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BELUGA GROUP PAO

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT

MOSCOW 2020

CONTENTS

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Independent auditor's report

To the Shareholders and the Board of Directors of Public Joint-Stock Company "Beluga Group"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Beluga Group" and its subsidiaries (hereinafter referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended 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 described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Rules of Auditors' Independence and Code of Professional Ethics for Auditors that are consistent to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other responsibilities in accordance with these requirements. 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.

Impairment of intangible assets with indefinite useful life	
Refer to Note 10 to the consolidated financial statements	
Key Audit Matter	**How the matter was addressed in our audit**
We believe that this matter was one of the key matters for our audit as the balance of intangible assets was material for the consolidated financial statements and the assumptions used in the course of the impairment analysis were highly subjective. The carrying valuet of intangible assets with indefinite useful life amounted to RUB 9,586 mln or 33% of the total non-current assets of the Group. The material assumptions used in the course of impairment testing of intangible assets with indefinite useful life comprised the estimations of sales volumes and profit margins by each brand, that were based on the Group budget data for 2020, as well as estimation of discount rates, growth rates of cash flow indicators, and expected growth rates during the terminal period.	In the course of our audit, we have obtained written representations from the management concerning the impairment testing of intangible assets with indefinite useful life, which was carried out by them. We have also engaged a valuation expert to perform an analysis of the impairment testing and calculation of the assets' recoverable value, that was carried out by the Group management. The discount rates and the long-term growth forecast were compared to the general market indicators and other available data; the impairment calculation method and accuracy of impairment models were reviewed; sensitivity analysis was carried out; and the consistency of models used (formulas and calculations) was compared to the prior periods.
Acquisition of LLC "Golubitskoe Estate" and the controlling share in two subsidiary companies (LLC "Liman" and LLC "Kurchanskaya").	
Refer to Note 27 to the consolidated financial statements	
In August 2018, the Group acquired 80% share of LLC "Villa Romanov" (renamed to LLC "Golubitskoe Estate") and the controlling share in two subsidiaries (LLC "Liman" and LLC "Kurchanskaya"). The transaction was accounted for by applying the acquisition method as provided by IFRS 3 "Business Combinations", that is in line with the Group accounting policy. The Group measured the acquisition-date fair value of identifiable assets and liabilities of LLC "Golubitskoe Estate",LLC "Liman" and LLC "Kurchanskaya". We believe that this matter was one of the key matters for our audit as the acquired identifiable assets and liabilities were significant for the consolidated financial statements and the assumptions and estimates used by management on this acquisition were significant.	We have performed audit procedures to assess whether the acquired assets and liabilities were identified appropriately as at the acquisition date. We have analysed management's judgment in application of purchase method in accordance with IFRS 3. We have engaged a valuation expert to perform an analysis of the final allocaton of acquisition cost, including measurement of the fair value of the acquired assets and liabilities, as well as an assessment of the assumptions and methods that were used by the Group management to measure the acquired assets and liabilities at fair value. We have verified the completeness of the disclosures provided in Note 27 in accordance with IFRS 3.
Impairment of goodwill	
Refer to Note 11 to the consolidated financial statements	
When performing an impairment analysis of goodwill, management uses estimates and assumptions to prepare cash flow forecasts and estimates appropriate growth and discount rates. The use of varying modelling methods and assumptions may may entail significantly different results. We believe that this matter was one of the key matters for our audit as the carrying amount of goodwill was material for the consolidated financial statements, the assumptions used in the course of the impairment analysis were highly subjective, and management's judgments and estimates were material.	We have engaged a valuation expert to perform an analysis of the goodwill's impairment, including an analysis of assumptions and assertions used by the Group management. With the valuation expert, we have analysed the cash flows, discount rates and long-term growth rates, by comparing them to the operating efficiency in the prior periods, business plans, market indicators and other available data. In addition, the valuation expert performed a sensitivity analysis for impairment testing results to the principal assumptions and assertions used to make the calculations.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of Beluga Group for 2019 apart from the consolidated financial statements and apart from our independent auditor's report thereon. The Annual Report is expected to be made available to us after the auditor's report date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work done, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance 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.

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

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

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

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

a) 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.

b) 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.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.

d) 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 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.

e) 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.

f) 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 engagement partner on the audit resulting in this independent auditor's report

D.V. Dogdanov

Power of Attorney No. 16-17/20-8 dated 9 January 2020

6 April 2020

Information about the audited entity

Name: PJSC Beluga Group.

Basic state registration number: 1047796969450.

Address: 40A Proletarskaya St., premises 112, Zvenigorod, Moscow Region 143180.

Information about the auditor

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Principal state registration number: 1037700117949.

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PNRE 11606048583**.**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019	2018
Revenue	18	53 074	43 411
Cost of sales	19	(33 547)	(26 521)
Gross profit		**19 527**	**16 890**
General and administrative expenses	20	(3 042)	(3 102)
Distribution expenses	21	(11 939)	(10 269)
Other income/(expense)	22	(154)	(246)
Operating profit		**4 392**	**3 273**
Net finance costs	23	(2 429)	(2 059)
Profit before tax		**1 963**	**1 214**
Income tax	24	(530)	(276)
Net income and total comprehensive income for the period		**1 433**	**938**
Attributable to			
Equity holders of the Company		1 353	919
Non-controlling interest		80	19
Basic earnings per share (RUB per share)	26	**103.71**	**68.34**

The Notes on pages 12 – 38 are an integral part of these Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____________

6 April 2020

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019	31 December 2018 *
ASSETS			
Non-current assets			
Property, plant and equipment	8	13 885	9 898
Goodwill	11	3 511	3 511
Intangible assets	10	10 017	10 091
Other long-term assets	9	260	530
Deferred tax assets	25	1 786	1 401
Total non-current assets		**29 459**	**25 431**
Current assets			
Inventories	12	16 181	12 666
Biological assets		159	165
Trade and other receivables	13	9 813	8 049
Prepayments		605	595
Income tax prepayment		126	133
Cash and cash equivalents	14	1 085	1 083
Total current assets		**27 969**	**22 691**
TOTAL ASSETS		**57 428**	**48 122**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	1 940	1 940
Treasury shares	15	(669)	(545)
Share premium	15	3 339	3 760
Retained earnings		14 222	13 012
Total equity attributable to shareholders of PAO Beluga Group		**18 832**	**18 167**
Non-controlling interest		1 201	1 136
Total equity and reserves		**20 033**	**19 303**
Non-current liabilities			
Loans and bonds	16	12 628	12 419
Long-term lease liabilities	3	2 326	-
Long-term accounts payable	27	580	840
Deferred tax liabilities	25	1 077	820
Total non-current liabilities		**16 611**	**14 079**
Current liabilities			
Loans and bonds	16	2 388	467
Lease liabilities	3	1 232	-
Trade and other payables	17	16 800	13 917
Income tax payable		364	356
Total current liabilities		**20 784**	**14 740**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**57 428**	**48 122**

* The data presented reflects changes made in connection with the completion of purchase price allocation (Note 27.1)

The Notes on pages 12 – 38 are an integral part of these Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____________

6 April 2020

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of PAO Beluga Group						
	Share capital	**Treasury shares**	**Share premium**	**Retained earnings**	**Total share-holders' equity**	**Non–controlling interest**	**Total equity and reserves**
Balance at 31 December 2017	**2 495**	**(862)**	**4 957**	**12 093**	**18 683**	**765**	**19 448**
Other changes in non-controlling interest	-	-	-	-	-	(73)	(73)
Acquisition of Golubitskoe estate (Note 27)	-	-	-	-	-	425	425
Cancellation of treasury shares	(555)	555	-	-	-	-	-
Repurchase and sale of treasury shares	-	(238)	(1 197)	-	(1 435)	-	(1 435)
Total transactions with shareholders	**(555)**	**317**	**(1 197)**	**-**	**(1 435)**	**352**	**(1 083)**
Total comprehensive income for the period	-	-	-	919	919	19	938
Balance at 31 December 2018	**1 940**	**(545)**	**3 760**	**13 012**	**18 167**	**1 136**	**19 303**

	Equity attributable to shareholders of PAO Beluga Group						
	Share capital	**Treasury shares**	**Share premium**	**Retained earnings**	**Total share-holders' equity**	**Non-controlling interest**	**Total equity and reserves**
Balance at 31 December 2018	**1 940**	**(545)**	**3 760**	**13 012**	**18 167**	**1 136**	**19 303**
Adoption of IFRS 16 (Note 3)	-	-	-	(143)	(143)	-	(143)
Balance at 1 January 2019	**1 940**	**(545)**	**3 760**	**12 869**	**18 024**	**1 136**	**19 160**
Dividends accrued to non-controlling interest	-	-	-	-	-	(6)	(6)
Other changes in non-controlling interest	-	-	-	-	-	(9)	(9)
Repurchase and sale of treasury shares	-	(124)	(421)	-	(545)	-	(545)
Total transactions with shareholders	**-**	**(124)**	**(421)**	**-**	**(545)**	**(15)**	**(560)**
Total comprehensive income for the period	-	-	-	1 353	1 353	80	1 433
Balance at 31 December 2019	**1 940**	**(669)**	**3 339**	**14 222**	**18 832**	**1 201**	**20 033**

The Notes on pages 12 – 38 are an integral part of these Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____

6 April 2020

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

CONSOLIDATED CASH FLOW STATEMENT

	Note	2019	2018
Cash flows from operating activities			
Profit before income tax and finance costs		4 392	3 273
Adjustments:			
Depreciation and amortisation		2 103	978
(Gain)/loss on disposal of property, plant and equipment		22	(55)
Review of estimates, impairment and revaluation		-	(22)
Other non-cash transactions		207	105
Changes in working capital:			
(Increase) in inventories		(3 716)	(1 576)
(Increase)/decrease in accounts receivable		(1 674)	566
Increase in accounts payable		3 172	1 476
Cash flows from operating activities		**4 506**	**4 745**
Interest and arrangements of borrowing paid		(2 063)	(1 927)
Income tax paid		(595)	(636)
Net cash flow from operating activities		**1 848**	**2 182**
Cash flows from investing activities			
Acquisition of subsidiaries		(551)	(463)
Acquisition of property, plant and equipment and intangible assets		(1 660)	(1 756)
Disposal of property, plant and equipment and intangible assets		17	36
Net cash flow from investing activities		**(2 194)**	**(2 183)**
Cash flows from financing activities			
Repurchase and sale of treasury shares	15	(545)	(1 281)
Payments of lease liabilities	3	(1 197)	-
Loans received and bonds issued	16	54 502	38 804
Loans and bonds repaid	16	(52 412)	(37 258)
Net cash flow from financing activities		**348**	**265**
Net increase/(decrease) in cash and cash equivalents		**2**	**264**
Cash and cash equivalents at beginning of the year	14	1 083	819
Cash and cash equivalents at end of the year	14	**1 085**	**1 083**

The Notes on pages 12 – 38 are an integral part of these Consolidated Financial Statements

Mechetin A.A., Chairman of Management Board ____

6 April 2020

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

“Beluga Group” PAO (hereinafter referred to as the “Company”) is domiciled in Russia as a Public Joint-Stock Company under the laws of the Russian Federation. The address of the Company’s office is 4, Yakimanskaya emb, bldg. 1, Moscow, Russia, 119180, legal address: 40A, Proletarskaya str., Zvenigorod, Russia, 143180.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group primarily is involved in the production of distilled alcohol and food products and operation of wholesale and retail business thereof. The Group's production facilities are located in the Russian Federation.

Information about the Group’s principal subsidiaries is provided below:

	31 December 2019		31 December 2018	
	Group's voting power, %	**Group's effective ownership, %**	**Group's voting power, %**	**Group's effective ownership, %**
Alcohol production and distribution				
Arkhangelsk distillery	74%	74%	74%	74%
Habarovskiy Distillery	73%	73%	73%	73%
Mariinsk Distillery	100%	100%	100%	100%
Bastion	99%	99%	99%	99%
Ussuriysky Balsam	89%	89%	89%	89%
Georgievsky	100%	100%	100%	100%
Golubitskoe Estate	81%	81%	80%	80%
Beluga Brands	100%	100%	100%	100%
Beluga Market Arkhangelsk	100%	100%	100%	100%
Beluga Market Vostok	100%	95%	100%	95%
Beluga Market Far East	100%	95%	100%	95%
Synergy Import	100%	100%	100%	100%
Beluga Market Khabarovsk	100%	95%	100%	95%
Beluga Market Vladivostok	100%	97%	100%	97%
Beluga Market Perm	100%	100%	100%	100%
Beluga Market	100%	100%	100%	100%
Beluga Market West	100%	100%	100%	100%
Beluga Vodka International Limited	100%	100%	100%	100%
Retail				
Winelab	100%	100%	100%	100%
Winelab-West	100%	100%	100%	100%
Erofey	100%	100%	100%	100%
Orient	100%	100%	100%	100%
Ussuriysky Balsam Trade Network	100%	100%	100%	100%
Food production and distribution				
DAKGOMZ	99%	99%	99%	99%
Mikhailovskaya Poultry Plant	96%	96%	96%	96%
Ussuriysky Dairy Plant	95%	95%	95%	95%
Nahodkinsky meat-processing plant	96%	96%	96%	96%
Rodimaya Storonka	100%	100%	100%	100%

All companies listed in the table above are registered in the Russian Federation, except Beluga Vodka International Limited registered in the Republic of Cyprus.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRSs").

The consolidated financial statements have been prepared under the historical cost convention except for biological assets, which are measured at fair value less point-of-sale costs.

Group companies maintain their accounting records and prepare statutory financial statements in accordance with the Russian Accounting Standards ("RAS") and legal and statutory regulations effective in the Russian Federation. As such, the accounting policies and reporting procedures adopted may differ from those generally accepted under IFRS. Accordingly, the accompanying consolidated financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for the consolidated financial statements to be presented in accordance with IFRS.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity,
or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Going Concern

The management of the Group has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. ADOPTION OF IFRS 16 "LEASES"

Effective 1 January 2019, the Group adopted IFRS 16 "Leases" using the modified retrospective approach allowing not to restate the comparative information and recognise the cumulative effect of the initial application in the opening retained earnings.

As at 1 January 2019, the Group recognised right-of-use assets in the amount of ₽2,830 mln and lease liabilities in the amount of ₽3,008 mln. Effect to the retained earnings was adjusted for deferred tax and amounted to ₽143 mln. The effect is presented in the consolidated statement of changes in equity.

At transition date, right-of-use assets were measured at carrying value as if the new standard had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application. Lease liability was measured at the present value of the remaining fixed lease payments in accordance with the lease contracts. Lease payments were discounted using a weighted average incremental borrowing rate of 9%.

The Group decided to apply practical expedient and not to apply IFRS 16 «Leases» to contracts where the lease term ends within 12 months from the date of initial application.

The table below shows the effect of adoption of IFRS 16 on the consolidated financial statements at the date of application:

	31 December 2018	Adoption of IFRS 16	1 January 2019
ASSETS			
Property, plant and equipment	9 898	2 830	12 728
Deferred tax assets	1 401	35	1 436
SHAREHOLDERS' EQUITY AND LIABILITIES			
Retained earnings	13 012	(143)	12 869
Long-term lease liabilities	-	872	872
Lease liabilities	-	2 136	2 136

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Changes in the accounting policies

The Group assesses whether the contract is a lease based on the fact that it conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Right-of-use assets

The Group recognises a right-of-use asset and a corresponding lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost comprising the lease liability, lease payments made at or before the commencement date, any initial direct costs and other lease related costs.

The right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of: the end of the useful life of the underlying asset or the end of the lease term. The lease term may include periods covered by an option to extend (or terminate) the lease, whenever the lease is reasonably certain to be extended (or not terminated). Management assesses extension and termination options of the leases on a regular basis.

Right-of-use assets are presented within “Property, plant and equipment” in the consolidated statement of financial position.

Short-term lease (with a lease term of 12 months or less) as well as lease of low-value assets isrecognised as an expense in the consolidated statement of profit or loss over the period of the lease.

Lease liabilities

The lease liability is initially measured at the present value of the fixed lease payments that are not paid at the commencement date. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group’s incremental borrowing rate is used.

The lease liability is subsequently measured at amortised cost using the effective interest method and remeasured in case of changes in the lease term, lease modification or revised lease payments. The amount of remeasurement is recognised as an adjustment to the carrying value of the right-of-use asset.

The right-of-use assets mainly comprised premises and buildings lease contracts. Movements in the carrying amount of right-of-use assets and lease liabilities for the year ended 31 December 2019 were as follows:

	Right-of-use assets	Lease liabilities
As of 1 January	**2 830**	**3 008**
Depreciation charge for the period	(957)	-
Additions	1 428	1 428
Interest expense	-	319
Lease payments	-	(1 197)
As of 31 December	**3 301**	**3 558**

Lease liabilities comprise current and non-current portions as follows:

	31 December 2019	31 December 2018
Short-term	1 232	872
Long-term	2 326	2 136
Total lease liability	**3 558**	**3 008**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Business combinations under common control

The Group applies the acquisition method by IFRS 3 “Business Combinations”, if there is an economic benefit for the Group from the transaction under common control, otherwise the pooling of interests method is applied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Applying the acquisition method requires: identifying the acquirer; determining the acquisition date; recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire; and recognising and measuring goodwill or a gain from a bargain purchase.

4.2. Principles of consolidation

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations, Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures non-controlling interest on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (gain on a bargain purchase) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interest (share of minority shareholders in a share capital of the subsidiaries of the Group) is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

4.3. Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and Group's entities are Russian Rubles. The presentation currency of these consolidated financial statements is Russian Rubles rounded to the nearest million.

礵蓎箶礵gn currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are revalued. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income or loss and other comprehensive income.

4.4. Property, plant and equipment

Land and buildings comprise mainly factories, warehouses and offices. Items of property, plant and equipment are carried at historic cost less depreciation and accumulated impairment losses.

Historic cost includes expenditure that is directly attributable to the acquisition of the items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying value of replaced parts is derecognised.

All other repairs and maintenance are charged to the consolidated statement of income or loss and other comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other assets is calculated using the straight-line method in order to allocate their cost over their estimated useful lives, as follows:

Group of property, plant and equipment	Useful life
Buildings and constructions	10 – 70 years
Machinery and equipment	2 – 15 years
Vineyards	30 – 50 years
Vehicles, office equipment	2 – 15 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposing of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by company as the proceeds less the carrying amount and are recognised within other income/expenses in the consolidated statement of income or loss and other comprehensive income in the "Other income / (expense)".

4.5. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill at acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost recognized at the date of acquisition less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired.

Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

4.6. Brands and other intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of intangible assets with the finite useful lives is charged on a straight-line basis over their estimated useful lives.

Group of intangible assets	Useful life
Software, patents, licenses and other intangible assets, excluding brands	2 – 10 years

Useful lives of intangible assets are reviewed and adjusted, if required, at each balance sheet date.

Intangible assets acquired in a business combination

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Brands

Capitalised brands are regarded as having indefinite useful lives. These brands are protected by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful life of these brands.

Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the statement of financial position.

Internally-generated intangible assets – research and development expenditure

Research expenditure in respect of drink and food products and package design is written off in the period in which it is incurred.

Any subsequent development expenditure in the period leading up to a product launch that meets the necessary recognition criteria set in the relevant standard is capitalised.

4.7. Impairment of non-financial assets

At each balance sheet date, the Group tests the carrying amount of tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indications of such impairment, the recoverable amount of a respective asset is assessed. If the asset generates no cash flows independently of other assets, the Group measures the recoverable amount of the cash-generating unit, which includes such asset.

Intangible assets that have an indefinite useful life are annually tested for impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing value in use, projected future cash flows are adjusted to reflect present value by using an interest rate, which reflects current assessments of time value of money and risks associated with the asset for which future cash flows were not adjusted.

If carrying amount is in excess of the asset's recoverable amount, asset's carrying amount is decreased to its recoverable amount. Impairment losses are recognised as expenses in the period when impairment occurred.

If impairment loss is later reversed, asset's (cash generating unit's) carrying value is increased to the revised estimate of recoverable amount so that the increased carrying amount is less than the carrying amount at which the respective asset (cash generating unit) would have been recorded had no impairment loss been recognised.

Reversal of the impairment loss is immediately recognised as income.

4.8. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, if applicable, direct labour and other general costs borne to bring inventories to their current condition and location. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated expenses to complete the works and applicable selling expenses.

4.9. Biological assets

Biological assets, which include poultry and winter wheat, are measured at fair value less estimated point-of-sale costs. Fair value of chicken is measured based on market price of chicken with similar age, value and genetic merit. Market price is based on market prices applicable in the region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4.10. Assets held for sale

The Group classifies long-term assets (of disposal group of assets or disposal subsidiaries) as held for sale in case agreement to sell the assets is concluded up to the date of issue of the consolidated financial statements or the Group officially announced by media or by own web-site to sell assets within 12 months after the reporting date and has a clear plan to execute the sale.

4.11. Financial instruments

Classification and subsequent measurement of financial assets. From 1 January 2018, the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value (either through other comprehensive income or profit or loss), and those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For debt instruments, the recognition of gains and losses depends on the business model in which the investment is held:

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains or losses arising from derecognition are recognised directly in profit or loss.

Assets that are held for collection of contractual cash flows and for sale, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income.

Assets that do not meet the criteria for amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, when the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI, there is no subsequent reclassification of gains and losses to profit or loss. Dividends from such investments are recognised in profit or loss, when the Group's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income.

Trade and other receivables. Trade and other receivables are recognised initially at contract value and subsequently measured at amortised cost using the effective interest method, less expected credit losses allowance.

Initial recognition of financial instruments. Derivatives are initially recorded at their fair value. All other financial assets and liabilities are initially recorded at their fair value plus transaction costs. The fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at their trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets impairment – credit loss allowance for expected credit losses. Under IFRS 9, loss allowances are measured on either of the following bases: 12-month expected credit losses that result from default events that are possible within the 12 months after the reporting date; and lifetime expected credit losses that result from all possible default events over the expected life of a financial instrument.

As permitted by IFRS 9, the Group measures loss allowances for trade receivables applying a simplified approach at an amount equal to lifetime expected credit losses. In calculating the expected credit loss, the Group considers historical credit loss experience.

The Group recognises a loss allowance based on the difference between the contractual cash flows and all the cash flows that the Group expects to receive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4.12. Financial liabilities

The Group’s financial liabilities have the following measurement categories: (a) derivative liabilities (see Derivative financial instruments below) and (b) other financial liabilities.

The Group has no derivative liabilities.

Other financial liabilities are carried at amortised cost. The Group’s other financial liabilities comprise “trade and other payables” and “bank loans and bonds”. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

4.13. Loans and borrowings

Borrowings are initially recognised at value of proceeds net of transaction costs.

Borrowings are subsequently stated at amortised cost using the effective interest method: any difference between fair value of the proceeds (net of transaction costs) and the redemption value is recognised as interest expenses within the borrowing period.

Borrowings are classified as short-term, unless the Group has a pre-emptive right to delay any liability repayment for the term not less than 12 months from the balance sheet date.

4.14. Trade accounts payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at contract value and subsequently measured at amortised cost using the effective interest method.

4.15. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

4.16. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares accounted at nominal value separately from share capital. Differences between purchase price and nominal value arising at acquisition or sale of treasury shares are accounted as changes in share premium in the shareholder’s equity.

4.17. Income tax (current and deferred income tax)

Income tax is stated in the consolidated financial statements in accordance with the effective legislation. Income tax expenses in the consolidated statement of profit or loss and other comprehensive income for the period comprise current and deferred income tax. Current income tax is calculated on the basis of taxable profit for the period, using the tax rates in effect at the balance sheet date. Deferred income tax is calculated on the basis of the balance sheet method.

Deferred income tax assets are recognised with allowance for all temporary differences that decrease the tax base, and unused tax assets and liabilities are carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences that decrease the tax base, or unrealised tax assets and unsettled liabilities to be carried forward to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, if the deferred asset in respect of income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

The carrying amount of income tax deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences with the exception of the cases when the term of utilisation of temporary differences could be controlled, and, with high degree of probability, temporary differences would not be utilised in the foreseeable future.

Deferred tax is charged or credited in the consolidated statement of profit or loss and other comprehensive income, unless otherwise it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

4.18. Employee benefits

Group companies operate defined contribution plans. The companies of the Group pay contributions to pension funds on the mandatory basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no other obligations in respect of employees' pensions or termination benefits.

4.19. Provisions

Provisions are recognised when the Group has a legal or constructive obligation at the balance sheet date as a result of past events and when it is more likely than not that an outflow of resources, embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are reviewed on every balance sheet date and are adjusted to show the current, most sound estimates.

Where there are a number of similar obligations, the likelihood that an outflow of economic benefits will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be little.

4.20. Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer. The amount of revenue recognised reflects the consideration the Group expects to receive in exchange for goods or services, taking into account any trade, volume and other discounts. Advances received before the control passes to a customer are recognised as the contract liabilities. There are no other contract liabilities. The amount of consideration does not contain a significant financial component as payment terms for the all of contracts are less than one year.

Under IFRS 15 such shipping revenue is required to be accounted for as a separate performance obligation and should be recognised over time as the service is rendered. The Group does not disclose revenue from rendering transportation services as it is not material.

Revenue is shown net of VAT and excise.

Interest income is recognised on a time-proportion basis using the effective interest method.

4.21. Finance costs

Finance costs are charged to the consolidated statement of profit or loss and other comprehensive income over the period during which those occurred. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Costs of arrangement of borrowings include bank commissions for arrangement of borrowings and costs of bank guarantees.

4.22. Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products in different price segments and the future margin in sales of different brands.

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

Useful economic life of property, plant and equipment

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

The Group's management periodically reviews the appropriateness of the useful economic lives.

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently.

The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest.

The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances review may cover larger periods.

Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In addition to what is described in Note 3 the following amendments and improvements to standards became effective for the reporting periods beginning on or after 1 January 2019:

In addition to those disclosed in Note 3, other new amendments and improvements to standards set out below became effective 1 January 2019:

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

These amendments and improvements to standards did not have any impact or did not have a material impact on the Group’s consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2019, and have not been early adopted:

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 17 “Insurance contracts”;
- Amendment to IFRS 3 – Definition of a business;
- Amendments to IAS 1 and IAS 8 – Definition of materiality;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;
- Amendments to IAS 1 – Classification of a liability as either current or non-current.

Unless otherwise described above the new standards, amendments to standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the Group. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Bonds are measured at amortised cost (Level 2 of the fair value measurement hierarchy) less amortised issue costs. Carrying value of bonds as of 31 December 2019 and 31 December 2018 approximates their fair values.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The carrying amounts of trade receivables approximate their fair values (Note 13). Their fair values are within level 3 of the fair value hierarchy.

Liabilities carried at amortised cost

The fair value is based on quoted market prices, if available. The estimated fair values of fixed interest rate instruments with a stated maturity, for which quoted market prices were not available, were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Carrying value of loans and issued bonds at 31 December 2019 and 31 December 2018 approximate their fair values.

8. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings, vineyards	Right-of-use assets	Machines and equipment	Vehicles, office equipment	Assets under construction	Total
Cost						
31 December 2017	**6 094**	**–**	**3 429**	**739**	**451**	**10 713**
Additions through business combinations (Note 27) *	1 790	–	703	176	201	2 870
Additions	162	–	1 046	199	357	1 764
Impairment	(318)	–	–	–	–	(318)
Transfers	31	–	74	5	(110)	–
Disposals	(89)	–	(121)	(46)	–	(256)
31 December 2018	**7 670**	**–**	**5 131**	**1 073**	**899**	**14 773**
Adoption of IFRS 16 (Note 3)	–	2 830	–	–	–	2 830
1 January 2019	**7 670**	**2 830**	**5 131**	**1 073**	**899**	**17 603**
Additions	78	1 428	1 449	226	24	3 205
Transfers	56	–	(56)	–	–	–
Disposals	(27)	–	(143)	(100)	–	(270)
31 December 2019	**7 777**	**4 258**	**6 381**	**1 199**	**923**	**20 538**
Depreciation						
31 December 2017	**1 402**	**–**	**2 270**	**540**	**–**	**4 212**
Additions through business combinations (Note 27) *	29	–	61	72	–	162
Charge for the period	160	–	464	126	–	750
Disposals	(87)	–	(108)	(54)	–	(249)
31 December 2018	**1 504**	**–**	**2 687**	**684**	**–**	**4 875**
Charge for the period	203	957	658	150	–	1 968
Disposals	(9)	–	(97)	(84)	–	(190)
31 December 2019	**1 698**	**957**	**3 248**	**750**	–	**6 653**
Carrying amount						
31 December 2017	**4 692**	**–**	**1 159**	**199**	**451**	**6 501**
31 December 2018	**6 166**	**–**	**2 444**	**389**	**899**	**9 898**
31 December 2019	**6 079**	**3 301**	**3 133**	**449**	**923**	**13 885**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

* The data presented reflects changes made in connection with the completion of purchase price allocation

Carrying value of property, plant and equipment pledged as a security for bank loans is disclosed in Note 16.

Cost of property, plant and equipment with zero carrying value at 31 December 2019 amounted to ₽2,326 mln (31 December 2018 – ₽2,061 mln).

9. OTHER LONG-TERM ASSETS

Other long-term assets include prepayments given for acquisition of property, plant and equipment in amount of ₽60 mln, other long-term accounts receivable in amount of ₽200 mln (as of 31 December 2018 – prepayments given for acquisition of property, plant and equipment in amount of ₽287 mln, other long-term accounts receivable in amount of ₽200 mln and long-term security prepayments under lease of property in amount of ₽43 mln).

10. INTANGIBLE ASSETS

	Software, patents, licenses, other	Brands	Total
Cost			
31 December 2017	**1 345**	**8 176**	**9 521**
Acquisition through business combinations (Note 27)	39	1 711	1 750
Acquisition	131	15	146
Impairment	–	(195)	(195)
Disposals	(186)	(65)	(251)
31 December 2018	**1 329**	**9 642**	**10 971**
Acquisition	72	5	77
Disposals	(18)	–	(18)
31 December 2019	**1 383**	**9 647**	**11 030**
Amortisation and impairment			
31 December 2017	**848**	**61**	**909**
Acquisition through business combinations (Note 27)	1	1	2
Charge for the year	156	64	220
Disposals	(186)	(65)	(251)
31 December 2018	**819**	**61**	**880**
Charge for the year	150	–	150
Disposals	(17)	–	(17)
31 December 2018	**952**	**61**	**1 013**
Net book value			
31 December 2017	**497**	**8 115**	**8 612**
31 December 2018	**510**	**9 581**	**10 091**
31 December 2019	**431**	**9 586**	**10 017**

Principal vodka brands are: Beluga, Myagkov, Belenkaya, Russian Ice, Tsar, Arkhangelskaya, White owl. Principal brandy brands are Bastion, Zolotoy Rezerv, Staraya Gvardia, Kamenniy Lev. Principal bitter brands are: Doctor August, Captain's and Beluga Hunting.

Acquired brands are stated at fair value at the acquisition date. Internally generated brands are not capitalised within the consolidated statement of financial position in accordance with the Group's accounting policy.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Intangible assets impairment test

Impairment test was performed for intangible assets with indefinite useful lives (brands). The recoverable amount of each tested brand was determined on value-in-use calculations. These calculations use cash flow projections. Cash flows beyond the planning period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2019	2018
Growth rate beyond five years	3.0%	3.0%
Discount rate	13.0%	15.5%

Management of the Group determined budgeted gross margin based on past performance and its market sales expectations.

Based on the results of these calculations the Group concluded that there was no impairment in the year ended 31 December 2019 and no impairment arose. In 2018 the Group recognised impairment of one trademark at amount of ₽195 mln, with impairment charge in the Other income/(expense) line in the consolidated statement of profit or loss and other comprehensive income.

11. GOODWILL

	31 December 2019	31 December 2018
At beginning of the year	**3 511**	**230**
Business combinations (Note 27)	–	3 377
Impairment	–	(96)
At end of the year	**3 511**	**3 511**

Goodwill impairment test

Goodwill is allocated to cash generating units (CGU), which represent the lowest level within the group at which the goodwill is monitored by management and which is not larger than a segment for segment reporting. The recoverable amount of each CGU was determined through value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2019	2018
Growth rate beyond five years	3.0%	3.0%
Discount rate	13.0%	15.5%

Management of the Group determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in management reports.

Based on the results of these calculations the Group concluded that there is no impairment in the years ended 31 December 2019 and 31 December 2018. In the year 2018 the Group has changed its approach to several CGUs, resulted in changes in budgets during next periods and decrease in expected results of these CGUs. The Group decided to recognize goodwill impairment of these CGUs in 2018. Impairment in the amount of ₽96 mln is recognised in other expenses in the consolidated statement of profit or loss and of the comprehensive income.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVENTORIES

	31 December 2019	31 December 2018
Finished goods	12 400	9 093
Raw materials	3 408	3 148
Work-in-progress	373	425
Total inventories	**16 181**	**12 666**

13. TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Trade accounts receivable	7 376	6 554
Provision for impairment of trade accounts receivable	(46)	(46)
Other accounts receivable, including VAT and excises recoverable	2 483	1 541
Total account receivable	**9 813**	**8 049**

Five largest customers contributed 23% of revenue of the Group for the year ended 31 December 2019 and debt of five larges debtors amounted to 12% of accounts receivable as of 31 December 2019 (25% and 12% respectively in the year 2018).

The movements in the expected credit loss provision for impairment of accounts receivable are:

	31 December 2019	31 December 2018
As at 1 January	**(46)**	**(242)**
Adoption of IFRS 9	-	(46)
Provision charged	(28)	(119)
Provision utilised	28	361
Total provision for impairment of accounts receivable as at 31 December	**(46)**	**(46)**

14. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in banks, nominated in RUB	332	315
Cash in banks, nominated in USD	329	370
Cash in banks, nominated in EUR	82	15
Cash in transit, nominated in RUB	300	338
Cash on hand	42	45
Total cash and cash equivalents	**1 085**	**1 083**

As of 31 December 2019 and 31 December 2018 the Group had no restricted cash.

No bank balances, term and fixed-term deposits were past due or impaired.

15. EQUITY AND RESERVES

Share capital

Share capital is the authorised capital of the Company.

As of 31 December 2017, Beluga Group PAO issued 24 954 thousand ordinary shares of ₽100 each at par. The Company’s common shares are admitted to trading on the Moscow Exchange (MOEX) under the ticker symbol “BELU”.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year 2018 the Company cancelled 5,554 thousand shares and the number of issued shares as of December 31, 2018 and December 31, 2019 amounted to 19 400 thousand shares.

Treasury shares

As of 31 December 2017 quantity of treasury shares amounted to 8,622 thousand shares.

During 2018:

- 2,378 thousand shares were repurchased from the market at amount of ₽1,435 mln. Change in value of treasury shares in amount of ₽238 mln and change in share premium in amount of ₽1,197 mln were recognised in the consolidated statement of changes in equity.
- 5,554 thousand shares were cancelled.

As of 31 December 2018, quantity of treasury shares amounted to 5,446 thousand shares.

During 2019:

- Net increase in quantity of treasury shares from shares sale and purchase operations amounted to 1,243 thousand shares at amount of ₽545 mln. Change in value of treasury shares in amount of ₽124 mln and change in share premium in amount of ₽421 mln were recognised in the consolidated statement of changes in equity.

As of 31 December 2019, quantity of treasury shares amounted to 6,689 thousand shares.

Share premium

Share premium reserve was formed at IPO and SPOs. When buying or selling own shares, the excess of the transaction price over the ₽100 par value is charged to share premium.

16. LOANS AND BONDS

	31 December 2019	31 December 2018
Bonds	10 395	5 997
Unsecured non-current bank loans	1 351	6 335
Secured non-current bank loans	882	87
Total non-current loans and bonds	**12 628**	**12 419**
Bonds	1 910	53
Secured bank loans	477	384
Unsecured bank loans	1	30
Total current loans and bonds	**2 388**	**467**
Total loans and bonds	**15 016**	**12 886**

For the end of the reporting period the corporate weighted average annual interest rate on bank loans and bonds was 8.98% (for the end of the year 2018 – 9.03%).

The maturity of loans and bonds is as follows:

	31 December 2019	31 December 2018
On demand or within one year	2 388	467
Between the first and second year	2 470	6 006
Between the second and fifth years	10 158	6 413
Total loans and bonds	**15 016**	**12 886**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Movements in the Group's bank loans and bonds were as follows:

	31 December 2019	31 December 2018
Balance as at January 1	**12 886**	**11 012**
Bank loans received and bonds issued	54 502	38 804
Bank loans and bonds repaid	(52 412)	(37 258)
Bank loans acquired in a business combination	-	269
Capitalisation and amortisation of transaction costs, net	40	59
Balance as at December 31	**15 016**	**12 886**

All loans and bonds are nominated, received and repaid in Russian Roubles.

As of 31 December 2019, five bond issues were placed:

- BO-04 issued in June 2015 at amount of ₽2,000 mln with 14.5% coupon rate, maturity date – 28 May 2020. In December 2016 the Group made repayment 50% of the bond issue. Coupon rate for outstanding ₽1,000 mln bonds was set in June 2017 at 9.75%.
- BO-05 issued in May 2016 at amount of ₽2,000 mln with 12.9% coupon rate. The bond issue was repaid in May 2018 (25% of the amount) and May 2019 (25% of the amount) with final maturity in April 2020 (50% of the amount). As at 31 December 2019 the Group owned bonds with nominal value of ₽894 mln. Nominal value of outstanding bonds is ₽106 mln.
- BO-P01 issued in June 2017 at amount of ₽5,000 with 9,5% coupon rate. The bond issue will be repaid in June 2020 (25% of the amount), June 2021 (25% of the amount) and June 2022 (50% of the amount). As at 31 December 2019 the Group owned bonds with nominal value of ₽1,672 mln. Nominal value of outstanding bonds is ₽3,328 mln.
- BO-P02 issued in July 2019 at amount of ₽5,000 with 9,5% coupon rate. The bond issue will be repaid in July 2022 (25% of the amount), July 2023 (25% of the amount) and July 2024 (50% of the amount).
- BO-P03 issued in December 2019 at amount of ₽5,000 with 8,25% coupon rate. The bond issue will be repaid in December 2022 (25% of the amount), December 2023 (25% of the amount) and December 2024 (50% of the amount). As at 31 December 2019 the Group owned bonds with nominal value of ₽2,000 mln. Nominal value of outstanding bonds is ₽3,000 mln.

Bonds are stated at initial amount less amortised costs of issue in the consolidated statement of financial position.

Bondholders have a right to demand early repayment of the bonds in the cases stipulated by the Federal Law 39-FZ "On securities market", as well as in the case of delisting of bonds, or excluding them from the quotation lists in accordance with the Resolution on bond issue.

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including the maintenance of certain financial ratios and financial indebtedness and crossdefault provisions. The Group was in compliance with covenants at 31 December 2019 and 31 December 2018.

At 31 December 2019, bank bonds were secured by:

- Plant, property and equipment with a carrying value of ₽217 mln (at 31 December 2018 – 251 mln);
- Shares of subsidiary at amount of ₽272 mln (at 31 December 2018 – ₽412 mln).

Unutilised credit facilities as at 31 December 2019 amounted to ₽17,246 mln (at 31 December 2018 – ₽12,454 mln).

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Trade payables	9 975	7 525
Excises, VAT and other taxes payable	4 983	4 347
Other payables	1 762	1 982
Advances obtained	80	63
Total trade and other payables	**16 800**	**13 917**

18. REVENUE

	2019	2018
Sales	93 265	77 803
Value added tax	(15 118)	(11 493)
Excise duties	(25 073)	(22 899)
Total revenue	**53 074**	**43 411**

19. COST OF SALES

	2019	2018
Materials, supplies and goods	30 864	23 911
Wages and salaries	1 339	1 342
Depreciation and amortisation	496	392
Fuel and power	376	415
Repairs and maintenance	171	182
Rent	22	44
Other costs	279	235
Total cost of sales	**33 547**	**26 521**

20. GENERAL AND ADMINISTRATION EXPENSES

	2019	2018
Wages and salaries	2 019	1 905
Bank services, information and consulting services, insurance, security	467	453
Depreciation and amortisation	92	133
Sundry taxes	123	155
Repairs and maintenance	67	47
Rent	71	185
Fuel and power	51	72
Personnel training	21	27
Other expenses	131	125
Total general and administrative expenses	**3 042**	**3 102**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. DISTRIBUTION EXPENSES

	2019	2018
Wages and salaries	5 032	4 396
Advertising, promotion, transportation	4 051	3 624
Depreciation and amortisation	1 515	454
Materials and packaging	342	263
Rent	185	908
Repairs and maintenance	219	186
Fuel and power	251	118
Other expenses	344	320
Total distribution expenses	**11 939**	**10 269**

22. OTHER INCOME / (EXPENSES)

	2019	2018
Impairment of accounts receivable	(28)	(165)
Write-off of accounts payable	13	32
Income/(loss) on disposal of materials	(2)	(102)
Income/(loss) on disposal of property, plant and equipment and intangible assets	(22)	55
Review of estimates, impairment and revaluation	-	22
Other expenses	(115)	(88)
Total other income / (expenses)	**(154)**	**(246)**

23. NET FINANCE COSTS

	2019	2018
Net interest on bank loans and bonds	2 085	1 779
Interest expense on lease liabilities under IFRS 16 “Lease” and amortization of discount on long-term payables	440	-
Costs of arrangement of borrowings, including cost of bank guarantees	137	194
Net currency exchange differences	(233)	86
Total net finance costs	**2 429**	**2 059**

24. INCOME TAX

	2019	2018
Current income tax, charge	(599)	(467)
Prior periods adjustments for income tax	(24)	(117)
Total current income tax	**(623)**	**(584)**
Deferred income tax	93	308
Total income tax	**(530)**	**(276)**

Income tax rates applicable in the year ended 31 December 2019 and 31 December 2018 were as follows: Russian Federation – 20%, Permsky Krai of the Russian Federation – 19.2% (in 2018 – 19.5%), Cyprus – 12.5%.

Companies engaged in the production of poultry are liable to profit tax at 0% rate.

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The tax on the Group's Profit before tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the consolidated entities as follows:

	2019	2018
Profit before tax	1 963	1 214
Tax calculated at 20%	**(393)**	**(243)**
Effect of local tax rates other than 20%	117	77
Prior period tax adjustments	(24)	(117)
Effect of expenses not deductible for tax purposes	(230)	7
Total income tax	**(530)**	**(276)**

25. DEFERRED TAX

Stated below are main deferred tax assets and liabilities recognised by the Group and the respective changes over the reporting period.

	1 January 2019 *	Credited/ (charged) to profit/ loss	31 December 2019
Property, plant and equipment	62	(6)	56
Intangible assets	34	(8)	26
Inventories	487	(9)	478
Accounts receivable	242	(98)	144
Accounts payable	71	(21)	50
Other assets and liabilities	540	492	1 032
Deferred tax assets	**1 436**	**350**	**1 786**
Property, plant and equipment	(521)	(76)	(597)
Intangible assets	(66)	(21)	(87)
Inventories	(55)	(10)	(65)
Accounts receivable	(143)	(80)	(223)
Accounts payable	(31)	(63)	(94)
Other assets and liabilities	(4)	(7)	(11)
Deferred tax liabilities	**(820)**	**(257)**	**(1 077)**
Net deferred tax asset	**616**	**93**	**709**

* Amount of Deferred tax assets as of 1 January 2019 exceeds amount as of 31 December 2018 by ₽35 due to adjustment under first adoption of IFRS 16 "Leases", Note 3.

	1 January 2018	Credited/ (charged) to profit/ loss	Business combinations	31 December 2018
Property, plant and equipment	153	(131)	5	27
Intangible assets	-	34	-	34
Inventories	291	64	132	487
Accounts receivable	92	112	38	242
Accounts payable	66	(14)	19	71
Other assets and liabilities	412	17	111	540
Deferred tax assets	**1 014**	**82**	**305**	**1 401**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	1 January 2018	Credited/ (charged) to profit/ loss	Business combinations	31 December 2018
Property, plant and equipment	(349)	(14)	(158)	(521)
Intangible assets	(120)	54	-	(66)
Inventories	(132)	102	(25)	(55)
Accounts receivable	(181)	38	-	(143)
Accounts payable	(39)	27	(19)	(31)
Other assets and liabilities	(23)	19	-	(4)
Deferred tax liabilities	**(844)**	**226**	**(202)**	**(820)**
Net deferred tax asset	**170**	**308**	**103**	**581**

The recognition and reversals of temporary differences, as presented in the tables above, primarily relate to the revaluation of property, plant and equipment and intangible assets for the purposes of acquisitions of subsidiaries, impairment of receivables, and inventories write offs to net realisable value.

26. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during period.

	2019	2018
Profit attributable to equity holders	1 353	919
Weighted average number of ordinary shares in issue (thousand)	13 046	13 448
Basic earnings per share, ₽	**103.71**	**68.34**

All shares are ordinary shares and there are no dilutive potential ordinary shares. Thus, the Group does not compute diluted earnings per share.

	2019	2018
Shares issued at 1 January, thousands	**19 400**	**24 954**
Cancellation of shares	-	(5 554)
Effect of treasury shares held	(6 354)	(5 952)
Weighted average number of outstanding shares (thousands)	**13 046**	**13 448**

27. BUSINESS COMBINATIONS

27.1. Acquisition of Golubitskoe Estate

In August 2018, the Group acquired 79.5% in Villa Romanov LLC (renamed to Golubitskoe Estate) and control shares in two supplementary companies. The companies operate in wine production, wine and table grapes growing.

In the consolidated financial statements for the year ended 31 December 2018 provisional values were assigned to net assets acquired. In the current consolidated financial statements for the year ended 31 December 2019 final fair value determined by the independent appraiser is presented:

	Provisional value	Value adjustment	Fair value at acquisition date
Property, plant and equipment	2 655	(695)	1 960
Intangible assets	7	(6)	1
Net deferred tax assets	81	(69)	12
Inventories	291	(55)	236
Cash and cash equivalents	5	-	5
Accounts receivable / (payable), net	(19)	(8)	(27)
Net assets acquired	**3 020**	**(833)**	**2 187**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Provisional value	Value adjustment	Fair value at acquisition date
Non-controlling interest	(589)	164	(425)
Purchase consideration	2 431	(253)	2 178
Result arising on acquisition, accounted as Goodwill	**-**	**416**	**416**

The outstanding part of the purchase consideration is accounted in short-term accounts payable in amount of ₽236 mln and long-term accounts payable in amount of ₽580mln (as of 31 December 2018 – ₽591 and ₽1 083 respectively) and will be transferred to the sellers until the end of the year 2023.

Cash outflow, related to the acquisition:

	2019	2018
Purchase consideration settled in cash	(551)	(757)
Cash balances as of the date of the business combination	-	5
Cash outflow on acquisition	**(551)**	**(752)**

27.2. Acquisition of Winlab

In January 2018, the Group increased its ownership in Winelab from 49% to 100%. Winelab owns and operates the retail chain of specialized alcohol shops. List of significant subsidiaries of Winelab is disclosed in the Note 1 in “Retail” section. The transaction is performed under common control, the Group applied acquisition method in accordance with IFRS 3 “Business Combinations”, and accounting treatment of the operation is disclosed in Note 4.

Financial results of the acquired companies from the date of acquisition to 31 December 2018: revenue ₽9 276 mln, operating result by the segment ₽598 mln (Note 28).

Fair value of the assets and liabilities as of the acquisition date were as follows:

	Fair value
Property, plant and equipment	748
Intangible assets	1 747
Net deferred tax assets	105
Inventories	1 220
Cash and cash equivalents	289
Accounts receivable / (payable), net	(4 316)
Net assets acquired	**(207)**
Fair value of the previously held equity interest	2 124
Purchase consideration	630
Goodwill	**2 961**
Purchase consideration settled in cash in the reporting period	-
Cash balances of Winelab and its subsidiaries as of the date of the business combination	289
Cash inflow on acquisition	**289**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. SEGMENT REPORTING

The Group operates in three principal business segments, namely: Alcohol, Retail and Food production.

Financial results of the Group by operational segments for the year ended 31 December 2019:

	Alco	Retail	Food	Intersegment	Consolidated
Sales, including excise and VAT	76 895	20 848	7 030	(11 508)	93 265
Segment revenue	38 908	15 239	6 348	(7 421)	53 074
Operating results by segments	**3 923**	**573**	**50**	**-**	**4 546**
Other income/(expenses)					(154)
Operating profit					**4 392**
Depreciation	1 010	952	141	-	2 103
EBITDA by segments	**4 933**	**1 525**	**191**	**-**	**6 649**
Other expenses					(154)
Consolidated EBITDA					**6 495**
Payments to acquire property, plant and equipment and intangible assets for the period	700	761	199	-	1 660
Total assets at the end of the period	43 453	11 027	2 948	-	57 428

Financial results of the Group by operational segments for the year ended 31 December 2018:

	Alco	Retail	Food	Intersegment	Consolidated
Sales, including excise and VAT	64 276	12 782	7 166	(6 421)	77 803
Segment revenue	31 326	9 276	6 483	(3 674)	43 411
Operating results by segments	**2 785**	**598**	**136**	**-**	**3 519**
Other income/(expenses)					(246)
Operating profit					**3 273**
Depreciation	668	155	155	-	978
EBITDA by segments	**3 453**	**753**	**291**	**-**	**4 497**
Other expenses					(246)
Consolidated EBITDA					**4 251**
Payments to acquire property, plant and equipment and intangible assets for the period	1 131	491	134	-	1 756
Total assets at the end of the period	36 250	8 987	2 885	-	48 122

29. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

29.1. Market risk

i) Foreign currency risk

At 31 December 2018 the Group net exposure to currency risk was ₽793 mln (mainly nominated in EURO and US Dollars: accounts receivable in amount of ₽1 071 mln, cash in amount of ₽385 mln less accounts payable in amount of ₽2 249 mln).

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2018 the Group net exposure to currency risk was ₽793 mln (mainly nominated in EURO and US Dollars: accounts receivable in amount of ₽1 071 mln, cash in amount of ₽385 mln less accounts payable in amount of ₽2 249 mln).

The effect of a 20% strengthening of US Dollars and EUR against Russian Rouble at the reporting date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year in amount of ₽91 mln (in 2018 – decrease ₽90 mln). A 20% weakening in the exchange rate would, on the same basis, have resulted in opposite result in the same amount.

ii) Price risk

The Group is not exposed to equity securities price risk as it does not hold in assets any quoted equity securities. The Group is not exposed to commodity price risk because both its finished goods and products and purchased raw materials are not traded on a public market.

iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group’s principal interest rate risk arises from long-term and short-term bank loans and bonds.

Variable interest rate risk

The Group has a low exposure to this risk, since it almost does not use lending instruments with a floating interest rate.

Fixed interest rate risk

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels.

Interest rate sensitivity on financial assets and liabilities is determined by analysis of the financial markets. Interest rates on principal financial items remain fixed throughout the term of the contract. The average term of a credit agreement is four years.

29.2. Credit risk

The Group’s primary exposure to credit risk arises through its trade receivables. The Group’s financial policy implies entering into transactions with creditworthy customers to mitigate any significant credit risk. The Group has procedures in place to control credit risk and the exposure to such risks is monitored on an ongoing basis. The Group has made provision for potential losses on receivables.

The Group enters into transactions only with well recognised, creditworthy and highly reputable third parties. It is Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Group exposure to bad debts is not significant. The Group accrued provision for expected credit losses.

Other financial assets of the Group with exposure to credit risk include cash and cash equivalents. Cash and cash equivalents are placed with reputable banks. Thus, management does not expect any of its counterparties to fail in meeting their obligations.

The Group’s maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets less impairment. The maximum exposure to credit risk at the reporting date was:

	31 December 2019	31 December 2018
Trade accounts receivable	7 530	6 508
Cash and cash equivalents less cash in hand	1 043	1 038
Other long-term assets	200	200
Total assets with exposure to credit risk	**8 773**	**7 746**

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At the end of the reporting period, there was no significant concentration of credit risk to the Group as none of the Group's debtors has the share more than 4% of the trade receivables.

29.3. Liquidity risk

Liquidity risk management is aimed at ensuring sufficient amounts of cash and cash equivalents and marketable securities and availability of credit fundraising for timely payment of obligations.

The Group's financial policy implies in maintenance of liquidity includes attracting long-term borrowings, decreasing share of short-term borrowings, issuing bonds, maintenance of sufficient unutilised credit facilities (amount is disclosed in Note 16) and regularly review the current and future liquidity requirements.

Contractual maturities of financial liabilities as at 31 December 2019 are as follows:

	Carrying amount	Total future undiscounted payments	12 months or less	1 – 2 years	More than two years
Trade and other payables, including long-term accounts payable	17 380	17 518	16 800	248	470
Loans and bonds, including future interest payments	15 016	18 784	3 628	3 524	11 632
Lease liabilities	3 558	4 152	1 290	1 210	1 652
Total loans and bonds and payables	**35 954**	**40 454**	**21 718**	**4 982**	**13 754**

Contractual maturities of financial liabilities as at 31 December 2018 are as follows:

	Carrying amount	Total future undiscounted payments	12 months or less	1 – 2 years	More than two years
Loans and bonds, including future interest payments	12 886	15 459	1 625	6 914	6 920
Trade and other payables, including long-term accounts payable	14 757	15 027	13 944	278	805
Total loans and bonds and payables	**27 643**	**30 486**	**15 569**	**7 192**	**7 725**

29.4. Capital risk management

The Group seeks to maintain an optimal capital structure. The Group monitors its capital structure on the basis of its gearing ratio, interest cover and the ratio of net debt to EBITDA.

	31 December 2019	31 December 2018
Loans and bonds	15 016	12 886
Less: cash and cash equivalents	(1 085)	(1 083)
Net financial debt	**13 931**	**11 803**
Total equity and reserves	20 033	19 303
Gearing ratio	**0,695**	**0,611**

30. RELATED PARTY TRANSACTIONS

The majority shareholder of the Group is A.A. Mechetin.

Remuneration of key management personnel

Remuneration of key management personnel for the year 2019 was ₽298 mln. (₽297 mln reported in 2018).

(All amounts in Russian Rubles (₽) million, unless stated otherwise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The remuneration of directors and key executives is determined by labour contracts. Since the number of key management personnel, or their related parties, holds positions in other entities that results in them having control or significant influence over the financial or operating policies of these entities. A number of these entities held transactions with the Group in the reporting period.

The aggregate value of transactions and outstanding balances relating to related parties is as follows:

Sales of goods and services

	2019	2018
Sales of goods	91	52
Sales of services	26	13
Total sales of goods and services	**117**	**65**

Purchases of goods and services

	2019	2018
Purchases of goods and services	1	1

Receivables and payables arising from sales and purchases of goods and services

	31 December 2019	31 December 2018
Trade and other receivables	1 096	384
Trade and other payables	6	24

31. CONTINGENCIES AND COMMITMENTS

31.1. Legal proceeding

During the year the Group was involved in a number of legal disputes (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been recorded or disclosed in these consolidated financial statements.

31.2. Contractual commitments

As at 31 December 2019 and 31 December 2018 the Group had no significant contractual commitments for the purchase or construction of Property, Plant and Equipment.

31.3. Insurance policies

Part of the Group's production facilities are adequately covered by insurance. The Group has not adequately insured business interruption, third party liability for damage to property and environment resulting from accidents involving the Group's property or connected with its operations. Until the Group ensures adequate insurance coverage there is a risk that losses incurred or property damage inflicted by the Group may have a significant effect on the Group's financial position and operations.

31.4. Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group companies may be challenged by the state authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group includes companies incorporated outside of the Russian Federation. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. It is possible that with the evolution of the interpretations and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Transfer pricing is a complex issue of tax legislation, and the Group therefore pays considerable attention to monitoring compliance with transfer pricing legislation.

The Group estimates amount of contingent liabilities related to tax risks to be below ₽100 mln. If necessary, the Group is ready to defend its position in a court.

31.5. Operating environment

The Group's operations are primarily located in the Russian Federation. Its economy displays characteristics of an emerging market and is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic turmoil witnessed in the region have had and may continue to have a negative impact on the Russian economy.

Starting from early 2020 a new coronavirus disease (COVID-19) had begun rapidly spreading all over the world. Responses put in place by governments of different countries to contain the spread of COVID-19 are resulting in significant disruptions in the operating cycles of many companies and has a significant impact on their business in various sectors of the economy, including, but not limited to such impacts as failure of operations as a result of suspension of production, failure in supply chain, the transfer of staff to the quarantine, the reduction in demand and difficulties in raising financing. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

32. EVENTS AFTER THE BALANCE SHEET DATE

In March 2020 the shareholders' meeting took a decision to decrease the Share Capital by 3 600 thousand shares, ₽667 per share.

Group management is not aware of any other events after the balance sheet date that would require recognition in the consolidated financial statements or disclosure in the notes.