,987

In 2020, the weighted average capitalization rate on borrowed funds was 7.01% per annum (2019: 8.10%). The information on interest expenses included in the cost of qualifying assets is disclosed in Note 27.

Impairment of non-current assets, except for goodwill

Based on observed external evidence of impairment of non-current assets, except for goodwill, as at 31 December 2020, the Group made a conclusion on the unfavourable market and economic conditions in the market where the Group operated.

The Group performed the impairment test of non-current assets, including property, plant and equipment, right-of-use assets and intangible assets, to assess whether there are indicators of possible impairment. Based on the impairment testing, the Group recognized impairment losses in the consolidated statement of comprehensive income of RUB 2,160,293 thousand for the tested assets, including impairment of property, plant and equipment in the amount of RUB 1,328,814 thousand, and right-of-use assets in the amount of RUB 831,479 thousand: the amount of reversals of impairment losses of property, plant and equipment amounted to RUB 300,218 thousand right-of-use assets - RUB 303,769 thousand (as for 2019 year the Group recognized impairment losses RUB 1,458,360 thousand, including impairment of property, plant and equipment in the amount of RUB 1,038,962 thousand, right-of-use assets in the amount of RUB 419,399 thousand).

In addition, the Group recognized losses from impairment of property, plant and equipment in the consolidated statement of comprehensive income in the amount of RUB 812,743 thousand for items of property, plant and equipment for which completion of construction is not expected (In addition for 2019 year the Group recognized losses from impairment of property, plant and equipment resulting from a fire at the Group's distribution center in Voronezh and agricultural assets in the amount of RUB 512,134 thousand).

Group approach for impairment testing

The evaluation was performed at the lowest level of aggregation of assets that is able to generate independent cash inflows (CGU), which is generally at the individual store level.

Notes to the consolidated financial statements (continued)

7. Property, plant and equipment (continued)

Group approach for impairment testing (continued)

In determining units that generate substantially independent cash inflows management of the Group considered a number of factors, including how it controls performance of CGUs, how it make decisions about liquidation of assets or continuance of CGUs operations.

The Group compared recoverable amount of an individual CGU with its carrying amount for the purpose of impairment test. The recoverable amount is measured as higher of its fair value less costs of disposal and its value in use. From practical point of view, the Group does not disclose impairment by individual CGU due to significant volume of information.

Main assumptions

Future cash flows are based on the current budgets and forecasts for 5 years period approved by the management along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period. One the main assumption applied in the model of expected cash flows is increase of revenue by 4.2% (mainly driven by CPI) (2019: 3.7%).

Cash flow forecasts for capital expenditure are based on past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position.

Pre-tax discount rate represents the Group's pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets and is equal to 12.81%.

The Group's management believes that all of its estimates are reasonable and consistent with how the Group manages its assets and operations and reflect management's best knowledge.

Sensitivity analysis

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% higher than management's estimates, the impairment of non-current assets would increase by RUB 160,367 thousand. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% lower than management's estimates, the impairment of non-current assets would decrease by RUB 195,633 thousand. If the revenue rate of growth had been 0.5% lower than management's estimates, the impairment of non-current assets would increase by RUB 319,240 thousand.

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Notes to the consolidated financial statements (continued)

8. Lease

Group as a lessee

Right-of-use assets and lease liabilities

As at 31 December 2020, right-of-use assets consisted of the following:

	Buildings	Land	Total
Cost			
As at 1 January 2020	481,831,850	5,872,964	487,704,814
Additions	36,623,382	100,272	36,723,654
Modification	10,554,431	(148,910)	10,405,521
Indexation	1,373,791	17,664	1,391,455
Derecognition	(14,220,337)	(970,024)	(15,190,361)
As at 31 December 2020	516,163,117	4,871,966	521,035,083
Accumulated depreciation and impairment			
As at 1 January 2020	(173,221,982)	(916,620)	(174,138,602)
Depreciation for the year	(43,811,248)	(152,540)	(43,963,788)
Impairment for the year (Note 7)	(831,479)	-	(831,479)
Reversal of impairment losses (Note 7)	303,769	-	303,769
Derecognition	5,844,218	195,494	6,039,712
As at 31 December 2020	(211,716,722)	(873,666)	(212,590,388)
Net book value			
As at 1 January 2020	308,609,868	4,956,344	313,566,212
As at 31 December 2020	304,446,395	3,998,300	308,444,695

In 2020 depreciation of a right-of-use assets in the amount of RUB 264,355 thousand was capitalized to the value of property, plant and equipment.

As at 31 December 2019, right-of-use assets consisted of the following:

	Buildings	Land	Total
Cost			
As at 1 January 2019	418,391,845	5,614,674	424,006,519
Additions	54,440,799	67,007	54,507,806
Modification	20,204,993	385,366	20,590,359
Indexation	2,570,743	19,765	2,590,508
Derecognition	(13,776,530)	(213,848)	(13,990,378)
As at 31 December 2019	481,831,850	5,872,964	487,704,814
Accumulated depreciation and impairment			
As at 1 January 2019	(137,065,442)	(763,385)	(137,828,827)
Depreciation for the year	(41,740,978)	(224,692)	(41,965,670)
Impairment for the year (Note 7)	(419,399)	-	(419,399)
Derecognition	6,003,837	71,457	6,075,294
As at 31 December 2019	(173,221,982)	(916,620)	(174,138,602)
Net book value			
As at 1 January 2019	281,326,403	4,851,289	286,177,692
As at 31 December 2019	308,609,868	4,956,344	313,566,212

In 2019 depreciation of a right-of-use assets in the amount of RUB 724,932 thousand were capitalized to the value of property, plant and equipment.

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Notes to the consolidated financial statements (continued)

8. Lease (continued)

Group as a lessee (continued)

Lease liabilities

Set out below are the carrying amounts of Group's lease liabilities and their movements during the period:

	2020	2019
At 1 January	357,210,159	322,741,246
Additions and other increase	36,459,462	54,522,871
Modification	10,405,521	20,590,359
Indexation	1,391,455	2,590,508
Payments	(35,715,802)	(33,242,289)
Interest accrued (Note 27)	30,771,302	32,414,202
Interest paid	(30,771,302)	(32,414,202)
Derecognition	(10,838,108)	(9,900,264)
Rent concessions due to Covid-19 pandemic	(1,481,968)	-
Foreign exchange loss/(gain)	143,239	(92,272)
At 31 December	357,573,958	357,210,159

	Year of maturity	Weighted average effective interest rate, %	31 December 2020
Short-term liabilities	2021	8.47	41,432,103
Long-term liabilities	2022-2069	8.37	316,141,855
Total			357,573,958

	Year of maturity	Weighted average effective interest rate, %	31 December 2019
Short-term liabilities	2020	9.08	36,609,206
Long-term liabilities	2021-2069	8.94	320,600,953
Total			357,210,159

Set out below are the amounts recognized in the consolidated statement of comprehensive income ((income)/expenses):

	31 December 2020	31 December 2019
Depreciation and impairment of right-of-use assets	44,227,143	41,660,137
Interest expenses on the lease	30,771,302	32,414,202
Foreign exchange loss/(gain)	143,239	(92,271)
Gain from cancelation of lease contracts	(1,687,459)	(1,985,180)
Gain from Covid-19 related rent concessions	(1,481,968)	-
Lease expenses related to short-term lease (included in "General and administrative expenses")	267,715	249,969
Lease expenses related to lease of low-value assets (included in "General and administrative expenses")	79,410	103,472
Variable lease payments (included in "General and administrative expenses")	1,081,701	628,765
	73,401,083	72,979,094

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Notes to the consolidated financial statements (continued)

9. Intangible assets

As at 31 December 2020, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2020	503,881	4,622,012	32,592	99,373	5,257,858
Additions	81,115	3,220,423	1,606	37,289	3,340,433
Disposals	(283,376)	(981,308)	(18)	(37,317)	(1,302,019)
At 31 December 2020	301,620	6,861,127	34,180	99,345	7,296,272
Accumulated amortisation and impairment					
At 1 January 2020	(160,946)	(1,125,834)	(9,190)	(47,211)	(1,343,181)
Amortisation for the year	(233,281)	(1,427,274)	(3,387)	(39,851)	(1,703,793)
Disposals	268,921	952,487	18	35,528	1,256,954
At 31 December 2020	(125,306)	(1,600,621)	(12,559)	(51,534)	(1,790,020)
Net book value					
At 1 January 2020	342,935	3,496,178	23,402	52,162	3,914,677
At 31 December 2020	176,314	5,260,506	21,621	47,811	5,506,252

As at 31 December 2019, intangible assets consisted of the following:

	Licenses	Software	Trademarks	Other	Total
Cost					
At 1 January 2019	282,546	2,636,596	31,721	122,017	3,072,880
Additions	300,305	2,890,995	871	45,110	3,237,281
Disposals	(78,970)	(905,579)	-	(67,754)	(1,052,303)
At 31 December 2019	503,881	4,622,012	32,592	99,373	5,257,858
Accumulated amortisation and impairment					
At 1 January 2019	(138,561)	(1,197,228)	(5,938)	(54,004)	(1,395,731)
Amortisation for the year	(88,854)	(825,120)	(3,252)	(59,363)	(976,589)
Disposals	66,469	896,514	-	66,156	1,029,139
At 31 December 2019	(160,946)	(1,125,834)	(9,190)	(47,211)	(1,343,181)
Net book value					
At 1 January 2019	143,985	1,439,368	25,783	68,013	1,677,149
At 31 December 2019	342,935	3,496,178	23,402	52,162	3,914,677

Amortization expense is included in general and administrative expenses (Note 26). The information about impairment test performed is disclosed in Note 7.

10. Goodwill

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

	2020	2019
Goodwill as at 1 January	26,879,317	26,879,317
Goodwill as at 31 December	26,879,317	26,879,317

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Notes to the consolidated financial statements (continued)

10. Goodwill (continued)

Carrying amount of goodwill allocated to each of the cash generated units:

	As at 31 December 2020	As at 31 December 2019
Stores Magnit Cosmetic and Magnit Pharmacy formats	25,511,824	25,511,824
Manufacture company TD Holding LLC	1,367,493	1,367,493
Total	26,879,317	26,879,317

Stores Magnit Cosmetic and Magnit Pharmacy formats CGU

At the yearend the Group performed an annual impairment test of goodwill related to the acquisition of SIA Group. In assessing whether the goodwill has been impaired, the carrying value of CGU, comprising Magnit Cosmetic and Magnit Pharmacy formats, to which the goodwill had been allocated in full was compared with its estimated value in use.

Future cash flows were determined based on the forecast of free cash flows for five years subject to the effect of their terminal value.

The pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 12.81%.

As a result of the analysis no impairment was identified for this CGU.

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

The calculation of the value in use 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 in the Magnit Cosmetic and Magnit Pharmacy formats is in accordance with the approved strategic development plan and expected increased volume of sales. A decrease in consumer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected operating cash flows but would not cause an impairment loss.

Discount rate

An increase in the pre-tax discount rate by i.e. + 0.5%, to 13.31%, would reduce the expected discounted cash flows but would not cause an impairment loss.

Notes to the consolidated financial statements (continued)

10. Goodwill (continued)

Revenue growth

Revenue growth for the forecast period being in the range from 2.2% to 10.7% (2019 - 11.1% to 28%). The forecast is based on Group's activities in the Magnit Cosmetic and Magnit Pharmacy formats. 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 4% (2019: 2.8-3.2%). The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

A decrease in customer demand may lead to decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

Manufactory company TD-holding LLC

The Group performed its annual impairment test of goodwill related to the acquisition of TD-holding LLC as of 31 December 2020. In assessing whether the goodwill has been impaired, the carrying value of cash 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 five years plus terminal value. approved by the management of the Group, taking into account inflation 4% (2019: 3.3%), demand for goods produced by TD-holding LLC, as well as other macroeconomic assumptions. Pre-tax discount rate was determined based on the weighted average cost of capital of the Group and amounted to 12.81%.

The impairment test did not reveal any impairment of goodwill.

The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

11. Inventory

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

	2020	2019
Goods for resale (at lower of cost and net realisable value)	194,944,876	208,653,823
Materials and supplies (at cost price)	11,004,318	10,219,763
	<u>205,949,194</u>	<u>218,873,586</u>

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

During 2020 year the Group wrote down inventories to their net releasable value, which resulted in recognition of expenses within "Cost of goods sold" in the consolidated statement of comprehensive income in the amount of RUB 597,351 thousand (2019: RUB 358,375 thousand).

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Notes to the consolidated financial statements (continued)

12. Trade and other receivables

Trade and other receivables as at 31 December 2020 and 2019 consisted of the following:

	2020	2019
Other receivables - third parties	5,224,320	6,272,129
Trade receivables - third parties	4,848,309	8,782,045
Other receivables - related parties (Note 6)	5,681	1,834
Expected credit losses	(1,514,488)	(1,062,568)
	8,563,822	13,993,440

Other receivables mainly relate to vendor allowances.

Trade receivables are non-interest bearing and are generally repaid on a short-term basis within 90 days.

Trade receivables are mainly represented by accounts receivables from customers of the SIA Group.

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The ECLs 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.

As at 31 December 2020 the Group made an analysis of pandemic Covid-19 influence on the ECLs and did not identify significant deterioration of credit quality of the Group's main customers, so there was no need for the revision of the provision matrix for ECLs.

Set out below is the information about the expected credit losses on the Group's trade and other receivables as at 31 December 2020:

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2020						
ECL rate	0.1-3%	3-5%	10-20%	50%	100%	
Carrying amount before ECLs	3,910,007	4,485,359	255,116	354,015	1,073,813	10,078,310
ECLs	89,077	123,568	51,023	177,007	1,073,813	1,514,488

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Notes to the consolidated financial statements (continued)

12. Trade and other receivables (continued)

Set out below is the information about the expected credit losses on the Group's trade and other receivables as at 31 December 2019:

	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
2019						
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before						
ECLs	12,482,031	1,251,200	168,101	376,577	778,099	15,056,008
ECLs	25,024	37,536	33,620	188,289	778,099	1,062,568

Set out below is the movement in the allowance for expected credit losses:

	2020	2019
As at 1 January	(1,062,568)	(656,795)
Accrual of provision for expected credit losses	(668,262)	(505,958)
Release	216,342	100,185
As at 31 December	(1,514,488)	(1,062,568)

13. Advances paid

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

	2020	2019
Advances to third party suppliers	4,901,938	4,904,086
Advances for customs duties	617,903	751,668
Other advances	61,525	114,204
	5,581,366	5,769,958

14. Cash and cash equivalents

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

	2020	2019
Cash on hand, in RUB	2,080,093	2,262,150
Cash in banks, in RUB	9,348,609	452,565
Cash in banks, in foreign currency	935	5,456
Cash in transit, in RUB	1,599,303	4,981,127
Cash placed on accounts with minimum account balance, in RUB	9,160,000	1,200,000
Deposits, in RUB	22,510,641	-
	44,699,581	8,901,298

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Notes to the consolidated financial statements (continued)

14. Cash and cash equivalents (continued)

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 2020 and 2019.

As at 31 December 2020, cash of RUB 22,510,641 thousand was placed in rubles deposits, and cash of RUB 9,160,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2021. Interest accrued as at 31 December 2020 was immaterial.

As at 31 December 2019, cash of RUB 1,200,000 thousand was placed on accounts with minimum account balance maturing in January 2020. Interest accrued as at 31 December 2019 was immaterial.

15. Share capital, share premium and treasury shares

	2020 No. ('000)	2019 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid share capital (par value of RUB 0.01 each)	101,911	101,911
	2020	2019
Share premium at 1 January	87,379,413	87,257,340
Transfer of rights to equity instruments under share-based payments program (Note 31)	11,508	122,073
Share premium at 31 December	87,390,921	87,379,413
	2020	2019
	No. ('000)	No. ('000)
Balance of shares outstanding at beginning of financial year	97,550	98,665
Purchase of treasury shares	-	(1,302)
Transfer of treasury shares under share-based payments program (Note 31)	74	105
Transfer of treasury shares under employment contract with the President (Note 31)	41	82
Balance of shares outstanding at the end of financial year	97,665	97,550

In 2020, the Group did not acquire any treasury shares on the open market.

In 2020, the Group transferred 73,597 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 271,571 thousand. The difference of RUB 5,770 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as a reduction of share premium.

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Notes to the consolidated financial statements (continued)

15. Share capital, share premium and treasury shares (continued)

In 2020, the Group transferred 41,177 treasury shares to the Group's President under his employment contract (Note 31). The fair value of the consideration transferred was RUB 172,451 thousand. The difference of RUB 17,278 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as an increase of share premium.

In 2019, the Group purchased 1,302,397 treasury shares on the open market, the acquisition cost of the shares amounted to 5,109,648 thousand rubles.

In 2019, the Group transferred 105,258 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 432,634 thousand. The difference of RUB 35,979 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as share premium.

In 2019, the Group transferred 82,355 treasury shares to the Group's President under his employment contract (Note 31). The fair value of the consideration transferred was RUB 396,440 thousand. The difference of RUB 86,094 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as share premium.

16. Dividends declared

In 2020, the Group declared dividends to shareholders relating to 2019 and the 9 months of 2020.

	<u>2020</u>
Dividends declared for 2019 and for 9 months 2020 (RUB 157 and RUB 245.31 per share)	39,513,258

In 2019, the Group declared dividends to shareholders relating to 2018 and the 9 months of 2019.

	<u>2019</u>
Dividends declared for 2018 and for 9 months 2019 (RUB 166.78 and RUB 147.19 per share)	30,816,128

In 2020, the Group paid dividends of RUB 29,871,472 thousand (2019: RUB 29,993,007 thousand).

As at 31 December 2020, dividends payable were RUB 24,094,729 thousand (31 December 2019: RUB 14,452,943 thousand). Dividends payable as at 31 December 2020 were paid in January 2021.

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Notes to the consolidated financial statements (continued)

17. Trade and other payables

Trade and other payables as at 31 December 2020 and 2019 consisted of the following:

	31 December 2020	31 December 2019
Trade payables to third parties	145,281,458	140,630,829
Other payables to third parties	15,604,583	20,905,617
Other payables to related parties (Note 6)	186,253	94,560
	<u>161,072,294</u>	<u>161,631,006</u>

Average trade payables turnover was 43 days in 2020 and 45 days in 2019. Interest may be charged on the outstanding balance based on market rates in accordance with individual agreements with vendors, however no significant amounts of interest were charged to the Group during the reported year. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

Trade and other payables denominated in foreign currencies (mainly US dollars and euros) as of 31 December 2020 totaled RUB 10,398,919 thousand, including RUB 8,488,173 thousand in USD dollars and RUB 1,910,746 thousand in euros (31 December 2019: RUB 7,258,346 thousand, including RUB 5,785,691 thousand in USD dollars and RUB 1,472,655 thousand in euros).

18. Accrued expenses

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

	31 December 2020	31 December 2019
Accrued salaries and wages	11,278,431	8,124,514
Other accrued expenses	11,974,167	8,895,591
	<u>23,252,598</u>	<u>17,020,105</u>

Other accrued expenses are represented by salary surcharges, employee bonuses and other accruals.

19. Taxes payable, other than income tax

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

	31 December 2020	31 December 2019
Value added tax	8,251,995	-
Social insurance contributions	1,790,088	2,378,411
Personal income tax	1,226,450	1,171,380
Property tax	520,401	631,732
Other taxes	65,417	109,484
	<u>11,854,351</u>	<u>4,291,007</u>

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Notes to the consolidated financial statements (continued)

20. Loans and borrowings

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

	Year of maturity 2020	31 December 2020	Year of maturity 2019	31 December 2019
Long-term loans and borrowings				
Unsecured bonds	2022-2023	70,897,128	2021-2022	40,737,574
Unsecured bank loans	2022-2027	79,614,330	2021-2027	47,817,777
Unsecured bank loans from related parties		-	2021-2022	33,200,000
Less: current portion of long-term borrowings and loans		<u>(2,816,532)</u>		<u>(2,122,989)</u>
Total long-term borrowings and loans		<u>147,694,926</u>		<u>119,632,362</u>
Short-term loans and borrowings				
Unsecured bonds	2021	10,296,260	2020	10,001,047
Unsecured bank loans	2021	5,278,809	2020	52,454,420
Current portion of long-term borrowings and loans		<u>2,816,532</u>		<u>2,122,989</u>
Total short-term loans and borrowings		<u>18,391,601</u>		<u>64,578,456</u>

The Group's loans and borrowings as at 31 December 2020 and 31 December 2019 bear market interest rates. All loans, borrowings and bonds are denominated in Russian rubles. Loans and borrowings were received at fixed rates.

The Group has complied with all covenants set out in the loan agreements as of 31 December 2020 and 31 December 2019.

21. Government grants

	2020	2019
At 1 January	3,268,933	3,037,701
Received during the year	190,269	614,318
Recognized in profit or loss	<u>(664,257)</u>	<u>(383,086)</u>
At 31 December	<u>2,794,945</u>	<u>3,268,933</u>
Short-term	627,304	62,857
Long-term	2,167,641	3,206,076

The government grants were received to reimburse a part of the direct costs incurred for the construction and modernization of property, plant and equipment. The government grants were received as benefit from obtaining loans at a below-market interest rate.

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Notes to the consolidated financial statements (continued)

22. Contract liabilities

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

	31 December 2020	31 December 2019
Short-term liabilities to the customer loyalty program	2,148,681	810,214
Short-term advances received from wholesale customers	443,877	246,497
	2,592,558	1,056,711

Changes to the short-term liabilities to the customer loyalty program include the following:

	2020	2019
At 1 January	810,214	1,178,273
Deferred during the year	12,235,191	5,479,317
Recognized as revenue during the year	(10,896,724)	(5,847,376)
At 31 December	2,148,681	810,214

23. Revenue from contracts with customers

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

	2020	2019
Retail	1,510,070,771	1,332,928,824
Wholesale	43,706,580	35,776,570
	1,553,777,351	1,368,705,394

Revenue from contracts with customers is represented by the amounts disclosed in the table above and advertising income and income from sales of packing materials (Note 28) for the 2020 amounted to RUB 1,562,939,358 thousand (2019: RUB 1,378,925,154 thousand).

24. Cost of sales

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

	2020	2019
Cost of goods sold	1,149,730,128	1,022,098,438
Transportation expenses	38,291,560	34,607,615
	1,188,021,688	1,056,706,053

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

Cost of goods sold includes losses due to inventory shortages.

In 2020, payroll expenses of RUB 22,419,764 thousand (2019: RUB 22,108,828 thousand) were included in cost of sales.

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Notes to the consolidated financial statements (continued)

25. Selling expenses

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

	2020	2019
Advertising	7,627,912	7,715,200
Packaging and raw materials	4,861,131	3,215,294
Depreciation of property, plant and equipment	4,398,081	4,755,885
	16,887,124	15,686,379

26. General and administrative expenses

General and administrative expenses for the years ended 31 December 2020 and 2019 consisted of the following:

	2020	2019
Payroll	108,535,879	95,517,926
Depreciation and impairment of right-of-use assets (Note 8)	44,227,143	41,660,137
Depreciation and impairment of property, plant and equipment (Note 7)	39,436,361	40,701,825
Payroll-related taxes	30,104,070	26,159,360
Utilities and rent	29,715,812	25,719,454
Bank charges	7,108,373	6,516,095
Repair and maintenance	6,731,558	5,747,572
Taxes, other than income tax	2,924,806	3,240,165
Security	1,790,229	1,797,235
Amortisation of intangible assets (Note 9)	1,703,793	976,589
Provision for unused vacation	542,696	681,018
Accrual of expected credit losses (Note 12)	451,920	400,437
Other expenses	6,265,675	5,843,860
	279,538,315	254,961,673

27. Finance costs

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

	2020	2019
Interest on loans and borrowings	8,462,099	13,359,504
Interest on bonds	5,669,013	2,037,062
Interest on lease liabilities (Note 8)	30,771,302	32,414,202
Total interest expense for financial liabilities	44,902,414	47,810,768
Less amounts included in the cost of qualifying assets	(130,140)	(29,119)
	44,772,274	47,781,649

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Notes to the consolidated financial statements (continued)

28. Other income

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

	2020	2019
Advertising income	5,371,680	6,379,618
Sales of packing materials	3,790,327	3,840,142
Fines and penalties	2,626,926	3,341,220
Gain from cancellation of lease contracts (Note 8)	1,687,459	1,985,180
Gain from Covid-19 related rent concessions (Note 8)	1,481,968	-
Gain from the sale of property, plant and equipment	1,165,190	-
Other	945,645	850,307
	17,069,195	16,396,467

29. Income tax

The Group's income tax expense for the years ended 31 December 2020 and 2019 was as follows:

	2020	2019
Consolidated statement of comprehensive income		
Current tax	13,728,393	3,302,256
Adjustments in respect of current income tax of previous year	(171,081)	(1,068,227)
Deferred tax	(3,848,089)	781,221
Income tax expense reported in the consolidated statement of comprehensive income	9,709,223	3,015,250

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2020 is as follows:

	At 1 January 2020	Recorded in the consolidated statement of comprehensive income, 2020	At 31 December 2020
Deferred tax assets			
Right-of-use assets / lease liabilities	(10,915,536)	(1,190,334)	(12,105,870)
Accrued expenses	(834,430)	(1,045,028)	(1,879,458)
Inventory	(962,839)	(512,512)	(1,475,351)
Advances paid	(131,884)	(56,686)	(188,570)
Other	(258,737)	(305,446)	(564,183)
Total deferred tax asset	(13,103,426)	(3,110,006)	(16,213,432)
Including offset with deferred tax liability	13,103,426	3,110,006	16,213,432
Net deferred tax asset	-	-	-
Deferred tax liabilities			
Property, plant and equipment	28,608,661	(722,682)	27,885,979
Prepaid expenses and intangible assets	319,556	70,845	390,401
Trade and other receivables	173,278	(10,636)	162,642
Other	75,610	(75,610)	-
Total deferred tax liability	29,177,105	(738,083)	28,439,022
Including offset with deferred tax asset	(13,103,426)	(3,110,006)	(16,213,432)
Net deferred tax liability	16,073,679	(3,848,089)	12,225,590

Notes to the consolidated financial statements (continued)

29. Income tax (continued)

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2019 is as follows:

	At 1 January 2019	Recorded in the consolidated statement of comprehensive income, 2019	At 31 December 2019
Deferred tax assets			
Right-of-use assets / lease liabilities	(9,041,780)	(1,873,756)	(10,915,536)
Accrued expenses	(338,284)	(496,146)	(834,430)
Inventory	(831,505)	(131,334)	(962,839)
Trade and other receivables	(128,665)	128,665	-
Advances paid	(254,167)	122,283	(131,884)
Prepaid expenses and intangible assets	(163,988)	163,988	-
Other	(544,185)	285,448	(258,737)
Total deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Including offset with deferred tax liability	11,302,574	1,800,852	13,103,426
Net deferred tax asset	-	-	-
Deferred tax liabilities			
Property, plant and equipment	25,701,441	2,907,220	28,608,661
Prepaid expenses and intangible assets	-	319,556	319,556
Trade and other receivables	-	173,278	173,278
Other	893,591	(817,981)	75,610
Total deferred tax liability	26,595,032	2,582,073	29,177,105
Including offset with deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Net deferred tax liability	15,292,458	781,221	16,073,679

The income tax expense 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 consolidated statement of comprehensive income:

	2020	2019
Profit before tax	42,702,515	12,579,472
Theoretical income tax expense at 20%	(8,540,503)	(2,515,894)
<i>Adjustments for:</i>		
Non-taxable income	(1,141,221)	(663,373)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(198,580)	(904,210)
Reversal of income tax liability as a result of filing amended tax returns	171,081	1,068,227
Income tax expense	(9,709,223)	(3,015,250)
Effective income tax rate	22.74%	23.97%

As at 31 December 2020 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 3,825,876 thousand (as of 31 December 2019: RUB 3,627,296 thousand).

Notes to the consolidated financial statements (continued)

29. Income tax (continued)

The Group did not reflect the deferred tax liability as of 31 December 2020 and 31 December 2019 in relation to the temporary taxable differences associated with investments in subsidiaries, since it subject to 0% tax rate to applicable dividend income in accordance with Russian Tax Code, since participation in the capital of subsidiaries is more than 50% and they are owned by the Group for more than one year.

30. Earnings per share

Earnings per share for the years ended 31 December 2020 and 2019 have been calculated on the basis of the net profit attributable to shareholders for the year and the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares:

	<u>2020</u>	<u>2019</u>
Profit for the year attributable to shareholders of the parent	32,993,292	9,564,222
Weighted average number of shares (in thousands of shares)	97,629	97,615
Basic earnings per share (in RUB)	<u>337.95</u>	<u>97.98</u>
Effects of dilution from share options (in thousands)	545	297
Weighted average number of ordinary shares adjusted for the effect of dilution (in thousands)	98,174	97,912
Diluted earnings per share (in RUB)	<u>336.07</u>	<u>97.68</u>

31. Share-based payments**Long-term incentive program for key management personnel**

The Group has a long-term incentive program for its key management. In accordance with the program regulations, the Group grants key management personnel the right to receive equity instruments based on the results of their work for 2018, 2019, 2020, 2021, and 2022, if the program conditions are met.

The long-term incentive program for key management personnel of the Group consists of a share options (share component) and share value appreciation rights (option component).

Each tranche provides for deferred execution (transfer of shares) for three years, provided that the employees continue to provide services. Each employee under this plan receives 15 options, each of which entitles them to an estimated number of shares over three years in five tranches.

Notes to the consolidated financial statements (continued)

31. Share-based payments (continued)

Share value appreciation rights

Options provide transfer of a variable number of shares depending on the excess of the market value of the Group's shares over the strike price.

The date of granting the options corresponds to the date of conclusion of the contract with the program participant. The maximum number of shares that can be purchased by all participants of the program under the option part is 1,755,319.

The program participant receives the right to exercise options when all of the following conditions are met:

- ▶ excess of the market value of the Group's shares at the date of calculation over the strike price;
- ▶ growth of the Group's consolidated EBITDA (Profit before interest, taxes, depreciation and amortization) of 10% CAGR (total comprehensive annual growth rate for calculating interest using the compound interest formula) compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- ▶ program participant continues to work in the Group on the exercise date of the option.

Share options

Share-based payment to the participant of the program of a fixed number of shares depending on the fulfillment of the conditions for achieving the goals of the program.

The date of granting the right corresponds to the date of conclusion of the contract with the program participant. The maximum number of shares that can be purchased by all participants of the program within the joint-stock part cannot exceed 1,755,319 shares.

The procedure for settlements with the participant when obtaining rights to equity instruments is similar to the procedure under the option part.

The program participant receives the right to shares if all of the following conditions are met:

- ▶ Group's consolidated EBITDA growth of 10% CAGR compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- ▶ a program participant continues to work in the Group on the exercise date of the option.

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Notes to the consolidated financial statements (continued)

31. Share-based payments (continued)

Share options (continued)

To assess the fair value of share-based payments to employees, the Group uses Monte Carlo simulation. In determining fair value, the Group has used the following assumptions:

	2020	2019
Dividend income (%)	6	6
The expected average volatility for the period (%)	30.27	28.78
Average risk-free interest rate for the period (%)	4.42	7.84
Estimated time for exercise of options (years)	5	6
Weighted average share price (RUB)	4,637	3,920
Applicable model	Monte Carlo	Monte Carlo

Movement for the period

For the year ended 31 December 2020, the Group recognized an expense in respect of share-based payments in the amount of RUB 971,718 thousand (2019: RUB 1,892,833 thousand) in the consolidated statement of comprehensive income.

In 2020, under the decision of the Board of Directors based on the analysis of the fulfillment of non-market terms of the Program in 2019, the rights to the payment of the 1/3 of the 2019 tranche were not transferred to the Participants of the Program. Following the decision, service expenses of RUB 202,323 thousand recognized earlier with respect to the 1/3 of the 2019 tranche were reversed in the consolidated financial statements for the year ended 31 December 2020.

As at the reporting date, the management of the Group expects that with respect to all tranches the program targets will be achieved.

During 2020, the Group transferred 73,597 treasury shares (2019: 105,258 treasury shares) repurchased from shareholders as a compensation to key management personnel under the Long-term remuneration of key employees of the Group. The fair value of the consideration transferred was RUB 271,571 thousand (2019: RUB 432,634 thousand). The difference between the carrying amount of the treasury shares and the fair value of the consideration transferred under the program in the amount of RUB 5,770 thousand reflected as a decrease in share premium (2019: RUB 35,979 thousand recorded as an increase in share premium).

The weighted average fair value per share at the execution was RUB 3,690 for the year ended 31 December 2020 (2019: RUB 4,110).

Share-based payments under the employment contract with the President of the Group

According to the terms of the employment contract concluded with the Group's President, the President is entitled to the Group's equity instruments provided that he continues to work in the Group on the exercise date of the option. The number of shares of the Group to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Group.

Notes to the consolidated financial statements (continued)

31. Share-based payments (continued)

Share-based payments under the employment contract with the President of the Group (continued)

Share-based payment is deferred and involves the transfer of shares during 3 years, including: 50% of fixed number of equity instruments no later than 31 May 2019, 25% no later than 31 March 2020, 25% no later than 31 March 2021, subject to continued work in the Group.

In 2020, the Group recognized an expense in respect of share-based payments in the amount of RUB 106,681 thousand in the consolidated statement of comprehensive income (2019: RUB 559,509 thousand).

During 2020, the Group transferred 41,177 treasury shares (2019: 82,355 shares) repurchased from shareholders under the terms of the employment agreement entered into with the Group's President. The fair value of equity instruments provided during the period was RUB 172,451 thousand (2019: RUB 396,440 thousand). The difference between the carrying amount of the treasury shares and the fair value of the consideration given to the President in the amount of RUB 17,278 thousand (2019: RUB 86,094 thousand) was recorded as an increase in share premium. The weighted average price per share at the execution date was RUB 4,188 in 2020 (2019: RUB 4,134).

32. Contingencies, commitments and operating risks

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including sanctions-imposed consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing behavior.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by 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 combination of the above resulted in reduced access to capital, a higher cost of capital, increased 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.

As the Covid-19 outbreak continues there remains uncertainty about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future. Government continues to take various measures, the future stability of the Russian economy is also largely dependent upon the impact and span of the Covid-19, the measures taken to contain the spread of the virus and further government reforms.

32. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

The Group's management continuously assesses the risks, as well as the consequences of the pandemic and the measures taken by the government.

Restrictive measures implemented in Russia to cope with the pandemic Covid-19 are resulted to less frequent customer visits to stores but larger purchases. From the beginning of Covid-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees, customers and uninterrupted business processes.

To date, the Group's management has not identified a significant negative impact of the pandemic, either on the supply chain or on the activities of the Group's chain of stores.

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.

A number of the relevant Russian tax, currency and customs legislations are vaguely and contradictory formulated, which may lead to different interpretations (which, in particular, may apply to legal relations in the past), selective and inconsistent application, as well as frequent and in some cases unpredictable changes. In practice the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments, It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future. As a result, additional taxes, penalties and interest may be imposed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome.

Management believes that at 31 December 2020, it 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 2020 and 2019, 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, neither of which, individually or in aggregate, had a material adverse effect on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

Notes to the consolidated financial statements (continued)

32. Contingencies, commitments and operating risks (continued)

Capital commitments

As at 31 December 2020 and 2019, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

	2020	2019
Within 1 year	2,536,645	3,793,382
2 to 5 years inclusive	-	6,968
	2,536,645	3,800,350

33. Financial risk management objectives and policies

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 to equity ratio.

The capital structure of the Group consists of loans and borrowings disclosed in Note 20, cash and cash equivalents disclosed in Note 14 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 15.

Debt-to-equity 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 debt-to-equity ratio in 2020 of 2.62 (2019: 2.82).

The debt-to-equity ratio as at 31 December 2020 and 2019 was as follows:

	2020	2019
Loans and borrowings (Note 20)	166,086,527	184,210,818
Long-term and short-term lease liabilities (Note 8)	357,573,958	357,210,159
Cash and cash equivalents (Note 14)	(44,699,581)	(8,901,298)
Net debt	478,960,904	532,519,679
Equity	182,888,924	188,532,813
Net debt-to-equity ratio	2.62	2.82

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

The change in the target net debt-to-equity ratio is due to the changes in the capital structure in 2020.

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Notes to the consolidated financial statements (continued)

33. Financial risk management objectives and policies (continued)

Fair values

Set out below is a comparison by class carrying amount and fair value of the Group's financial instruments that are recorded in the consolidated financial statements.

The fair value of the financial assets and 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.

	Carrying amount		Fair value	
	2020	2019	2020	2019
Long-term loans	77,795,398	79,653,488	79,179,985	81,873,746
Bonds	69,899,528	39,978,874	70,373,951	40,094,910

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 loans and borrowings 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 2020 and 2019, 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:

	1 January	Proceeds from loans and borrowings	Repayment of loans and borrowings	Finance costs	Interest paid	31 December
2020						
Short-term and long-term loans and borrowings	184,210,818	452,555,765	(471,761,619)	14,131,112	(13,049,549)	166,086,527
2019						
Short-term and long-term loans and borrowings	164,573,341	695,756,324	(677,163,335)	15,362,852	(14,318,365)	184,210,818

Information about changes in lease liability are presented in Note 8.

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
2020				
Dividends payable	14,452,943	39,513,258	(29,871,472)	24,094,729
2019				
Dividends payable	13,629,822	30,816,128	(29,993,007)	14,452,943

Foreign currency risk management

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

Notes to the consolidated financial statements (continued)

33. Financial risk management objectives and policies (continued)**Foreign currency risk management (continued)**

As at 31 December 2020 and 2019 the foreign currency balances were presented by trade and other payables disclosed in Note 17.

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 Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD exchange rate	Effect on profit before tax	Change in euro exchange rate	Effect on profit before tax
2020	+16.00%	(1,381,542)	+16.00%	(339,500)
	-16.00%	1,381,542	-16.00%	339,500
2019	+13.00%	(783,588)	+13.00%	(220,460)
	-11.00%	663,036	-11.00%	186,543

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

Interest rate risk management

The Group is exposed to insignificant interest rate risk as the Group's entities borrow funds at the fixed rates.

Credit risk management

Credit risk is the risk that a counterparty will not meet its contract obligations on time, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and investing activities (cash, short-term loans).

In determining the recoverability of trade and other receivables and contract assets 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.

Notes to the consolidated financial statements (continued)

33. Financial risk management objectives and policies (continued)**Credit risk management (continued)**

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

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 consolidated statement of financial position.

Offsetting of financial assets and financial liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of the offsetting as at 31 December 2020:

	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
As at 31 December 2020			
Financial assets			
Trade and other receivables	19,765,158	(11,201,336)	8,563,822
Total	19,765,158	(11,201,336)	8,563,822
Financial liabilities			
Trade and other payables	(172,273,630)	11,201,336	(161,072,294)
Total	(172,273,630)	11,201,336	(161,072,294)

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Notes to the consolidated financial statements (continued)

33. Financial risk management objectives and policies (continued)

Offsetting of financial assets and financial liabilities (continued)

The effect of the offsetting as at 31 December 2019:

As at 31 December 2019	Gross amount of recognized financial assets and liabilities	Gross amount of recognized financial liabilities and assets offset in the consolidated statement of financial position	Net amount of financial assets and liabilities presented in the consolidated statement of financial position
Financial assets			
Trade and other receivables	28,340,288	(14,346,848)	13,993,440
Total	28,340,288	(14,346,848)	13,993,440
Financial liabilities			
Trade and other payables	(175,977,854)	14,346,848	(161,631,006)
Total	(175,977,854)	14,346,848	(161,631,006)

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.

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.

	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	More than 5 years	Total
2020						
Trade and other payables	128,236,830	32,835,464	-	-	-	161,072,294
Dividends payable	24,094,729	-	-	-	-	24,094,729
Long-term and short-term lease liabilities	5,753,427	11,512,811	52,770,481	257,214,471	165,920,031	493,171,221
Long-term and short-term loans and borrowings	386,931	17,229,596	9,146,323	158,419,180	430,394	185,612,424
	158,471,917	61,577,871	61,916,804	415,633,651	166,350,425	863,950,668
2019						
Trade and other payables	127,097,996	34,533,010	-	-	-	161,631,006
Dividends payable	14,452,943	-	-	-	-	14,452,943
Long-term and short-term lease liabilities	5,558,534	11,065,328	50,541,221	254,023,784	195,440,197	516,629,064
Long-term and short-term loans and borrowings	9,376,666	2,474,305	63,637,393	129,767,356	1,186,754	206,442,474
	156,486,139	48,072,643	114,178,614	383,791,140	196,626,951	899,155,487

33. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

Additionally to the current loans the Group has access to financing facilities of RUB 280,612,664 thousand remained unused at 31 December 2020 (2019: RUB 263,940,663 thousand). The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

34. Subsequent events

There are no significant events after the reporting date.