DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2017
And Independent Auditor's Report

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, 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 2017 were approved by management on 2 March 2018.

On behalf of Management:

V.S. Chirakhov,	**A.S. Garmanova,**
Chief Executive Officer	Chief Financial Officer
PJSC "Detsky mir"	PJSC "Detsky mir"

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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 2017 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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

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.

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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. These incentives largely comprise volume-based bonuses based on percentage levels agreed and also include arrangements with a greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support. We consider this to be a key audit matter because determination of the period over which the reduction in cost of sales should be recognized is judgmental and complex and requires 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 21.	We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the amounts recognized in the consolidated financial statements were in line with the Group's accounting policies. 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 analysing individual supplier bonus agreements, tracing the amounts recorded to primary documents signed by suppliers confirming the Group's right for 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 and audited management's calculation of rebates allocated to year-end inventory. We also performed a retrospective analysis of bonuses recognized in the prior period to check that accuracy of estimates made by management.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2017 the value of inventories held by the Group was RUB 26,440 million (31 December 2016: RUB 24,796 million). The valuation of inventories was identified as a key audit matter because it involves significant judgement, including estimated selling price of items held, and assessing items which may be slow-moving, obsolete or damaged. The assessment process includes studying the historical performance of the inventories, current operational plans as well as industry and customer specific trends. The Group's inventory provision is disclosed in Note 14 on page 36.	We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventories by: • Observing the effectiveness of key inventory controls through attending inventory counts at the distribution center and 9 stores; • Verifying the value of a sample of inventory to confirm it is held at the lower of cost and net realizable value, based on the sales prices; • Reviewing, recalculating and assessing the accuracy of inventory provision by analysing inventory ageing, historical and post year-end performance and consistency of the amount of provision as a percentage of gross inventory balance year to year; • Reperforming management's calculations of provisions to ensure they are accurate and free from error.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue recognition – customer loyalty program The Group's customer loyalty program was identified as a key audit matter because a significant degree of judgment is required in determining the amount of deferred revenue allocated to customer loyalty program and the pattern of its subsequent amortization to revenue. The movement of the Group's deferred revenue in respect of customer loyalty program is disclosed in Note 22 on page 44.	Our audit focused on challenging the Group's assumptions applied in determining the redemption rates and included: • Obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty program, as well as key controls over deferring and recognizing the respective revenue; • Assessing expected redemption rates used by the Group against historical data on factual redemptions; • Using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs; • Verifying that any changes made by the Group in the reporting year to its customer loyalty program terms were appropriately reflected in the Group's accounting records; and • Reperforming management's calculations of revenues deferred and recognized to ensure they are accurate and free from errors.

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, 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.

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.

Vladimir Biryukov
Engagement partner

DELOITTE & TOUCHE

2 March 2018

The Entity: PJSC "Detsky mir"

State Registration Certificate No. 7701233499 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 29 for Moscow on 13.09.1999.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 117415, Russia

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

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 2017

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

	Notes	2017	2016
Revenue	6	97,003	79,547
Cost of sales		(64,205)	(52,439)
GROSS PROFIT		**32,798**	**27,108**
Selling, general and administrative expenses	7	(24,766)	(20,483)
Share of profit of associate, net of income tax		-	9
Other operating expenses, net		(8)	(30)
OPERATING PROFIT		**8,024**	**6,604**
Finance income	8	28	170
Finance expenses	8	(1,866)	(1,938)
Gain on acquisition of controlling interest in associate	1	-	16
Foreign exchange (loss)/gain, net		(306)	33
PROFIT BEFORE TAX		**5,880**	**4,885**
Income tax expense	9.1	(1,036)	(1,065)
PROFIT FOR THE YEAR		**4,844**	**3,820**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		16	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,860**	**3,885**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:		738,475,180	739,000,000
Earnings per share, basic and diluted (in Russian Rubles per share)		6.56	5.17

The Notes on pages 11 to 50 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	At 31 December 2017	At 31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	7,486	6,943
Intangible assets	11	1,362	1,301
Long-term loan receivable	12	-	1,060
Deferred tax assets	9.2	1,593	1,708
Other non-current assets	13	241	263
Total non-current assets		**10,682**	**11,275**
CURRENT ASSETS:			
Inventories	14	26,440	24,796
Trade receivables	15	2,244	3,855
Advances paid and other receivables	16	1,887	2,351
Prepaid income tax		7	7
Cash and cash equivalents	17	3,155	2,445
Total current assets		**33,733**	**33,454**
TOTAL ASSETS		**44,415**	**44,729**
EQUITY AND LIABILITIES			
SHAREHOLDERS' DEFICIT:			
Share capital	18	1	1
Treasury shares	18	(60)	-
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,386)	(6,362)
Currency translation reserve		130	114
Total deficit		**(522)**	**(454)**
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	19	8,956	6,514
Deferred tax liabilities	9.2	29	69
Total non-current liabilities		**8,985**	**6,583**
CURRENT LIABILITIES			
Trade payables		24,388	25,215
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	4,635	8,124
Advances received, other payables and accrued expenses	21	6,076	3,834
Deferred revenue	22	606	816
Current income tax liability		247	611
Total current liabilities		**35,952**	**38,600**
Total liabilities		**44,937**	**45,183**
TOTAL EQUITY AND LIABILITIES		**44,415**	**44,729**

The Notes on pages 11 to 50 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 2017
(in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2016	**1**	**-**	**5,793**	**(5,448)**	**49**	**395**
Profit for the year	-	-	-	3,820	-	3,820
Other comprehensive income	-	-	-	-	65	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**3,820**	**65**	**3,885**
Share-based compensation (Note 20)	-	-	-	(307)	-	(307)
Dividends (Note 18)	-	-	-	(4,427)	-	(4,427)
Balance at 31 December 2016	**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 18)	-	(375)	-	-	-	(375)
Settlement of share-based compensation with treasury shares (Note 20)	-	272	-	(272)	-	-
Sale of treasury shares (Note 18)	-	43	-	-	-	43
Dividends (Note 18)	-	-	-	(4,766)	-	(4,766)
Balance at 31 December 2017	**1**	**(60)**	**5,793**	**(6,386)**	**130**	**(522)**

The Notes on pages 11 to 50 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

	2017	2016
Operating activities:		
Profit for the year	4,844	3,820
Adjustments for:		
Income tax expense recognized in profit or loss	1,036	1,065
Expense on equity-settled share-based compensation	170	-
Finance income	(28)	(170)
Finance expense	1,866	1,938
Loss on disposal of property, plant and equipment and intangible assets	14	4
Bad debt expense	25	34
Shrinkage and inventory obsolescence expenses	1,320	1,264
Depreciation and amortization expense	1,818	1,591
Foreign exchange loss/ (gain), net	306	(33)
Gain on acquisition of controlling interest in associate	-	(16)
Share of profit of associate, net of income tax	-	(9)
Changes in working capital:		
Decrease/(increase) in trade receivables	1,606	(1,149)
Decrease/(increase) in advances paid and other receivables	466	(566)
Increase in inventories	(2,964)	(8,654)
(Decrease)/increase in trade payables	(1,116)	8,579
Increase in advances received, other payables and accrued expenses	1,095	845
(Decrease)/increase in deferred revenue	(210)	538
Cash generated by operations	**10,248**	**9,081**
Interest paid	(1,658)	(1,857)
Interest received	13	45
Income tax paid	(1,523)	(1,468)
Net cash generated by operating activities	**7,080**	**5,801**
Investing activities:		
Payments for property, plant and equipment	(2,072)	(1,468)
Payments for intangible assets	(396)	(279)
Net inflow of cash and cash equivalents on acquisition of controlling interest in associate (Note 1)	-	15
Repayment of loans receivable	1,074	4,888
Dividends received from associate	-	9
Proceeds from disposal of property, plant and equipment	24	-
Net cash (used in)/received from investing activities	**(1,370)**	**3,165**
Financing activities:		
Purchase of treasury shares	(375)	-
Sale of treasury shares	43	-
Repayment of loans and borrowings	(40,666)	(30,290)
Dividends paid	(3,623)	(4,427)
Share-based compensation paid	-	(307)
Proceeds from loans and borrowings	39,621	26,569
Net cash used in financing activities	**(5,000)**	**(8,455)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**710**	**511**
CASH AND CASH EQUIVALENTS, beginning of the year	**2,445**	**1,934**
CASH AND CASH EQUIVALENTS, end of the year	**3,155**	**2,445**

The Notes on pages 11 to 50 form an integral part of these consolidated financial statements.

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 and internet stores. In 2017 and as at 31 December 2017 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia.

The controlling shareholder of the Company is PJSFC Sistema (hereinafter, "Sistema").

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

	31 December 2017, %	**31 December 2016, %**
PJSFC Sistema and subsidiaries	52.099	72.573
Floette Holdings Limited [1,2]	7.016	11.551
Exarzo Holdings Limited [1,2]	7.016	11.551
Other shareholders	33.869	4.325
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 2017 and 2016 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 2017, %**	**31 December 2016, %**
Detsky mir Kazakhstan, LLP, Kazakhstan	100	100
Kub-Market LLC, RF	100	100
Detsky mir Severo-Zapad, RF	100	100

As at 31 December 2017 and 2016 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

These consolidated financial statements were approved by management on 2 March 2018.

Acquisition of controlling interest in associate

On 25 August 2016, the Group acquired control over Detsky mir-Orel JSC (hereinafter, "DM Orel"), formerly an associate of the Group, by increasing of its stake in DM Orel from 50% to 100% for a cash consideration of RUB 28 million.

The acquisition has been accounted for using the acquisition method. These consolidated financial statements include the results of DM Orel for September-December 2016.

The fair values of the identifiable assets and liabilities of DM Orel as at the date of acquisition were as follows:

	DM Orel
Property, plant and equipment	2
Trade and other accounts receivable	2
Inventories	61
Cash and cash equivalents	43
Other current assets	1
Accounts payable, provisions and accrued expenses	(9)
Total fair value of identifiable net assets	**100**
Less: fair value of investment in associate held at the date of acquisition	(56)
Less: excess of fair value of acquired net assets over consideration paid	(16)
Purchase consideration transferred (paid in cash)	**28**

Cash flows arising on acquisition of controlling interest in associate are as follows:

Cash and cash equivalents acquired with the subsidiary	43
Cash consideration paid	(28)
Net inflow of cash and cash equivalents on acquisition	**15**

Immediately before the acquisition of control, the carrying value of the investment in associate was equal to its fair value. A gain on the acquisition of controlling interest in associate of RUB 16 million, represented by excess of fair value of acquired net assets over consideration paid together with the fair value of investment on associate, has been recognized in consolidated statement of profit and loss and other comprehensive income and results from the Group's strong position in negotiations with the previous holder of 50% interest in DM Orel.

From the date of acquisition until 31 December 2016, DM Orel contributed RUB 59 million to revenue and RUB 19 million as a reduction of the Group's net profit. If the acquisition had taken place on 1 January 2016, net profit of the Group for 2016 would have been RUB 3,868 million and revenue for the respective period would have been RUB 79,852 million.

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, "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. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

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:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (Note 19) and certain other financial liabilities (Note 19). A reconciliation between the opening and closing balances of these items is provided in Note 19. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 19, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs – 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

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 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- **Classification and measurement of financial liabilities.** 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. The full impact of adopting IFRS 9 on the Group's consolidated financial statements in the year of adoption will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgments made as at the year end. The Group has selected not to restate comparatives on initial application of IFRS 9. Based on a preliminary analysis of the Group's financial assets and financial liabilities at 31 December 2017 on the basis of facts and circumstances that exist at that date, Management has assessed the impact that IFRS 9 May have on the Group's consolidated financial statements as follows:

- **Classification and measurement.** All of the Group's financial assets and financial liabilities, with the exception of forward foreign currency contracts, are measured at amortised cost using effective interest method. Foreign currency forward contracts are measured at fair value through profit or loss. Upon adoption of IFRS 9 the Group expects to measure respective financial assets and liabilities on the same basis as currently adopted under IAS 39.
- **Impairment.** The Group's financial assets measured at amortised cost (represented by cash and cash equivalents, trade and other receivables) will be subject to impairment provisions of IFRS 9. The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade and other receivables and cash and cash equivalents as required or permitted by IFRS 9. In general, Management anticipates that the application of the expected credit loss model under IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items. However, as the Group holds its cash and cash equivalents in financial institutions with high credit rating (Note 25) and given the Group's trade receivables are represented by bonuses and rebates due from suppliers (Note 15), Management anticipates that any increase in the amount of loss allowance recognized following the adoption of IFRS 9 will not be significant.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 is effective for annual reporting periods (including interim reporting periods within those periods) beginning 1 January 2018 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group continues to evaluate the impact that IFRS 15 and related clarifications will have on the Group’s consolidated financial statements. As discussed in Note 6, the Group recognizes revenue mainly from sales in its retail stores and online store (including in-store pick-up) and also runs a customer loyalty program “Yo-Yo”. Management have performed an assessment of the impact that IFRS 15 may have on the Group’s consolidated financial statements and have concluded that the impact will be limited to immaterial changes to the timing of recognition of revenue related to customer loyalty program. The Group will not apply a fully retrospective approach upon transition to IFRS 15 and will book cumulative impact of transition as an adjustment to retained earnings at 1 January 2018.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning 1 January 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

The Group has begun evaluating and planning for the adoption and implementation of the new leases standard, including selecting lease accounting system, evaluating the option to early adopt the standard in its annual consolidated financial statements beginning on 1 January 2018, assessing accounting policy elections and estimating the overall financial statements impact. The ultimate parent, PJSFC Sistema, is adopting IFRS 16 from 1 January 2018, which may lead to the Group adopting the standard at the same date, although this accounting policy decision has not yet been made.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RUB 70,096 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and Management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until Management completes the review which is expected to be finalized in the half-year ended 30 June 2018.

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.

These consolidated financial statements of the Group have been prepared on the historical cost basis except for certain assets and financial instruments that are measured at fair values or revalued amounts, as explained in the accounting policies below. Historical cost is usually based on the fair value of the consideration paid for purchased assets.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2017 as well as comparative information presented in these financial statements.

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 the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in the fair value of the contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group recognizes retail revenues when goods are sold in retail stores.

For online sales the Group recognizes revenue upon delivery of the goods to customers.

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 has a customer loyalty program "Yo-Yo" which allows customers to earn points for each purchase made in any of the Group's retail stores. 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.

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 individual group entity, 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 2017	**At 31 December 2016**
Closing exchange rates at the year-end – RUB		
1 EUR	68.8668	63.8111
1 Tenge	0.1733	0.1816
1 USD	57.6002	60.6569

	2017	**2016**
Average exchange rates for the year ended – RUB		
1 EUR	65.9014	74.2310
1 Tenge	0.1790	0.1960
1 USD	58.3529	67.0349

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

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 acquired separately

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

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

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: financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Investments held-to-maturity

Investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets are impaired can include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

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

Financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

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.

Useful economic life and residual value of property, plant and equipment

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

Management annually reviews the appropriateness of asset’s useful economic lives. The review is based on the current condition of the assets and plans to fully renovate the stores in the near future.

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 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.

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.

Revenue attributed to loyalty program "YO-YO"

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

	2017	**2016**
Retail	92,297	76,713
Online store	4,637	2,776
Other	69	58
Total	**97,003**	**79,547**

Starting from 2017, revenue from sales of goods ordered via the Internet and picked up at Group's retail stores amounting to RUB 2,570 million and RUB 908 million for the years ended 31 December 2017 and 2016 is included within online store revenue. Previously, these revenues were classified within retail revenues. Consequently, the Group made a reclassification within comparative information in order to comply with presentation adopted in 2017.
The reclassification was made to align presentation of revenues in the consolidated financial statements with internal management reporting.

Revenue from ELC-branded stores, presented within retail revenue line, for the years ended 31 December 2017 and 2016 amounted to RUB 919 million and RUB 1,001 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 1,350 million and RUB 763 million for the years ended 31 December 2017 and 2016, respectively.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Rent and utilities	9,538	8,191
Payroll	8,664	7,106
Depreciation and amortization	1,818	1,591
Advertising and marketing expenses	1,552	1,058
Banking services	852	656
Repair and maintenance	448	338
Promotional materials	389	282
Security expenses	350	253
Software maintenance	310	313
Consulting services	208	118
Communication expense	113	103
Travel expenses	96	91
Stationery and office equipment	93	86
Taxes (other than income tax)	75	142
Stationery and other materials	31	28
Bad debt expense	25	34
Other	204	93
Total	**24,766**	**20,483**

Payroll expenses for the year ended 31 December 2017 include RUB 821 million (for the year ended 31 December 2016: RUB 8 million) relating to long-term incentive plans (see Note 20). Payroll expenses for the year ended 31 December 2017 also include contributions to state pension fund in amount of RUB 1,234 million (for the year ended 31 December 2016: RUB 1,055 million).

8. FINANCE INCOME AND EXPENSES

Finance income

	2017	2016
Interest income on bank deposits, cash and cash equivalents	14	35
Interest income on loans issued to related parties	14	135
Total	**28**	**170**

Finance expenses

	2017	2016
Interest expense on bank loans	1,657	1,938
Interest expense on bonds	209	-
Total	**1,866**	**1,938**

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 RF where the Group and its 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 2017 and 2016 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.

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

	2017	2016
Current tax		
In respect of the current year	(1,380)	(1,952)
In respect of prior years	419	340
Other	-	(4)
	(961)	**(1,616)**
Deferred tax		
In respect of the current year	(75)	551
	(75)	**551**
Total income tax expense recognized in profit or loss	**(1,036)**	**(1,065)**

Below is a reconciliation of income tax calculated using the income tax rate effective in RF 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 2017 and 2016:

	2017	2016
Profit before tax	5,880	4,885
Income tax expense calculated at 20% (2016: 20%)	1,176	977
Non-deductible expenses, including non-deductible inventory losses	266	385
Provision for uncertain tax positions	-	43
Deferred tax assets not recognized in respect of tax losses	116	-
Prior period income tax adjustment	(419)	(340)
Effect from the application of preferential rates (other than 20%)	(103)	-
Income tax expense recognized in profit or loss	**1,036**	**1,065**

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:

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**

2016	**Opening balance**	**Recognized in profit or loss**	**Closing balance**
Deferred tax assets in relation to:			
Inventories	3,266	1,866	5,132
Accrued expenses and other deductible temporary differences	1,982	162	2,144
Deferred revenue	278	538	816
Losses carried forward	227	221	448
Total temporary differences	**5,753**	**2,787**	**8,540**
Deferred tax assets	**1,151**	**557**	**1,708**
Deferred tax liabilities in relation to:			
Property, plant and equipment	(315)	(29)	(345)
Total temporary differences	**(315)**	**(29)**	**(345)**
Deferred tax liabilities	**(63)**	**(6)**	**(69)**
Net deferred tax assets	**1,088**	**551**	**1,639**

As at 31 December 2017 the Group had unrecognized deferred tax assets in respect of unused tax losses carry forward of RUB 116 million. Starting from 1 January 2017 the Group can offset only 50% of taxable profit of each 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 2017 and 2016 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

	Buildings and leasehold improve-ments	**Trade equipment**	**Office and warehouse equipment and other fixed assets**	**Construction in-progress**	**Total**
Cost					
At 1 January 2016	**6,327**	**2,175**	**1,918**	**175**	**10,595**
Additions	37	12	27	1,409	1,485
Transfers	559	704	202	(1,465)	-
Disposals	(32)	(649)	(67)	-	(748)
Acquisition of subsidiaries	1	1	-	-	2
At 31 December 2016	**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**

	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 2016	**1,706**	**1,548**	**550**	**-**	**3,804**
Depreciation expense	638	172	504	-	1,314
Disposals	(22)	(642)	(63)		(727)
At 31 December 2016	**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**
Carrying amount / net book value					
Balance at 1 January 2016	**4,621**	**627**	**1,368**	**175**	**6,791**
Balance at 31 December 2016	**4,570**	**1,165**	**1,089**	**119**	**6,943**
Balance at 31 December 2017	**4,476**	**1,344**	**1,023**	**643**	**7,486**

Most of the Group's additions of items of property, plant and equipment relate to new stores openings.

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

Loss on disposal of other property, plant and equipment of RUB 39 million and RUB 4 million was recognized in other operating income and expense, net in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016, respectively.

11. INTANGIBLE ASSETS

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2016	**1,891**	**4**	**-**	**1,895**
Additions	226	-	53	279
At 31 December 2016	**2,117**	**4**	**53**	**2,174**
Additions	374	-	22	396
At 31 December 2017	**2,491**	**4**	**75**	**2,570**
Accumulated amortization				
At 1 January 2016	**595**	**-**	**-**	**595**
Amortization expense	278	-	-	278
At 31 December 2016	**873**	**-**	**-**	**873**
Amortization expense	320	-	15	335
Balance at 31 December 2017	**1,193**	**-**	**15**	**1,208**
Carrying amount				
Balance at 1 January 2016	**1,296**	**4**	**-**	**1,300**
Balance at 31 December 2016	**1,244**	**4**	**53**	**1,301**
Balance at 31 December 2017	**1,298**	**4**	**60**	**1,362**

The increase of the carrying amount of software in 2017 and 2016 relates primarily to licenses acquired for an ERP system (system «SAP») and capitalized implementation costs: in 2017, the Group has completed implementation of SAP Hybris e-commerce platform.

12. LONG-TERM LOAN RECEIVABLE

Long-term loan receivable as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
An unsecured loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at Mosprime1M+2% per annum maturing in September 2020	-	754
Accrued interest	-	306
Total	**-**	**1,060**

In February 2017 CJSC "DM-Finance" fully repaid the loan previously issued by the Group in the amount of RUB 1,074 million, including interest accrued in the amount of RUB 320 million.

Interest income from the loan comprised RUB 14 million and RUB 135 million for the years ended 31 December 2017 and 2016, respectively.

13. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Long-term advances paid under operating lease agreements for warehouses and stores	241	259
Other	-	4
Total	**241**	**263**

14. INVENTORIES

Inventories as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Merchandise inventories	26,287	24,677
Materials	153	119
Total	**26,440**	**24,796**

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 1,320 million and RUB 1,264 million for the years ended 31 December 2017 and 2016, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2017 and 2016 no inventories were pledged.

15. TRADE RECEIVABLES

Trade receivables as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Trade receivables	2,245	3,856
Allowance for doubtful debts	(1)	(1)
Total	**2,244**	**3,855**

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

16. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Value added tax receivable	556	965
Advances paid to suppliers	255	329
Other advances paid	103	85
Other taxes receivable	70	11
Prepaid expenses	33	31
Other receivables	935	975
Less: allowance for doubtful accounts	(65)	(45)
Total	**1,887**	**2,351**

Other advances paid include prepayments on leases and customs duties.

The following is the movement in the allowance for other doubtful receivables and advances paid:

	2017	2016
Balance at beginning of the year	(45)	(32)
Impairment loss recognized on other receivables	(29)	(16)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	9	3
Balance at the end of the year	**(65)**	**(45)**

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the solvency 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.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Cash in transit	2,671	1,811
Cash on hand	251	241
Cash in bank accounts	233	324
Bank deposits in RUB	-	69
Total	**3,155**	**2,445**

As at 31 December 2017 the amount of short-term bank deposits included in cash and cash equivalents line item was equal to nil, whereas cash and cash equivalents as at 31 December 2016 include RUB-denominated term deposits of RUB 69 million with interest rate of 4.5% and maturity on 9 January 2017.

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.

18. SHAREHOLDERS' DEFICIT

Ordinary shares

As at 31 December 2017 and 2016 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 31 December 2016	**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**

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 2017, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2017 was RUB 5,063 million.

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 (Note 27).

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.

On 1 December 2016 at the extraordinary general meeting of shareholders a dividend payment for 9 months 2016 was approved in an amount of RUB 3,119 million or RUB 4.22 per share. These dividends were fully paid by the Group in December 2016.

On 28 June 2016 at the annual general meeting of shareholders the dividend payment for the year 2015 was approved in an amount of RUB 1,308 million or RUB 1.77 per share. These dividends were fully paid by the Group in July-August 2016.

Treasury shares

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 2017 the Group has 621,473 treasury shares with cost of RUB 60 million.

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Bank loans		
Unsecured bank loans in rubles	10,591	12,353
Bonds	3,000	-
Secured bank loans in rubles	-	2,285
	13,591	**14,638**
Less current portion of long-term debt	(4,635)	(8,124)
Loans and borrowings, non-current	**8,956**	**6,514**

Bank loans in rubles

At 31 December 2017 and 2016 the loans in rubles were provided to the Group by 5 Russian banks.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2017 and 31 December 2016 was 10,852 RUB million and 14,825 million, respectively. The carrying amount of this debt was 10,591 RUB million, RUB 14,638 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 2017 valuation was determined by reference to the Group's traded bonds yield of 9.0% (Level 2 input). For the 31 December 2016 valuation, it was based on the effective rates on Group's borrowings obtained close to the year-end (Level 3 input), as the Group had no traded debt.

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 interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024.

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 accumulated coupon income of RUB 209 million. During the year this amount was partly paid in an amount of RUB 142 million.

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

Unused credit line facilities

As at 31 December 2017 and 2016, the total amount of undrawn credit lines of the Group was RUB 17,967 million and RUB 11,983 million, respectively, including RUB 12,532 million and RUB 8,283 million relating to long-term credit lines, respectively.

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 2017 and 31 December 2016 the Group is in compliance with all financial covenants stipulated by its loan agreement.

Collateral

As at 31 December 2017, the Group does not have any assets or securities transferred as collateral for loans and borrowings granted to the Group. The performance of the Group's obligations under a loan agreement with one of its banks as at 31 December 2016 was secured by a mortgage of the building with a net book value of RUB 2,418 million.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the principal outstanding for the bank loans as at 31 December 2017 and 2016:

As at 31 December 2017	
Within the first month	2,168
From one to three months	920
From three months to one year	1,547
From one year to two years	1,958
From two year to five year	6,998
Total	**13,591**
As at 31 December 2016	
Within the first month	756
From one to three months	1,930
From three months to one year	5,438
From one year to two years	1,668
From two year to five year	4,846
Total	**14,638**

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 2017	Financing cash flows (i)	31 December 2017
Bank loans	14,638	(4,047)	10,591
Bonds	-	3,000	3,000
	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.

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2017 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 2016	**3,268,127**	**-**
Forfeited / canceled during the period	(130,525)	
Exercised during the period	(1,639,124)	-
Outstanding at 31 December 2016	**1,498,478**	**-**
Forfeited / canceled during the period	(511,042)	-
Exercised during the period	(987,436)	-
Outstanding at 31 December 2017	**-**	**-**
Exercisable at 31 December 2017	-	-

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 2016	**-**	**-**
Granted during the period	1,981,691	-
Forfeited / canceled during the period	(132,817)	
Outstanding at 31 December 2016	**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**	**-**
Exercisable at 31 December 2017	**-**	-

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 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 13,302,000 ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, given no dividend payments. The fair value of the awards 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%

Liabilities recognized in relation to long-term incentive plans

As at 31 December 2017, the Group recognized liabilities of RUB 93 million in relation to the cash-settled share-based payment arrangements (at 31 December 2016: RUB 180 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 12 million (as at 31 December 2016: RUB 38 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 96 per share as at 31 December 2017 and RUB 85 per share as at 31 December 2016), and that all of the participants will stay employed by the Group until their rights vest.

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2017, expenses totaling RUB 821 million (year ended 31 December 2016: RUB 8 million) incurred by the Group in relation to Incentive Plan, Incentive Plan 2, Incentive Plan 2 for the General Director and 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 525 million (year ended 31 December 2016: RUB 8 million) arising from share-based payment transactions. Out of these expenses, RUB 170 million were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements. In addition, 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 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Accrued expenses and other current liabilities	3,367	2,430
Dividends payable (Note 18)	1,143	-
Salaries payable	861	629
Advances received	466	377
Taxes payable other than income tax	152	357
Interest payable	87	41
Total	**6,076**	**3,834**

22. DEFERRED REVENUE

Deferred revenue relating to the Group's customer loyalty program as at 31 December 2017 and 2016 was as follows:

	2017	2016
As at 1 January	**816**	**278**
Revenue deferred during the period	2,733	3,261
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(2,943)	(2,723)
As at 31 December	**606**	**816**

23. RELATED PARTIES

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

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 and associates of PJSFC Sistema:

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	227	-	158	-
Advances paid for purchase of property, plant and equipment (Note 10)	440	-	-	-
Other receivables /(payables)	22	(66)	1	(124)
Loans receivable	-	-	1,060	-
Dividends payable	-	(1,143)	-	-

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

The Group's transactions with subsidiaries and associates of Sistema for the years ended 31 December 2017 and 2016 were as follows:

Related party	Type of transaction	2017	2016
Detsky mir-Retail assets (i)	Rent and utilities	-	21
MTS (i)	Communication costs	32	23
MTS (i)	Advertising and	150	86
PA-Maxima (ii)	marketing expenses	3	2
VAO "Intourist" (i)	Costs of organizing events	-	35
CJSC "NVision group" (i)	Acquisition of fixed assets	50	22
CJSC "DM-Finance" (i)	Repayment of loans receivable	1,060	4,875
	Interest income	14	135
LLC "Concept Group" (ii)	Acquisition of goods	736	-

(i) subsidiary of PJSFC "Sistema";
(ii) associate of PJSFC "Sistema".

The information about dividends declared and paid is disclosed in Note 18.

Remuneration of key management personnel of the Group

During 2017 and 2016, directors of the Group and other members of key management personnel received remuneration in the amount of 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) and RUB 448 million (including RUB 435 million of short-term benefits and RUB 13 million of accrued share-based compensation), respectively.

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 concerns 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 17) 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 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Financial assets		
Loan receivable	-	1,060
Cash and cash equivalents	3,155	2,445
Trade accounts receivable	2,244	3,855
Other receivables	935	975
	6,334	**8,335**
Financial liabilities at amortized cost		
Loans and borrowings	(13,591)	(14,638)
Trade payables	(24,388)	(25,215)
Other payables	(5,458)	(3,100)
	(43,437)	**(42,953)**
Net financial liabilities	**(37,103)**	**(34,618)**

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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	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	5,371	5,371	-	-
	29,759	**5,371**	**24,388**	**-**
Total	**43,437**	**8,546**	**25,935**	**8,956**

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2016				
Fixed rate borrowings				
Loan principal	12,353	2,606	4,965	4,782
Interest	37	37	-	-
	12,390	**2,643**	**4,965**	**4,782**
Floating rate borrowings				
Loan principal	2,285	80	473	1,732
Interest	4	4	-	-
	2,289	**84**	**473**	**1,732**
Other financial liabilities				
Trade payables	25,215	-	25,215	-
Other non-interest bearing liabilities	3,061	3,059	-	-
	28,276	**3,059**	**25,215**	**-**
Total	**42,955**	**5,786**	**30,653**	**6,514**

The weighted average effective interest rate as at 31 December 2017 was 10.19% (as at 31 December 2016: 11.94 %).

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 loans receivable, 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 2017 trade receivables from three major suppliers comprised 44 % of the Group's consolidated trade receivables (31 December 2016: 45%). 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 2017**	**Carrying amount as at 31 December 2016**
Sberbank	Ba2 (Moody's)	1,991	1,384
Raiffeisenbank	Ba2 (Moody's)	259	317
Alfa-Bank	Ba2 (Moody's)	259	65
MTS bank	B+ (Fitch)	227	158
VTB	Ba2 (Moody's)	157	121
Total		**2,893**	**2,045**

As at 31 December 2016 all loans receivable in amount of RUB 1,060 million were due from subsidiaries of Sistema which has a credit rating of BB- (Fitch). The Group's management believes that Sistema's strong credit rating and liquidity position are indicative of a high probability of repayment of these loans. As at 31 December 2017 there were no loans receivable.

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 2017 and 2016.

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 2017 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.

As at 31 December 2017 and 2016 outstanding forward contracts amounted to RUB 155 million and RUB 173 million, respectively, the related liability was included in advances received, other payables and accrued expenses line item (Note 21). During 2017 gains from foreign exchange forward contracts amounted to RUB 18 million and were included in the foreign exchange loss line item in the consolidated statement of profit and loss and other comprehensive income.

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 2017		31 December 2016	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	1	-	-	31
Trade and other receivables	1	139	-	189
Total assets	**2**	**139**	**-**	**220**
Liabilities				
Trade and other payables	(150)	(4,308)	(46)	(3,241)
Total liabilities	**(150)**	**(4,308)**	**(46)**	**(3,241)**
Total net position	**(148)**	**(4,169)**	**(46)**	**(3,021)**

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**
2017	+20%	(834)	+20%	(30)
	-20%	834	-20%	30

	USD		Euro	
	Change in currency exchange rate, %	**Impact on profit before tax**	**Change in currency exchange rate, %**	**Impact on profit before tax**
2016	+20%	(604)	+20%	(9)
	-20%	604	-20%	9

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 2017 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (as at 31 December 2016 the principal amount of floating-rate borrowings equaled to RUB 2,285 million).

26. COMMITMENTS AND CONTINGENCIES

Operating leases

The Group leases retail space through lease contracts which expire in various years through 2023. Although the store leases are generally long term, all of the store lease contracts contain provisions that enable the Group to cancel the lease provided the Group either pays a penalty, which typically consists of a payment equal to approximately two to three months rent or sends an advance notice to the lessor. Notwithstanding, the contracts which are more economically beneficial to be continued by the Group rather than to be canceled are classified as non-cancellable under IAS 17.

Future minimum rental payments (net of VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	**31 December 2016**
During one year	9,188	7,578
More than one year, but no more than 5 years	47,200	41,044
More than 5 years	13,708	12,409
Total	**70,096**	**61,031**

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 2018 the Group made a dividend payment to its shareholders thus the liability recognized in the consolidated statement of the financial position as at 31 December 2017 was settled (Note 21).