DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2018
And Independent Auditor's Report

DETSKY MIR GROUP

TABLE OF CONTENTS

DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC "Detsky mir" (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 28 February 2019.

On behalf of Management:

V.S. Chirakhov,
Chief Executive Officer
PJSC "Detsky mir"

A.S. Garmanova,
Chief Financial Officer
PJSC "Detsky mir"

Deloitte.

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To: Board of Directors and Shareholders of Public Joint Stock Company "Detsky mir"

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

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 2018, 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 further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses The Group receives significant amounts of supplier incentives, discounts, and bonuses (hereinafter "supplier bonuses"). We consider this to be a key audit matter because judgment is required to determine the commercial substance of supplier bonuses received by the Group and the period over which the reduction in cost of sales should be recognized, which necessitates thorough understanding of the contractual arrangements and complete and accurate source data. The Group's principal accounting policy on supplier bonuses is disclosed in Note 4 on page 20.	We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the supplier bonuses recognition in the consolidated financial statements is in line with the Group's accounting policies and IFRS. We circularized a sample of suppliers to get assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as tracing the amounts recorded to primary documents signed by suppliers confirming the Group's right to a particular bonus. In addition, for a sample of volume-based agreements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms. We examined the commercial substance of supplier bonuses by means of a sample-based analysis of the primary documents confirming the Group's right to receive supplier bonuses and other supporting documentation. In addition to that, we recomputed management's calculation of supplier bonuses allocated to year-end inventories based on their commercial substance. We also performed year-to-year analysis of the ratio of aggregate supplier bonuses allocated to year-end inventories to the total amount of supplier bonuses received by the Group during the reporting period.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2018 the value of inventories held by the Group was RUB 35,063 million (31 December 2017: RUB 26,440 million). The valuation of inventories was identified as a key audit matter because it involves significant judgement, in particular, with respect to the estimated selling price of items held. The assessment process is subjective and includes studying the historical performance of the inventories, current operational plans as well	We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventories by: • Understanding the Group's processes and procedures related to the measurement of inventories at the lower of cost and net realizable value; • Verifying the value of a sample of inventories to confirm it is held at the lower of cost and net realizable value, based on the sales prices after the reporting date; • Reviewing, recalculating and critically assessing the reasonableness of inventory provision considering inventory ageing, historical and post year-end performance and analysing the amount of provision as a percentage of gross inventory balance year to year.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
as industry and customer specific trends. The Group's inventory provision is disclosed in Note 13 on page 38.	
Early adoption of IFRS 16 "Leases" As disclosed in Note 3 to the consolidated financial statements the Group has early adopted IFRS 16 "Leases" as at 1 January 2018. We consider this to be a key audit matter because the early adoption of the standard required the Group to modify existing business processes, had a material impact on the consolidated financial statements and required the Group's management to apply significant judgment, in particular, when determining the lease term and discount rates.	We obtained understanding of the Group's processes and procedures related to the identification of lease contracts and determination of the key inputs required in the assessment of right-of-use assets and lease liabilities. Our procedures also included an analysis as to whether the Group's accounting policy was in line with IFRS 16, as well as verification of its appropriate application by means of a sample-based analysis of Group's accounting for particular lease contracts, which included analysis of: • appropriateness of determination of lease payments; • grounds for the choice of the discount rate; • impact of the existing options to extend or to terminate the lease on the assessment of the lease term; • compliance of the methods used in measurement of right-of-use asset and lease liability with the Group's accounting policy; • the accuracy of management's calculations. We also checked the completeness of disclosures in respect of lease agreements made in the consolidated financial statements, and assessed their conformity with the requirements of IFRS.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor's report thereon. The Annual and Quarterly reports are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual and Quarterly reports, if 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 International Financial Reporting Standards ("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 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:

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 to 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.

Egor Metelkin
Engagement partner

28 February 2019

The Entity: PJSC "Detsky mir"	Audit Firm: AO "Deloitte & Touche CIS"
State Registration Certificate No. 869.149 issued by Moscow Registration Chamber on 03.09.1997.	Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.
Primary State Registration Number: 1027700047100	Primary State Registration Number: 1027700425444
Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 119415, Russia	Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.
	Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Russian Rubles, except earnings per share data)

	Notes	2018	2017
Revenue	6	110,874	97,003
Cost of sales		(74,045)	(64,205)
GROSS PROFIT		**36,829**	**32,798**
Selling, general and administrative expenses	7	(25,550)	(24,766)
Other operating expenses, net		(47)	(8)
OPERATING PROFIT		**11,232**	**8,024**
Finance income	8	10	28
Finance expenses	8	(4,427)	(1,866)
Foreign exchange gain/(loss), net		106	(306)
PROFIT BEFORE TAX		**6,921**	**5,880**
Income tax expense	9.1	(1,227)	(1,036)
PROFIT FOR THE YEAR		**5,694**	**4,844**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		(43)	16
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,651**	**4,860**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	17	737,806,153	738,475,180
Earnings per share, basic and diluted (in Russian Rubles per share)		7.72	6.56

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in millions of Russian Rubles)

	Notes	At 31 December 2018	At 31 December 2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	9,226	7,486
Intangible assets	11	1,255	1,362
Right-of-use assets	12	29,606	-
Deferred tax assets	9.2	1,858	1,593
Other non-current assets		133	241
Total non-current assets		**42,078**	**10,682**
CURRENT ASSETS:			
Inventories	13	35,063	26,440
Trade receivables	14	4,473	2,244
Advances paid and other receivables	15	2,038	1,215
Prepaid income tax		1	7
Cash and cash equivalents	16	3,335	3,155
Total current assets		**44,910**	**33,061**
TOTAL ASSETS		**86,988**	**43,743**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	17	1	1
Treasury shares	17	(214)	(60)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,609)	(6,386)
Currency translation reserve		87	130
Total equity/(equity deficit)		**(942)**	**(522)**
NON-CURRENT LIABILITIES			
Lease liabilities	18	23,706	-
Long-term loans and borrowings	19	8,928	8,956
Deferred tax liabilities	9.2	152	29
Total non-current liabilities		**32,786**	**8,985**
CURRENT LIABILITIES			
Trade payables		29,747	24,388
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	12,542	4,635
Lease liabilities	18	6,840	-
Advances received, other payables and accrued expenses	21	4,938	5,404
Deferred revenue	22	720	606
Income tax payable		357	247
Total current liabilities		**55,144**	**35,280**
Total liabilities		**87,930**	**44,265**
TOTAL EQUITY AND LIABILITIES		**86,988**	**43,743**

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2017	**1**	**-**	**5,793**	**(6,362)**	**114**	**(454)**
Profit for the year	-	-	-	4,844	-	4,844
Other comprehensive income	-	-	-	-	16	16
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**4,844**	**16**	**4,860**
Share-based compensation (Note 20)	-	-	-	170	-	170
Purchase of treasury shares (Note 17)	-	(375)	-	-	-	(375)
Settlement of share-based compensation with treasury shares (Note 20)	-	272	-	(272)	-	-
Sale of treasury shares (Note 17)	-	43	-	-	-	43
Dividends (Note 17)	-	-	-	(4,766)	-	(4,766)
Balance at 31 December 2017	**1**	**(60)**	**5,793**	**(6,386)**	**130**	**(522)**
Profit for the year	-	-	-	5,694	-	5,694
Other comprehensive income	-	-	-	-	(43)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**5,694**	**(43)**	**5,651**
Share-based compensation (Note 20)	-	-	-	182	-	182
Purchase of treasury shares (Note 17)	-	(195)	-	-	-	(195)
Sale of treasury shares (Note 17)	-	41	-	-	-	41
Dividends (Note 17)	-	-	-	(6,099)	-	(6,099)
Balance at 31 December 2018	**1**	**(214)**	**5,793**	**(6,609)**	**87**	**(942)**

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian Rubles)

	2018	2017
Operating activities:		
Profit for the year	5,694	4,844
Adjustments for:		
Depreciation and amortization expense	9,100	1,818
Finance expense	4,427	1,866
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,233	1,320
Income tax expense recognized in profit or loss	1,227	1,036
Impairment recognized for non-current assets	191	-
Expense on equity-settled share-based compensation	182	170
Bad debts written-off and change in allowance for doubtful accounts	8	25
(Gain)/loss on disposal of non-current assets	(1)	14
Finance income	(10)	(28)
Foreign exchange (gain)/loss, net	(106)	306
Changes in working capital:		
(Increase)/decrease in trade receivables	(2,230)	1,606
(Increase)/decrease in advances paid and other receivables	(609)	466
Increase in inventories	(9,856)	(2,964)
Increase/(decrease) in trade payables	5,034	(1,116)
Increase in advances received, other payables and accrued expenses	526	1,095
Increase/(decrease) in deferred revenue	114	(210)
Cash generated by operations	**14,924**	**10,248**
Interest paid	(4,233)	(1,658)
Interest received	5	13
Income tax paid	(1,083)	(1,523)
Net cash generated by operating activities	**9,613**	**7,080**
Investing activities:		
Payments for property, plant and equipment	(3,487)	(2,072)
Payments for intangible assets	(307)	(396)
Repayment of loans receivable	-	1,074
Proceeds from disposal of property, plant and equipment	-	24
Net cash used in investing activities	**(3,794)**	**(1,370)**
Financing activities:		
Purchase of treasury shares	(195)	(375)
Sale of treasury shares	41	43
Repayment of loans and borrowings	(44,173)	(40,666)
Dividends paid	(7,242)	(3,623)
Lease payments	(6,122)	-
Proceeds from loans and borrowings	52,052	39,621
Net cash used in financing activities	**(5,639)**	**(5,000)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**180**	**710**
CASH AND CASH EQUIVALENTS, beginning of the year	**3,155**	**2,445**
CASH AND CASH EQUIVALENTS, end of the year	**3,335**	**3,155**

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

(in millions of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (hereinafter, the "Company") together with its subsidiaries (hereinafter, the "Group") is the largest retail chain in the children's goods market in the Russian Federation (hereinafter, "RF"). The Company is registered in the Unified State Register of Legal Entities under the laws of the Russian Federation (State Registration Certificate No. 1027700047100).

The primary activity of the Group is the sale of children's clothing and goods through retail stores and online store. In 2018 and as at 31 December 2018 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan, Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia. In 2018 the Group launched "Zoozavr", which is specialized in pet goods sales through branded retail stores and online store.

In February 2017, the Company completed an initial public offering and its ordinary shares were admitted to trading at PJSC "Moscow Stock exchange". During the share placement, the current shareholders of the Company sold part of their shares to outside investors, which led to changes in the structure of the Company's shareholders. After the completion of the initial public offering PJSFC Sistema ("Sistema") remained the controlling shareholder of the Company.

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2018, %	**31 December 2017, %**
PJSFC Sistema and subsidiaries	52.099	52.099
Floette Holdings Limited [1,2]	7.016	7.016
Exarzo Holdings Limited [1,2]	7.016	7.016
Other shareholders	33.869	33.869
Total	**100**	**100**

[1] Represent the interests of the "Russian-Chinese investment Fund".
[2] Including shares on the account of nominal holder.

As at 31 December 2018 and 2017 the ultimate controlling party of the Company is Mr. Vladimir Yevtushenkov.

The ownership interest of the Group and the proportion of its voting rights in its major operating subsidiaries was as follows, as at each period end:

	Ownership interest and proportion of voting rights	
Subsidiaries	**31 December 2018, %**	**31 December 2017, %**
Detsky mir Kazakhstan, LLP, Kazakhstan	100	100
Kub-Market LLC, RF	100	100

As at 31 December 2018 and 2017 the Group does not have non-wholly owned subsidiaries that have non-controlling interests to the Group.

These consolidated financial statements were approved by management on 28 February 2019.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") as issued by the International Accounting Standards Board (hereinafter, "IASB").

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles (hereinafter, "RUB million", "mln Rubles") except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- IFRS 9 *Financial Instruments*;
- Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 16 *Leases* (early adoption);
- Amendments to IFRS 2 *Clarifications of classification and measurement of share based payment transactions*;
- Amendments to IAS 40 *Investment property*;
- Amendments to IFRS 1 and IAS 28 – Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

The Group has selected not to restate comparatives on initial application of IFRS 9. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, and were not recognized in the opening consolidated statement of financial position on 1 January 2018 as had been assessed by management of the Group to be immaterial for the consolidated financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets.

The adoption of IFRS 9 *Financial Instruments* from 1 January 2018 resulted in certain changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. The new accounting policies are set in Note 4.

Adoption of IFRS 9 didn't have any material impact on the classification and measurement of the Group's financial assets and liabilities. Neither it had any material impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income as well.

IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 4 below.

In accordance with the transition provisions in IFRS 15, management performed assessment of the impact that IFRS 15 might have had on the Group's consolidated financial statements and concluded that the impact would be limited to immaterial changes to the timing of recognition of revenue related to customer loyalty program. The Group didn't apply a fully retrospective approach upon transition to IFRS 15 and didn't book cumulative impact of transition as an adjustment to accumulated deficit as at 1 January 2018 due to immaterial effect on the accumulated deficit.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit the Group from using alternative descriptions in the consolidated statement of financial position. The Group applied the term 'deferred revenue' in respect of its contract liabilities.

Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

IFRS 16 *Leases*

As at 1 January 2018, the Group has early adopted IFRS 16 *Leases* (as issued by the IASB in January 2016).

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 4. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 using a modified retrospective approach. The comparative information for the year ended 31 December 2017 has not been restated in accordance with provisions of IFRS 16 *Leases*.

Impact of the new definition of a lease

The Group used the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). When preparing for the first-time application of IFRS 16, the Group carried out an implementation project. The project results presented that the new definition in IFRS 16 would not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

(a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
(b) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Financial impact of initial application of IFRS 16

At the date of transition to IFRS 16 *Leases* the Group recognized lease liabilities (short-term and long-term) in amount of RUB 33,822 million. Previously the Group did not recognize any lease liabilities because all lease contracts entered into by the Group were classified as operating leases according to IAS 17 *Leases*. The amount of lease liabilities recognized was determined based on the present value of the future minimum lease payments at the transition date. The Group used incremental borrowing rate in determining the present value of future payments.

The weighted average incremental borrowing rate at 1 January 2018 was 9.48% per annum.

As at 1 January 2018 the Group also recognized right-of-use assets in amount of RUB 33,886 million. Right-of-use assets are depreciated on a straight-line basis over the lease term within the range from 1 to 10 years.

(in millions of Russian Rubles)

The result of the transition is represented as follows:

Future minimum lease payments as at 31 December 2017 as disclosed in the consolidated financial statements for the year-ended 31 December 2017	
During one year	9,188
More than one year, but no more than 5 years	47,200
More than 5 years	13,708
Total	**70,096**
Reassessment of options to extend and cancel lease contracts	(26,074)
Impact of discounting	(10,200)
Lease liabilities recognized as at 1 January 2018	**33,822**
Lease prepayments	64
Right-of-use assets recognized as at 1 January 2018	**33,886**
Net result as at 1 January 2018	**-**

Had the Group not applied IFRS 16 in 2018, the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and consolidated statement of financial position as at 31 December 2018 would have been as follows:

	2018 as if IAS 17 still applied	**IFRS 16 adjustments**	**2018 as presented**
Revenue	110,874	-	110,874
Cost of sales	(74,045)	-	(74,045)
GROSS PROFIT	**36,829**	**-**	**36,829**
Selling, general and administrative expenses	(27,011)	1,461	(25,550)
Other operating expenses, net	(48)	1	(47)
OPERATING PROFIT	**9,770**	**1,462**	**11,232**
Finance income	5	5	10
Finance expenses	(1,824)	(2,603)	(4,427)
Foreign exchange gain, net	106	-	106
PROFIT BEFORE TAX	**8,057**	**(1,136)**	**6,921**
Income tax expense	(1,454)	227	(1,227)
PROFIT FOR THE YEAR	**6,603**	**(909)**	**5,694**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency	(10)	(33)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,593**	**(942)**	**5,651**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	737,806,153	-	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)	8.94	(1.22)	7.72

(in millions of Russian Rubles)

	At 31 December 2018 as if IAS 17 still applied	IFRS 16 adjustments	At 31 December 2018 as presented
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	9,226	-	9,226
Intangible assets	1,255	-	1,255
Right-of-use assets	-	29,606	29,606
Deferred tax assets	1,630	228	1,858
Other non-current assets	227	(94)	133
Total non-current assets	**12,338**	**29,740**	**42,078**
CURRENT ASSETS:			
Inventories	35,063	-	35,063
Trade receivables	4,473	-	4,473
Advances paid and other receivables	2,328	(290)	2,038
Prepaid income tax	1	-	1
Cash and cash equivalents	3,335	-	3,335
Total current assets	**45,200**	**(290)**	**44,910**
TOTAL ASSETS	**57,538**	**29,450**	**86,988**
EQUITY AND LIABILITIES			
SHAREHOLDERS' DEFICIT:			
Share capital	1	-	1
Treasury shares	(214)	-	(214)
Additional paid-in capital	5,793	-	5,793
Accumulated deficit	(5,700)	(909)	(6,609)
Currency translation reserve	118	(31)	87
Total deficit	**(2)**	**(940)**	**(942)**
NON-CURRENT LIABILITIES			
Lease liabilities	-	23,706	23,706
Long-term loans and borrowings	8,928	-	8,928
Deferred tax liabilities	152	-	152
Total non-current liabilities	**9,080**	**23,706**	**32,786**
CURRENT LIABILITIES			
Trade payables	29,747	-	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	12,542	-	12,542
Lease liabilities	-	6,840	6,840
Advances received, other payables and accrued expenses	5,094	(156)	4,938
Deferred revenue	720	-	720
Current income tax liability	357	-	357
Total current liabilities	**48,460**	**6,684**	**55,144**
Total liabilities	**57,540**	**30,390**	**87,930**
TOTAL EQUITY AND LIABILITIES	**57,538**	**29,450**	**86,988**

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability as operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include the interest paid as part of operating activities); and;
- Cash payments for the principal portion of lease liability as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 has no impact on net cash flows.

All other new and revised IFRSs adopted in 2018 do not have a material impact on the consolidated financial statements of the Group for the year ended 31 December 2018.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts[2];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[1];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[1];
- Amendments to IAS 19 Employee Benefits[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[1].

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[3] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's entities maintain their accounting records in compliance with the local legislation on accounting and reporting adopted in jurisdictions of the countries in which they were founded and registered. The accounting principles and reporting procedures in these jurisdictions may differ from generally accepted IFRS principles. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2018 as well as comparative information presented in these financial statements, except for lease accounting under IFRS 16.

Going concern principle

These consolidated financial statements have been prepared on Management's assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Presentation currency and functional currency

Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble (hereinafter, "RUB"). The functional currencies of the Company's Kazakhstan subsidiaries is Tenge.

These consolidated financial statements are presented in millions of Russian Rubles. Management believes that the Russian Ruble is the most convenient presentation currency for users of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over an entity;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Company controls an entity without the majority of voting rights if existing voting rights give the possibility to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights under the agreements; any additional facts and circumstances that indicate whether the Company has the ability to direct the significant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of subsidiaries begins since the acquisition and ends with the loss of the control.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests.

Segment information

Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has two operating segments pursuant to the IFRS 8 Segment Reporting, being retail and online sales; however online sales are below the quantitative thresholds, for being separately reportable segments and as such are aggregated with the retail segment. The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Customer base of the Group is diversified; therefore transactions with a single external customer do not exceed 10% of the Group's revenue.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets and liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Additional interests in subsidiaries acquired from non-controlling interests are accounted for as transactions between shareholders. Differences in the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired from the Group's non-controlling interests and the amount of consideration are recognized directly in retained earnings. Profit and losses, arising from the disposal of non-controlling interests in the subsidiaries of the Group are recognized in the consolidated statement of profit or loss and other comprehensive income.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Revenue recognition

The revenue is recognized by the Group in such a way to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognized on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognized only when the Group satisfies a performance obligation.

The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Bonuses and allowances received from suppliers

The Group receives bonuses and allowances for various programs, primarily volume incentives and reimbursements for specific arrangements such as markdowns and advertising. The Group has agreements in place with each supplier setting forth the specific conditions for each bonus or payment. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonable assured the Group will reach these volumes.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. Substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by the Group's buying teams and are credited directly to cost of goods sold in the period received. Supplier allowances received prior to merchandise being sold are deferred and recognized as a reduction of merchandise cost.

Customer Loyalty Program

The Group runs a customer loyalty program which allows customers to earn points for each purchase made in any of the Group's retail stores and via Internet in the online store. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points. Other administrative costs of the customer loyalty program are recorded in Selling, general and administrative expenses as incurred.

(in millions of Russian Rubles)

Finance income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currency transactions

In preparing the financial statements of each subsidiary of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2018	At 31 December 2017
Closing exchange rates at the year-end – RUB		
1 EUR	79.4605	68.8668
1 Tenge	0.1806	0.1733
1 USD	69.4706	57.6002

	2018	2017
Average exchange rates for the year ended – RUB		
1 EUR	73.9546	65.9014
1 Tenge	0.1817	0.1790
1 USD	62.7078	58.3529

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Buildings, leasehold improvements and equipment are stated in the consolidated statement of financial position at their cost that includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of profit or loss and other comprehensive oncome as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	15-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office and warehouse equipment and other fixed assets	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when the Group has a right to renew and it is highly probable that the Group will exercise its right.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recognized within profits and losses for the period.

Leases (accounting policies applied for the year ended 31 December 2018 under IFRS 16)

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. This rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is memeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the estimated period of lease term, which is calculated based on lease term stated in lease agreements, periods covered by an option to extend or terminate the lease, and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Selling, general and administrative expenses" in the statement of profit or loss (see Note 7).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Leases (accounting policies applied for the year ended 31 December 2017 under IAS 17)

The Group has not entered in any finance leases, although enters into operating leases in the normal course of business, particularly relating to rental of retail store premises.

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are activated.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives, presented below.

Purchased software	2-10 years
Other intangible assets	2-10 years

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

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment losses is immediately recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is determined on the average cost basis and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location (retail shops and distribution warehouses) and condition. Supplier allowances that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

At the end of each reporting period, the Group provides for estimated shrinkage, obsolete and slow-moving inventory.

Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: prices on similar assets and liabilities determined in active markets (unadjusted);
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories:

- Those to be measured subsequently at fair value (either through OCI, or through 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 assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The major part of the Group's debt instruments are presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on cial assets that are measured at amortised cost (represented by cash and cash equivalents, trade and other receivables). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of a financial asset other than in its entirety (e.g. when an entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the control is retained), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

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

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. Otherwise financial liabilities are measured subsequently at amortised cost using the effective interest method.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at fair value through profit or loss. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash-settled share-based compensation

In 2014-2017, certain Company's employees of managerial positions were entitled to share-based compensation ("phantom" shares). The Group's liabilities related to such payments are recognized as "cash-settled share-based compensation" and initially measured at the fair value of such liabilities. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

Equity-settled share-based compensation are accounted for at fair value determined on the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

Dividends

Dividends and the related taxes are recognized as a liability in the period in which they have been declared and become legally payable. Dividends can be paid out in accordance with laws of the jurisdictions in which the Group's entities are incorporated and registered.

Treasury shares

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 "Significant Accounting Policies", management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Lease terms determination

In determining the amount of lease liability relating to new or modified leases, judgment is required when assessing the lease term. The Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the residual useful life of the related major leasehold improvements, the Group's investment strategy and relevant investment decisions, as well as length of time until the extension or termination option under consideration.

Taxation

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income tax and other taxes as there are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of various matters is different from the amounts that were recorded, such difference will impact the amounts of current and deferred income tax in the period in which such determination is made.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns and advertising. Management has concluded that a significant portion of payments from suppliers is accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

From time to time, the Group agrees with a supplier to promote a specific product through a temporary price reduction. The supplier often compensates the Group for any pieces of the specific SKU (stock keeping unit) which is held in stock and is included in the program which is referred to markdown compensation. These bonuses are treated as a reduction of the cost of goods sold in the period when the respective merchandise has been sold. Prior to 1 October 2017 the Group's accounts management team could not provide a reliable estimate of the markdown compensations for each SKU and as such treated them as volume bonuses subject to allocation to respective suppliers' stock on an aggregate basis. In 2017 the Group implemented new systems and processes to improve the identification of markdown compensations and as a result has been able to strip these out and account for them separately on an SKU-by-SKU basis in line with the Group's accounting policy. The estimated effect of the change in estimate is not considered to be material.

Measuring inventories

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories and obsolete inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as at reporting date is based on the average historical actual shrinkage results, net of surpluses, in stores of the Group.

(in millions of Russian Rubles)

Revenue attributed to loyalty program

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

The Group's revenue for the year ended 31 December 2018 and 2017 was as follows:

	2018	2017
Retail	102,014	92,297
Online store	8,771	4,637
Other	89	69
Total	**110,874**	**97,003**

Revenue from sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 5,071 million and RUB 2,570 million for the years ended 31 December 2018 and 2017 is included within online store revenue.

Revenue from ELC-branded stores, presented within retail revenue line, for the years ended 31 December 2018 and 2017 amounted to RUB 933 million and RUB 919 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 2,513 million and RUB 1,350 million for the years ended 31 December 2018 and 2017, respectively.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the year ended 31 December 2018 and 2017 were as follows:

	2018	2017
Payroll	9,609	8,664
Depreciation and amortization	9,100	1,818
Rent and utilities	1,595	9,538
Advertising and marketing expenses	1,494	1,552
Banking services	1,036	852
Repair and maintenance	501	448
Security expenses	400	350
Promotional materials	396	389
Software maintenance	320	310
Consulting services	193	208
Impairment of right-of-use assets	143	-
Taxes (other than income tax)	136	75
Stationery and office equipment	133	93
Communication expense	121	113
Travel expenses	99	96
Impairment of property, plant and equipment	48	-
Stationery and other materials	37	31
Bad debt expense	8	25
Other	181	204
Total	**25,550**	**24,766**

(in millions of Russian Rubles)

Payroll expenses for the year ended 31 December 2018 include RUB 783 million (for the year ended 31 December 2017: RUB 821 million) relating to long-term incentive plans (Note 20). Payroll expenses for the year ended 31 December 2018 also include contributions to state pension fund in amount of RUB 1,748 million (for the year ended 31 December 2017: RUB 1,589 million).

Starting from 1 January 2018, the Group applies IFRS 16, which affected the change in the amount of expenses presented in the line items Depreciation and amortization, Rent and utilities and the amount of interest expense on lease liabilities stated in the line item Finance expenses of the consolidated statement of profit or loss and other comprehensive income (Note 8).

8. FINANCE INCOME AND EXPENSES

The Group's finance income and expenses for the year ended 31 December 2018 and 2017 were as follows:

Finance income

	2018	2017
Interest income on bank deposits, cash and cash equivalents	5	14
Interest income from refundable lease advances paid	5	-
Interest income on loans issued to related parties	-	14
Total	**10**	**28**

Finance expenses

	2018	2017
Interest expense on lease liabilities	2,603	-
Interest expense on bank loans	1,539	1,657
Interest expense on bonds	285	209
Total	**4,427**	**1,866**

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of jurisdictions where major Group's subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

(in millions of Russian Rubles)

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF and Kazakhstan on taxable profits (as defined) under tax law in these jurisdictions.

	2018	2017
Current tax		
In respect of the current year	(1,539)	(1,380)
In respect of prior years	170	419
	(1,369)	**(961)**
Deferred tax		
In respect of the current year	142	(75)
	142	**(75)**
Total income tax expense recognized in profit or loss	**(1,227)**	**(1,036)**

Below is a reconciliation of income tax calculated using the income tax rate effective in RF and Kazakhstan where the Group has its main operating entities to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017:

	2018	2017
Profit before tax	6,921	5,880
Income tax expense calculated at 20% (2017: 20%)	(1,384)	(1,176)
Non-deductible expenses, including non-deductible inventory losses	(109)	(266)
Deferred tax assets not recognized in respect of tax losses	-	(116)
Prior period current income tax adjustment	170	419
Effect from the application of preferential rates (other than 20%)	96	103
Income tax expense recognized in profit or loss	**(1,227)**	**(1,036)**

9.2. Deferred tax balances

Deferred tax assets and liabilities of the Group comprise differences resulting from differences between the tax and accounting bases for the following assets and liabilities:

2018	Opening balance	Recognized in profit or loss	Closing balance
Deferred tax assets in relation to:			
Inventories	4,380	(240)	4,140
Accrued expenses and other deductible temporary differences	2,838	454	3,292
Lease liabilities and right-of-use assets	-	1,135	1,135
Deferred revenue	606	114	720
Losses carried forward	140	(140)	-
Total temporary differences	**7,964**	**1,323**	**9,287**
Deferred tax assets	**1,593**	**265**	**1,858**
Deferred tax liabilities in relation to:			
Forward contracts	-	(396)	(396)
Property, plant and equipment	(145)	(68)	(213)
Trade receivables	-	(150)	(150)
Total temporary differences	**(145)**	**(614)**	**(759)**
Deferred tax liabilities	**(29)**	**(123)**	**(152)**
Net deferred tax assets	**1,564**	**142**	**1,706**

(in millions of Russian Rubles)

2017	Opening balance	Recognized in profit or loss	Closing balance
Deferred tax assets in relation to:			
Inventories	5,132	(752)	4,380
Accrued expenses and other deductible temporary differences	2,144	694	2,838
Deferred revenue	816	(210)	606
Losses carried forward	448	(308)	140
Total temporary differences	**8,540**	**(576)**	**7,964**
Deferred tax assets	**1,708**	**(115)**	**1,593**
Deferred tax liabilities in relation to:			
Property, plant and equipment	(345)	200	(145)
Total temporary differences	**(345)**	**200**	**(145)**
Deferred tax liabilities	**(69)**	**40**	**(29)**
Net deferred tax assets	**1,639**	**(75)**	**1,564**

As at 31 December 2018 and 31 December 2017 the Group had unrecognized deferred tax assets in respect of its subsidiaries' unused tax losses carry forward. Starting from 1 January 2017 the Group can offset not more than 50% of the annual taxable profit of each Russian subsidiary against tax loss carry forwards accumulated by the subsidiary and the Group' tax loss carry forwards have no expiration date (after the amendments to the Russian Tax Code).

The above-mentioned deferred tax assets may be recognized by the Group when there is certainty over their recoverability.

As at 31 December 2018 and 2017 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences.

10. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and leasehold improve-ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Cost					
At 1 January 2017	**6,892**	**2,243**	**2,080**	**119**	**11,334**
Additions	98	59	7	1,941	2,105
Transfers	560	385	472	(1,417)	-
Disposals	(248)	(33)	(100)	-	(381)
At 31 December 2017	**7,302**	**2,654**	**2,459**	**643**	**13,058**
Additions	57	39	10	3,415	3,521
Transfers	1,244	453	376	(2,073)	-
Disposals	(97)	(57)	(109)	-	(263)
At 31 December 2018	**8,506**	**3,089**	**2,736**	**1,985**	**16,316**

(in millions of Russian Rubles)

	Buildings and leasehold improve-ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Accumulated depreciation and impairment					
At 1 January 2017	**2,322**	**1,078**	**991**	**-**	**4,391**
Depreciation expense	688	262	532	-	1,482
Disposals	(184)	(30)	(87)	-	(301)
At 31 December 2017	**2,826**	**1,310**	**1,436**	**-**	**5,572**
Depreciation expense	787	371	542	-	1,700
Impairment	48	-	-	-	48
Disposals	(86)	(45)	(99)	-	(230)
At 31 December 2018	**3,575**	**1,636**	**1,879**	**-**	**7,090**
Carrying amount / net book value					
Balance at 1 January 2017	**4,570**	**1,165**	**1,089**	**119**	**6,943**
Balance at 31 December 2017	**4,476**	**1,344**	**1,023**	**643**	**7,486**
Balance at 31 December 2018	**4,931**	**1,453**	**857**	**1,985**	**9,226**

Most of the Group's additions of items of property, plant and equipment relate to launch of new retail stores and construction of a new warehouse.

As at 31 December 2018 construction in progress line was represented by costs related to warehouse construction in amount of RUB 1,706 million. The warehouse was put into operation in January 2019.

As at 31 December 2017 Construction in progress line was represented by advances paid for purchase of property, plant and equipment in the amount of RUB 440 million (Note 23).

Impairment of property, plant and equipment of RUB 48 million was recognized for the year ended 31 December 2018 in relation to leasehold improvements in stores expected to be closed in 2019. No impairment was recognized in 2017.

(in millions of Russian Rubles)

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2017	**2,117**	**4**	**53**	**2,174**
Additions	374	-	22	396
At 31 December 2017	**2,491**	**4**	**75**	**2,570**
Additions	302	-	4	306
At 31 December 2018	**2,793**	**4**	**79**	**2,876**
Accumulated amortization				
At 1 January 2017	**873**	**-**	**-**	**873**
Amortization expense	320	-	15	335
At 31 December 2017	**1,193**	**-**	**15**	**1,208**
Amortization expense	388	-	25	413
Balance at 31 December 2018	**1,581**	**-**	**40**	**1,621**
Carrying amount				
Balance at 1 January 2017	**1,244**	**4**	**53**	**1,301**
Balance at 31 December 2017	**1,298**	**4**	**60**	**1,362**
Balance at 31 December 2018	**1,212**	**4**	**39**	**1,255**

Additions of software in 2018 and 2017 relate primarily to licenses acquired for ERP system (system "SAP") and capitalized implementation costs. In 2018, the Group completed implementation of some improvements of SAP ERP and SAP EWM projects. In 2017, the Group completed implementation of SAP Hybris e-commerce platform.

12. RIGHT-OF-USE ASSETS

The Group leases retails premises, offices and warehouses (hereinafter "leased premises and buildings") with average lease term of 6 years. Movements in the carrying amount of right-of-use assets were as follows:

	Leased premises and buildings
Cost	
At 1 January 2018	**33,886**
New lease contracts and modification of existing lease contracts	2 846
Lease prepayments	34
Disposals	(71)
At 31 December 2018	**36,695**

(in millions of Russian Rubles)

	Leased premises and buildings
Accumulated depreciation and impairment	
At 1 January 2018	**-**
Depreciation expense	6,987
Disposals	(41)
Impairment	143
At 31 December 2018	**7,089**
Balance at 1 January 2018	**33,886**
Balance at 31 December 2018	**29,606**

	2018
Amounts recognized in profit and loss	
Depreciation expense on right-of-use assets	6,987
Interest expense on lease liabilities	2,603
Impairment	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	795

Impairment of right-of-use assets of RUB 143 million was recognized in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2018.

Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased retail stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost. Overall the variable payments constitute up to 8.5% of the Group's entire lease payments. The variable payments depend on sales and consequently on the overall economic development over the next few years. The Group expects that variable rent expenses are expected to continue to present a similar proportion of retails store sales in future years.

The total cash outflow for leases accounted for under IFRS 16 in the consolidated financial statements amount to RUB 8,725 million for the year ended 31 December 2018.

13. INVENTORIES

Inventories as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Merchandise inventories	34,866	26,287
Materials	197	153
Total	**35,063**	**26,440**

Materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value in the amount of RUB 1,233 million and RUB 1,320 million for the years ended 31 December 2018 and 2017, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018 and 2017 no inventories were pledged.

(in millions of Russian Rubles)

14. TRADE RECEIVABLES

Trade receivables as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Trade receivables	4,474	2,245
Less: allowance for doubtful trade receivables	(1)	(1)
Total	**4,473**	**2,244**

Trade receivables are generally represented by amounts receivable from suppliers in relation to volume bonuses, marketing and other bonuses and compensation for goods returned to suppliers.

15. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Value added tax receivable	1,208	556
Advances paid to suppliers	292	255
Other advances paid	76	103
Prepaid expenses	29	33
Other taxes receivable	5	70
Other receivables	500	263
Less: allowance for doubtful other receivables	(72)	(65)
Total	**2,038**	**1,215**

The following table summarizes the changes in the allowance for doubtful trade receivables and other receivables:

	2018	2017
Balance at beginning of the year	(65)	(45)
Additional allowance recognized on other receivables	(7)	(29)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	-	9
Balance at the end of the year	**(72)**	**(65)**

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the credit quality of debtors from the date of receivables origination up to the reporting date. The details about concentration of credit risk and related risk management activities are described in Note 25.

(in millions of Russian Rubles)

16. CASH AND CASH EQUIVALENTS

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

	31 December 2018	31 December 2017
Cash in transit	2,156	2,671
Cash on hand	363	251
Cash in bank accounts	816	233
Total	**3,335**	**3,155**

Cash in transit comprises cash collected from the Group's stores and not yet placed into the Group's bank accounts at the year-end.

17. EQUITY

Ordinary shares

As at 31 December 2018 and 2017 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 1 January 2017	**739,000,000**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(3,680,480)	-	-
Disposals of treasury shares	3,059,007	-	-
At 31 December 2017	**738,378,527**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(2,127,840)	-	-
Disposals of treasury shares	443,310	-	-
At 31 December 2018	**736,693,997**	**739,000,000**	**739,000,000**

All ordinary shares have a par value of RUB 0.0004 per share.

Dividends

Dividends may only be declared from accumulated undistributed and unreserved earnings, as shown in the Company's statutory financial statements prepared in accordance with Russian accounting standards (hereinafter, "RAS"), and if certain other requirements of Russian legislation are met. If statutory undistributed earnings are negative as at the beginning of fiscal year, then dividends may only be declared from net profit earned in that fiscal year, as shown in the Company's statutory financial statements prepared under RAS.

As at 31 December 2018, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2018 was RUB 6,538 million (for the year ended 31 December 2017: RUB 5,063 million).

On 15 December 2018 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2018 year in the amount of RUB 3,235 million or RUB 4.38 per share. These dividends were fully paid by the Group in December 2018.

On 22 May 2018 annual General meeting of shareholders approved the dividend payment for the year 2017 in the amount of RUB 2,864 million or RUB 3.88 per share. These dividends were fully paid by the Group in May 2018.

(in millions of Russian Rubles)

On 1 December 2017 at the extraordinary general meeting of shareholders a dividend payment for 9 months 2017 was approved in an amount of RUB 2,194 million or RUB 2.97 per share.

The dividends were partially paid by the Group in December 2017 in the amount of RUB 1,051 million, whereas the residual amount of RUB 1,143 (Note 21) was paid in February 2018.

On 28 June 2017 annual General meeting of shareholders approved the dividend payment for the year 2016 in the amount of RUB 2,572 million or RUB 3.48 per share. These dividends were fully paid by the Group in July 2017.

Treasury shares

During the year ended 31 December 2018, the Group purchased 2,127,840 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 195 million. In the same year, 443,310 treasury shares were sold to management of the Group. During the year ended 31 December 2017, the Group purchased 3,680,480 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 375 million. In the same year, 2,629,472 treasury shares were used to settle a share-based arrangement (see Note 20), and 429,535 treasury shares were sold to management of the Group.

As at 31 December 2018 the Group had 2,306,003 treasury shares with cost of RUB 214 million. As at 31 December 2017 the Group had 621,473 treasury shares with cost of RUB 60 million.

18. LEASE LIABILITIES

As at 31 December 2018 lease liabilities comprised the following:

	31 December 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	7,415
More than 1 to 5 years	24,492
Over 5 years	7,170
Total minimum lease payments	**39,077**
Less amount representing interest	(8,531)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	6,840
More than 1 to 5 years	19,211
Over 5 years	4,495
Total present value of net minimum lease payments	**30,546**
Less current portion of lease obligations	(6,840)
Non-current portion of lease obligations	**23,706**

The following table summarizes the changes in the lease liabilities:

Balance as at 1 January 2018	**33,822**
Interest expense on lease liabilities	2,603
Lease payments	(8,725)
New lease contracts and modification of existing lease contracts	2,846
Balance as at 31 December 2018	**30,546**

Group's lease contracts include typical restrictions and covenants common for local business practice such as responsibility of the Group for regular maintenance and repair of the lease assets and its insurance, redesign and conduction of permanent improvements only with consent of the lessor, use of leased asset in accordance with current legislation.

(in millions of Russian Rubles)

In determining the fair value of lease liabilities management of the Group relied on the assumption that the carrying amount of lease liabilities approximates their fair value as at 31 December 2018, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Bank loans		
Unsecured bank loans in rubles	18,470	10,591
Bonds	3,000	3,000
	21,470	**13,591**
Less current portion of long-term debt	(12,542)	(4,635)
Loans and borrowings, non-current	**8,928**	**8,956**

Bank loans in rubles

At 31 December 2018 and 2017 the loans in rubles were provided to the Group by 7 and 5 Russian banks respectively.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2018 and 2017 was RUB 18,483 million and 10,852 million, respectively. The carrying amount of this debt was RUB 18,470 million and RUB 10,591 million, respectively. Inputs of Level 2 and 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received and bonds. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 31 December 2018 valuation was determined by reference to the Group's traded bonds yield of 9.4%, Level 2 input (31 December 2017: 9.0%, Level 2 input).

Bonds

In April 2017, the Group issued and placed 3,000,000 documentary exchange non-convertible bonds (Series BO 04) with a nominal value of 1 thousand rubles each at PJSC "Moscow Stock exchange". The coupon interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024 with the pull offer date on 7 April 2020.

As at 31 December 2018 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding outstanding coupon income of RUB 68 million. As at 31 December 2017 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding outstanding coupon income of RUB 67 million.

The fair value of exchange-traded bonds, including the amounts due for payment within one year, as at 31 December 2018, amounted to RUB 3,111 million with the carrying amount equal to RUB 3,000 million (31 December 2017: RUB 3,034 million with the carrying amount equal to RUB 3,000 million).

Unused credit line facilities

As at 31 December 2018 and 2017, the total amount of undrawn credit lines of the Group was RUB 23,203 million and RUB 17,967 million, respectively, including RUB 20,067 million and RUB 12,532 million relating to long-term credit lines, respectively.

(in millions of Russian Rubles)

Covenants

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios. Non-compliance with these covenants may result in negative consequences of the Group: in particular, the creditors can increase the interest rate on the loan or demand early repayment of outstanding debt.

Management believes that as at 31 December 2018 and 31 December 2017 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Collateral

As at 31 December 2018 and 2017 the Group had no assets or securities transferred as collateral for loans and borrowings granted to the Group.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the principal outstanding for the bank loans and bonds as at 31 December 2018:

As at 31 December 2018	
Within the first month	629
From one to three months	135
From three months to one year	11,778
From one year to two years	6,999
From two year to five year	1,929
Total	**21,470**

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2018 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Long-term incentive plan adopted in 2014

The initial public offering completed by the Company in February 2017 triggered the full vesting of all outstanding phantom shares granted to certain employees in August 2014 under the Incentive Plan.

Phantom shares granted by the Group to the participants of the Incentive Plan as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	**Weighted average exercise price**
Outstanding at 1 January 2017	**1,498,478**	**-**
Forfeited / canceled during the period	(511,042)	-
Exercised during the period	(987,436)	-
Outstanding at 31 December 2017	**-**	
Forfeited / canceled during the period	-	
Exercised during the period	-	
Outstanding at 31 December 2018	**-**	**-**
Exercisable at 31 December 2018	-	-

(in millions of Russian Rubles)

Long-term incentive plan adopted in 2016

In September 2016, the Group's Board of Directors approved another employee long-term incentive plan (the "Incentive Plan 2"). Under the conditions of the Incentive Plan 2, certain employees at senior levels are entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over the period 2016-2018. The phantom shares vest on 31 December 2018, although are contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company. This settlement choice is at the Group's discretion. Based on the Group's plans and historical experience, management expects that the settlement shall be done in cash. Thus, the Incentive Plan 2 is accounted for as a cash-settled share-based plan.

In February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 vested. They will become exercisable in portions during 2018-2020.

Phantom shares granted by the Group to the participants of the Incentive Plan 2 as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	Weighted average exercise price
Outstanding at 1 January 2017	**1,848,874**	**-**
Granted during the period	1,138,672	-
Forfeited / canceled during the period	(293,310)	
Outstanding at 31 December 2017	**2,694,236**	-
Granted during the period	-	-
Forfeited / canceled during the period	-	-
Outstanding at 31 December 2018	**2,694,236**	**-**
Exercisable at 31 December 2018	**-**	-

Long-term incentive plans adopted in 2017

In January 2017, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 2 for the General Director"). Under the conditions of the Incentive Plan, the General Director is entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over 2017-2019. The phantom shares vesting conditions are contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically on condition of any events in accordance with Incentive Plan, including initial public offering of shares. Upon redemption of phantom shares, a participant receives the awards partly in the form of a respective number of shares in the Company and partly in the form of cash consideration computed on the basis of the market value of one ordinary share of the Company. Accordingly, the Incentive Plan 2 for the General Director is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

Upon completion of initial public offering by the Company in February 2017, the phantom shares granted under Incentive Plan 2 for the General Director fully vested and were exercised in full before the end of 2017.

(in millions of Russian Rubles)

In August 2017, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 3"). Under the Incentive Plan 3, which covers a three-year period to 2020, the third anniversary of the Company's initial public offering, senior management in continuing employment as of that anniversary will be awarded with the Company's ordinary shares. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 2% of the appreciation in the Company's stock market value from the time of the initial public offering (being measured based on RUB 85 per one ordinary share) till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2017 the Group granted individual awards to senior management team in the aggregate amount being the equivalent to 1.8% of the appreciation in the Company's stock market value.

The fair value of this award was assessed on the assumption that all of the employees participating in the Incentive Plan 3 will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming no dividend payments. The fair value of the awards, which are equivalent to 13,302,000 of such share options, on the grant date amounted to RUB 423 million, or RUB 32 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the IPO. Inputs into the model are as follows:

Grant date share price	RUB 100
Exercise price	RUB 85
Expected volatility	9.0%
Option life	2.5 years
Dividend yield	none
Risk-free interest rate	7.5%

Long-term incentive plans amended in 2018

In October 2018, the Group's Board of Directors approved an amendment to the "Incentive Plan 3" for a number of employees participating in the plan. As per the Board of Directors resolution, the additional number of awards is granted to these employees. The additional number is equivalent of up to 2.6% of the appreciation in the Company's stock market value from the time of the amendment till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2018 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration computed on the basis of dividends paid. Accordingly, the amendment to the Incentive Plan 3 for the participants is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The fair value of the additional part of the award that is equity-settled was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming a fixed dividend payment. The fair value of the additional equity-settled part of the award, which is equivalent to 19,214,000 of such share options, on the grant date amounted to RUB 171 million, or RUB 9 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the amendment date. Inputs into the model are as follows:

Grant date share price	RUB 90
Exercise price	RUB 85
Expected volatility	4.9%
Option life	1.5 years
Dividend yield	4.4%
Risk-free interest rate	7.7%

(in millions of Russian Rubles)

Liabilities recognized in relation to long-term incentive plans

As at 31 December 2018, the Group recognized liabilities of RUB 43 million in relation to the cash-settled share-based payment arrangements (at 31 December 2017: RUB 93 million), calculated as the fair value of the phantom shares granted to employees as at this date. These liabilities include accrued social contributions of RUB 6 million (as at 31 December 2017: RUB 12 million). When estimating these liabilities the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 90.44 per share as at 31 December 2018 and RUB 96 per share as at 31 December 2017), and that all of the participants will stay employed by the Group until their rights vest.

Also as at 31 December 2018, the Group recognized liabilities of RUB 240 million in relation to the cash-settled share-based payment arrangements (at 31 December 2017: RUB 0 million), calculated as the share of dividends paid.

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2018, expenses totaling RUB 783 million (year ended 31 December 2017: RUB 821 million) incurred by the Group in relation to Incentive Plan 2, Incentive Plan 2 for the General Director, Incentive Plan 3 and amendment to Incentive Plan 3 were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including RUB 182 million (year ended 31 December 2017: RUB 525 million) arising from share-based payment transactions. These expenses, RUB 182 million, were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements in 2018 (2017: RUB 170 million). Certain equity-settled share-based awards were settled in the year ended 31 December 2017 by means of the Company’s treasury shares with a carrying value of RUB 272 million.

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Accrued expenses and other current liabilities	2,894	2,695
Payables to employees	975	861
Advances received	541	466
Taxes payable other than income tax	423	152
Interest payable from bonds	68	67
Interest payable from bank loans	37	20
Dividends payable (Note 17)	-	1,143
Total	**4,938**	**5,404**

During the year ended 31 December 2018 the Group changed the presentation of accrued liabilities for rent expenses. Advances paid in the amount of RUB 859 million and 672 million were netted of with accrued expenses as at 31 December 2018 and at 31 December 2017, retrospectively.

22. DEFERRED REVENUE

Deferred revenue relating to the Group’s customer loyalty program as at 31 December 2018 and 2017 was as follows:

	2018	2017
As at 1 January	**606**	**816**
Revenue deferred during the period	3,308	4,219
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(3,194)	(4,429)
As at 31 December	**720**	**606**

(in millions of Russian Rubles)

During 2018 the Group recognized revenue in amount of RUB 606 million that was deferred as at 31 December 2017 (during 2017: RUB 816 million).

23. RELATED PARTIES

Parties are considered related if they are under common control or one party has the ability to control the other party or can exercise significant influencing her decisions on matters of economic and financial activity or exercise over it joint control. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form, based on reasonable judgment.

Transactions with related parties may be on terms that are not always accessible to third parties. This table presents the list of transactions and balances in the calculation of the Group with subsidiaries of PJSFC Sistema and other related parties:

	31 December 2018		31 December 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	257	-	227	-
Trade receivables	1	-	-	-
Advances paid for purchase of property, plant and equipment (Note 10)	-	-	440	-
Other receivables /(payables)	10	(19)	22	(66)
Dividends payable	-	-	-	(1,143)

Outstanding balances with related parties are unsecured and will be settled in cash.

The Group's transactions with subsidiaries of PJSFC Sistema and other related parties for the year ended 31 December 2018 and 2017, as follows:

Related party	**Type of transaction**	**2018**	**2017**
MTS (i)	Communication costs	30	32
MTS (i)	Advertising and marketing expenses	87	150
MTS – Bank (i)	Bank commission	1	10
MTS – Bank (i)	Interest income	3	1
JSC PA-Maxima (ii)	Marketing expenses	50	3
CJSC "NVision group" (i)	Acquisition of fixed assets	71	50
CJSC "NVision group" (i)	Software maintenance	14	4
CJSC "DM-Finance" (i)	Repayment of loans receivable	-	1,060
CJSC "DM-Finance" (i)	Interest income	-	14
LLC "Concept Group" (ii)	Acquisition of goods	593	736
JSC "Progress" (iii)	Acquisition of goods	1,927	508
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	466	-
LLC "UK LandProfit" (i)	Rent	13	13
JSC "Reestr" (i)	Consulting and information services	1	1

(i) subsidiary of PJSFC "Sistema";
(ii) associate of PJSFC "Sistema";
(iii) other related parties, not included in PJSFC "Sistema" Group.

The information about dividends declared and paid is disclosed in Note 17.

Remuneration of key management personnel of the Group

During 2018 and 2017, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 1,264 million (including RUB 917 million of short-term non-share-based benefits, RUB 168 million of accrued short-term share-based compensation and RUB 179 million of accrued long-term share-based compensation) and RUB 1,014 million (including RUB 579 million of short-term non-share-based benefits, RUB 386 million of accrued short-term share-based compensation and RUB 49 million of accrued long-term share-based compensation), respectively.

(in millions of Russian Rubles)

24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and cash equivalents as detailed in Note 16) and equity of the Group.

The Group's management periodically reviews the capital structure of the Group. As part of this review, management considers the cost of capital, risks associated with each class of capital and the level of debt-to-equity ratio.

Categories of financial instruments as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Financial assets at amortized cost		
Cash and cash equivalents	3,335	3,155
Trade accounts receivable	4,473	2,244
Other receivables	106	263
Security deposits	132	-
	8,046	**5,662**
Financial liabilities at amortized cost		
Lease liabilities	(30,546)	-
Trade payables	(29,747)	(24,388)
Loans and borrowings	(21,470)	(13,591)
Other payables	(3,974)	(4,786)
	(85,737)	**(42,765)**
Net financial liabilities	**(77,691)**	**(37,103)**

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	New lease contracts and modification of existing lease contracts	Financing cash flows (i)	31 December 2018
Bank loans	10,591	-	7,879	18,470
Bonds	3,000	-	-	3,000
Lease liabilities	33,822	2,846	(6,122)	30,546
Total	**47,413**	**2,846**	**1,757**	**52,016**

	1 January 2017	Financing cash flows (i)	31 December 2017
Bank loans	14,638	(4,047)	10,591
Bonds	-	3,000	3,000
Total	**14,638**	**(1,047)**	**13,591**

(i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows. The cash flows for lease liabilities comprise lease payments.

(in millions of Russian Rubles)

25. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, foreign currency risk and interest rate risk. A description of the Group's risks and management policies in relation to those risks is described below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group thoroughly controls and manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of merchandise inventories is 3 to 5 months. No interest is charged on the trade payables.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include principal cash flows except for lease liabilities.

	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2018					
Fixed rate borrowings					
Loan principal	21,006	313	11,765	8,928	-
Interest	103	103	-	-	-
	21,109	**416**	**11,765**	**8,928**	**-**
Floating rate borrowings					
Loan principal (bank overdraft)	464	451	13	-	-
Interest	2	2	-	-	-
	466	**453**	**13**	-	-
Lease liabilities					
Lease liabilities with interest	39,077	1,969	5,446	24,492	7,170
	39,077	**1,969**	**5,446**	**24,492**	**7,170**
Other financial liabilities					
Trade payables	29,747	-	29,747	-	-
Other non-interest bearing liabilities	3,869	3,869	-	-	-
	33,616	**3,869**	**29,747**	**-**	**-**
Total	**94,268**	**6,707**	**46,971**	**33,420**	**7,170**

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2017				
Fixed rate borrowings				
Loan principal	13,591	3,088	1,547	8,956
Interest	87	87	-	-
	13,678	**3,175**	**1,547**	**8,956**
Other financial liabilities				
Trade payables	24,388	-	24,388	-
Other non-interest bearing liabilities	4,700	4,700	-	-
	29,088	**4,700**	**24,388**	**-**
Total	**42,766**	**7,875**	**25,935**	**8,956**

(in millions of Russian Rubles)

The weighted average effective interest rate for borrowings as at 31 December 2018 was 9.28% (as at 31 December 2017: 10.19%).

The weighted average effective interest rate for bonds as at 31 December 2018 was 9.72% (as at 31 December 2017: 10.19%).

The weighted average effective interest rate for lease liabilities as at 31 December 2018 was 8.63%.

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables as well as cash in current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable where legal right of offset exists or paid in cash. At 31 December 2018 trade receivables from three major suppliers comprised 32% of the Group's consolidated trade receivables (31 December 2017: 44%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury function. Management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The table below shows the balances that the Group has with 5 of its major banks as at the balance sheet date:

Bank	Rating	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
Sberbank	Ba2 (Moody's)	2,038	1,991
Alfa-Bank	Ba2 (Moody's)	265	259
MTS bank	BB- (Fitch)	257	227
Raiffeisenbank	Ba2 (Moody's)	250	259
VTB	Ba2 (Moody's)	137	157
Total		**2,947**	**2,893**

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2018 and 2017.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

During the year ended 31 December 2018 the Group entered into foreign currency forward contracts to economically hedge the USD merchandise purchases from its suppliers. The Group entered into these contracts in order to reduce its exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. The Group's foreign exchange forward contracts typically matured within 12 months and did not require the Group to post collateral.

(in millions of Russian Rubles)

As at 31 December 2018 outstanding receivables from forward contracts amounted to RUB 396 million and were included in advances paid and other receivables line item (Note 15). As at 31 December 2017 outstanding payables from forward contracts amounted to RUB 95 million and were included in advances received, other payables and accrued expenses line item (Note 21). During 2018 gains from foreign exchange forward contracts amounted to RUB 491 million and were included in the foreign exchange gain line item in the consolidated statement of profit and loss and other comprehensive income (2017: RUB 18 million).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	31 December 2018		**31 December 2017**	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	1	5	1	-
Trade and other receivables	4	140	1	139
Total assets	**5**	**145**	**2**	**139**
Liabilities				
Trade and other payables	(217)	(7,189)	(150)	(4,308)
Lease liabilities	(112)	(295)	-	-
Total liabilities	**(329)**	**(7,484)**	**(150)**	**(4,308)**
Total net position	**(324)**	**(7,339)**	**(148)**	**(4,169)**

Foreign currency sensitivity analysis

The tables below detail the Group's sensitivity to a strengthening/weakening of the RUB against the primary foreign currencies of the Group by 20%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	USD		**Euro**	
	Change in currency exchange rate, %	**Impact on profit before tax**	**Change in currency exchange rate, %**	**Impact on profit before tax**
2018	+20%	(1,468)	+20%	(65)
	-20%	1,468	-20%	65

	USD		**Euro**	
	Change in currency exchange rate, %	**Impact on profit before tax**	**Change in currency exchange rate, %**	**Impact on profit before tax**
2017	+20%	(834)	+20%	(30)
	-20%	834	-20%	30

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2018 the Group has only 2 credit overdrafts amounted of RUB 464 million bearing floating interest rates. One of the overdrafts amounted to RUB 451 million was fully repaid in January 2019. As at 31 December 2017 the Group did not have borrowings or other financial liabilities bearing floating rates.

26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to RUB 79 million, which relate to equipment for the new warehouse (31 December 2017: there were no material contractual commitments).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

27. SUBSEQUENT EVENTS

In February 2019 the Group opened its first retail store under "Detsky Mir" brand in the Republic of Belarus.