DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2015
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 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC Detsky Mir (the "Company") and its subsidiaries (the "Group") as of 31 December 2015, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, 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 wich 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 2015 were approved by management on 29 February 2016:

On behalf of the Management:

V.S. Chirakhov,	**A.S. Garmanova,**
Chief Executive Officer	Chief Financial Officer
OJSC DETSKY MIR	OJSC DETSKY MIR

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of OJSC Detskiy Mir:

We have audited the accompanying consolidated financial statements of OJSC Detsky Mir and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the related consolidated statements of profit or loss and other comprehensive income, cash flows and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and its consolidated financial performance and consolidated cash flows for the years then ended in conformity with the International Financial Reporting Standards.

DELOITTE & TOUCHE

29 February 2016
Moscow, Russia

Andrew Sedov, Partner
(license No. 01-000487 dated 13 February 2012)

ZAO Deloitte & Touche CIS

Audited entity: OJSC 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.

Location: 37 Vernadsky Prospekt, bldg 3, Moscow, 117415, Russia

Independent Auditor: 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.

Certificate of membership in “NP “Audit Chamber of Russia” (auditors’ SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of Russian Rubles, except per share data)

	Notes	2015	2014
REVENUE	7	60,544,273	45,446,079
COST OF SALES		(38,640,476)	(28,183,281)
GROSS PROFIT		**21,903,797**	**17,262,798**
Selling, general and administrative expenses	8	(17,724,932)	(14,262,267)
Gain on sale of a building, net	11	-	1,163,752
Share of profit of associate, net of income tax		8,829	12,749
Other operating expenses, net		(19,824)	(6,767)
OPERATING PROFIT		**4,167,870**	**4,170,265**
Finance income	9	723,147	55,788
Finance expenses	9	(2,052,721)	(917,725)
Impairment of goodwill	12	(362,581)	-
Foreign exchange loss		(922,112)	(581,784)
PROFIT BEFORE TAX		**1,553,603**	**2,726,544**
Income tax expense	10.1	(577,837)	(683,744)
PROFIT FOR THE YEAR		**975,766**	**2,042,800**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		62,330	(12,945)
TOTAL COMPREHENSIVE INCOME THE YEAR		**1,038,096**	**2,029,855**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted: [1]		739,000,000	564,822,555
Earnings per share, basic and diluted (in Russian Rubles per share)[1]		1.32	3.62

The notes on pages 8 to 47 form an integral part of these consolidated financial statements.

[1] The earnings per share amounts and weighted average number of shares outstanding, basic and diluted, for all periods herein retroactively reflect the Company’s 250,000-for-1 stock split, which was effective on 18 February 2014.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(in thousands of Russian Rubles)

	Notes	At 31 December 2015	At 31 December 2014	1 January 2014
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	11	6,791,214	3,098,010	2,240,359
Goodwill	12	-	362,581	362,581
Other intangible assets, net	13	1,299,628	646,271	244,800
Investments in associate		56,232	50,060	53,450
Long-term loans issued	14	5,806,809	5,239,900	-
Deferred tax assets	10.2	1,150,450	706,871	596,223
Other non-current assets	15	247,447	230,919	206,457
Total non-current assets		**15,351,780**	**10,334,612**	**3,703,870**
CURRENT ASSETS:				
Inventories	16	17,346,114	11,124,205	8,635,730
Trade receivables	17	2,709,894	1,330,875	1,456,915
Advances paid and other receivables	18	1,850,379	1,163,748	764,015
Short-term loans issued	14	-	1,220,000	-
Prepaid income tax		1,939	-	4,038
Cash and cash equivalents	19	1,933,782	1,670,035	859,902
Total current assets		**23,842,108**	**16,508,863**	**11,720,600**
TOTAL ASSETS		**39,193,888**	**26,843,475**	**15,424,470**
EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY/(DIFICIT):				
Share capital	20	392	392	392
Additional paid-in capital		5,793,195	6,536,844	6,509,136
Treasury shares	20	-	-	(4,542,514)
Accumulated deficit		(5,448,440)	(3,877,979)	(4,064,967)
Foreign currency translation reserve		49,385	(12,945)	-
Total equity/(deficit)		**394,532**	**2,646,312**	**(2,097,953)**
NON-CURRENT LIABILITIES				
Long-term loans and borrowings	21	5,465,125	3,487,670	4,350,000
Deferred tax liabilities	10.2	63,093	34,994	88,644
Total non-current liabilities		**5,528,218**	**3,522,664**	**4,438,644**
CURRENT LIABILITIES				
Trade payables		16,717,972	10,993,231	9,167,930
Short-term loans and borrowings and current portion of long-term loans and borrowings	21	12,893,789	6,228,309	1,572,321
Advances received, other payables and accrued expenses	23	2,952,626	2,452,490	1,605,259
Deferred revenue	24	277,734	347,013	353,770
Current income tax liability		429,017	653,456	384,499
Total current liabilities		**33,271,138**	**20,674,499**	**13,083,779**
Total liabilities		**38,799,356**	**24,197,163**	**17,522,423**
TOTAL EQUITY AND LIABILITIES		**39,193,888**	**26,843,475**	**15,424,470**

The notes on pages 8 to 47 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 2015
(in thousands of Russian Rubles)

	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Foreign currency translation reserve	Total
Balance at 1 January 2014	**392**	**6,509,136**	**(4,542,514)**	**(4,064,967)**	**-**	**(2,097,953)**
Profit for the year	-	-	-	2,042,800	-	2,042,800
Effect of translation to presentational currency	-	-	-	-	(12,945)	(12,945)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**-**	**-**	**-**	**2,042,800**	**(12,945)**	**2,029,855**
Sale of treasury shares	-	177,091	196,052	-	-	373,143
Reorganisation (Note 1)		(149,383)	4,346,462	-	-	4,197,079
Dividends (Note 20)	-	-	-	(1,855,812)	-	(1,855,812)
Balance at 31 December 2014	**392**	**6,536,844**	**-**	**(3,877,979)**	**(12,945)**	**2,646,312**
Profit for the year	-	-	-	975,766	-	975,766
Effect of translation to presentational currency	-	-	-	-	62,330	62,330
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**975,766**	**62,330**	**1,038,096**
Share-based compensation (Note 22)	-	-	-	426,400	-	426,400
Disposal of a subsidiary to the shareholder (Note 1)	-	(743,649)	-	-	-	(743,649)
Dividends (Note 20)	-	-	-	(2,972,627)	-	(2,972,627)
Balance at 31 December 2015	**392**	**5,793,195**	**-**	**(5,448,440)**	**49,385**	**394,532**

The notes on pages 8 to 47 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of Russian Rubles)

	Notes	2015	2014
Operating activities:			
Profit for the year		975,766	2,042,800
Adjustments for:			
Income tax expense recognised in profit or loss		577,837	683,744
Share based compensation		684,130	373,134
Impairment of goodwill		362,581	-
Finance income		(723,147)	(55,788)
Finance expense		2,052,721	917,725
Gain/(loss) on disposal of property, plant and equipment and intangible assets		30,570	(1,192,695)
Bad debts written-off and change in allowance for doubtful debts		(26,291)	50,953
Shrinkage and inventory obsolesence expenses		888,153	455,444
Depreciation and amortization expense		954,055	739,693
Foreign exchange loss, net		922,112	581,784
Share of profit of associates, net of income tax		(8,829)	(12,749)
Movements in working capital:			
(Increase)/decrease in trade receivables		(1,364,590)	126,674
Increase in advances paid and other receivables		(788,883)	(414,123)
Increase in inventories		(7,110,062)	(2,943,211)
Increase in trade payables		4,865,996	1,371,583
Increase in advances received, other payables and accrued expenses		166,639	226,088
Decrease in deferred revenue		(69,279)	(6,739)
Cash generated by operations		**2,389,479**	**2,944,317**
Interest paid		(2,044,169)	(794,856)
Interest received		165,438	-
Income tax paid		(1,189,852)	(657,292)
Net cash (used in)/generated by operating activities		**(679,104)**	**1,492,169**
Investing activities:			
Dividends received from associate		2,657	17,324
Payments for property, plant and equipment		(4,588,662)	(1,576,836)
Proceeds from disposal of property, plant and equipment		20,378	1,440,520
Payments for intangible assets		(719,192)	(368,584)
Proceeds from loans repayment		98,212	-
Loans issued to related parties		(30,900)	(2,158,000)
Net cash used in investing activities		**(5,217,507)**	**(2,645,576)**
Financing activities:			
Cash transferred to shareholders in course of reorganization		-	(276)
Cash consideration received in the course of disposal of a subsidiary (Note 1)		169,740	-
Proceeds from borrowings		36,746,425	19,210,907
Repayment of borrowings		(27,783,180)	(15,391,279)
Dividends paid		(2,972,627)	(1,855,812)
Net cash generated by financing activities		**6,160,358**	**1,963,540**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**263,747**	**810,133**
CASH AND CASH EQUIVALENTS, beginning of the year		**1,670,035**	**859,902**
CASH AND CASH EQUIVALENTS, end of the year		**1,933,782**	**1,670,035**

The notes on pages 8 to 47 form an integral part of these consolidated financial statements.

(in million of Russian Rubles)

1. GENERAL INFORMATION

OJSC Detsky Mir (the "Company") together with its subsidiaries (the "Group") is the largest retail chain in the children's products market in the Russian Federation ("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). In March 2014, the Company changed its legal name from OJSC Detsky Mir-Center to OJSC Detsky Mir.

The primary activity of the Group is the sale of children's products through retail stores. In 2015 and as at 31 December 2015 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 JSFC Sistema ("Sistema").

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

	31 December 2015	31 December 2014	1 January 2014
JSFC Sistema and subsidiaries	75.82%	98.92%	100%
Floette Holdings Limited	11.55%	-	-
Exarzo Holdings Limited	11.55%	-	-
Mr. Chirakhov V.S.	1.08%	1.08%	-
Total	100%	100%	100%

As at 31 December 2015, 2014 and 1 January 2014 the Group's ultimate controlling party was Mr. Vladimir Evtushenkov.

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 2015**	**31 December 2014**	**1 January 2014**
Detskaya Galereya "Yakimanka" LLC, RF*	-	-	100%
Detsky Mir Kazakhstan, LLP, Kazakhstan	100%	100%	100%
Kub-Market LLC, RF	100%	100%	100%
DM-Finance LLC, RF	-	-	100%
Spartema Limited, Cyprus	100%	100%	100%
Detsky Mir GMBH, Germany	100%	100%	100%

* – as noted below, as at 31 December 2014 the Group retained control over Detskaya Galereya "Yakimanka" LLC through an option arrangement, which was subsequently calnceled in November 2015.

As at 31 December 2015, 2014 and 1 January 2014 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

Group reorganisation

On 12 August 2014 an extraordinary shareholders meeting approved the reorganisation of the Group through spin-off of a new subsidiary, CJSC DMF-Invest, and merging this subsidiary with CJSC DM-Finance, holder of treasury shares. The reorganisation was completed in December 2014 and control over these entities was transferred to the Company's shareholders – JSFC Sistema and its subsidiaries. JSFC Sistema and its subsidiaries have retained control over the Group after the reorganisation.

(in million of Russian Rubles)

In the course of the reorganisation the Group also transferred its 100% interest in LLC Detskaya Galereya “Yakimanka” to CJSC DMF-Invest and, ultimately, to JSFC Sistema and its subsidiaries. However, the Group has retained control over the luxury retail business by entering into an option arrangement, which gives the Group a right to purchase 100% of LLC Detskaya Galereya "Yakimanka" for 100 Russian Rubles at any point in time until 1 January 2016.

The carrying amounts of assets and liabilities disposed by the Group through the reorganisation, and the impact of the reorganisation on the Group’s equity are presented below:

	31 December 2014
Disposed assets and liabilities	
Current assets	
Cash and cash equivalents	276
Other current assets	1,560
Non-current assets	
Long-term loans receivable	938,000
Deferred tax assets	103,750
Current liabilities	
Other current liabilities (interest payable on loans and borrowings)	(696,754)
Non-current liabilities	
Long-term loans and borrowings	(4,543,911)
Total net assets disposed of	**(4,197,079)**
Treasury shares disposed of	**4,346,462**
Effect of reorganisation on the Group’s additional paid-in capital	**149,383**

In November 2015, the above option arrangement was canceled by mutual agreement of the parties. Therefore, the Group lost control over LLC Detskaya Galereya "Yakimanka". At the same time, JSFC Sistema retained control over LLC Detskaya Galereya "Yakimanka". After the disposal date, LLC Detskaya Galereya "Yakimanka" repaid a loan previously received from the Company in the amount of RUB 169,740 thousand, which is presented within the line “Cash consideration received in the course of disposal of a subsidiary” of the consolidated statement of cash flows. The carrying amounts of assets and liabilities effectively transferred by the Group to its shareholders are presented below:

	5 November 2015
Disposed assets and liabilities	
Current assets	
Cash and cash equivalents	3,192
Short-term loans granted	1,143,688
Other current assets	115,060
Current liabilities	
Short-term borrowings	(320,178)
Trade payables	(1,035)
Other current liabilities (interest payable on loans and borrowings)	(27,338)
Total net assets disposed of	**(913,389)**
Consideration received	169,740
Effect on the Group’s additional paid-in capital	**(743,649)**

2. BASIS OF PREPARATION

Previously, the Group has been preparing its consolidated financial statements in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). The previous financial statements issued in accordance with US GAAP was prepared for the six months ended 30 June 2015.

The current financial statements represent the first set of the Group's consolidated financial statements prepared under the International Financial Reporting Standards ("IFRS") which include standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") which replaced the Standing Interpretations Committee. The Group applied IFRS 1 "*First time adoption of International Financial Reporting Standards*".

Note 6 discusses the impact of IFRS adoption on the Group's financial postion, results of operations and cash flows.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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* [2];
- IFRS 15 *Revenue from Contracts with Customers* [2];
- IFRS 16 *Leases* [3];
- Amendments to IFRS 11 – *Accounting for Acquisition of Interests in Joint Operations* [1];
- Amendments to IAS 1 – *Disclosure Initiative* [1];
- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation* [1];
- Amendments to IAS 16 and IAS 41 – *Agriculture: Bearer Plants* [1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [1];
- Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception* [1];
- IFRS 14 *Regulatory Deferral Accounts* [1];
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements* [1];
- Annual Improvements to IFRSs 2012-2014 Cycle [1];

[1] Effective for annual periods beginning on or after 1 January 2016, with early application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with early application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with early application 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 recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* 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) in other comprehensive income, with only dividend income generally recognised 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 the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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 recognised.
- **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. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 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 recognise 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises 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.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 *Leases*

IFRS 16 *Leases* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IAS 1 *Disclosure Initiative*

The amendments to IAS 1 provide guidance on how to apply the concept of materiality in practice. The amendments are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – ***Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively. The management of the Group believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

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

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. The management of the Group anticipate that the application of these amendments to IFRS 10 and IAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IFRS 10, IFRS 12 and IAS 28 ***Investment Entities: Applying the Consolidation Exception***

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The management of the Group does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to IAS 27 – ***Equity Method in Separate Financial Statements***

The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

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 2015 as well as comparative information presented in these financial statements.

Going concern principle

These consolidated financial statements have been prepared on the 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 ("RUB"). The functional currencies of the Company's German and Kazakhstan subsidiaries are the Euro and Tenge, respectively.

These consolidated financial statements are presented in thousands of Russian Rubles. The 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.

The Group mainly operates in the Russian Federation, with insignificant sales in Kazakhstan that are not disaggregated to separate reportable segment. The Group believes that disaggregating its geographic operating segments would not provide material or meaningful additional information.

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 recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised 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.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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 recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise 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 recognising its share of further losses. Additional losses are recognised 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 recognised 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 recognised 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 recognised 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.

Group's investment in associate OJSC Detsky Mir – Orel is included within the "Investments in associate" line of the consolidated statement of financial position.

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 reconizes retail revenues when goods are sold in retail stores.

For online sales the Group recognizes revenue upon delivery of the products 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 that are related to formal agreements negotiated with its suppliers. These bonuses and allowances are predominantly for cooperative advertising, promotions, and volume related discounts. The Group accounts for supplier bonuses and allowances as a reduction in cost of inventories unless these represent a reimbursement of specific, incremental, identifiable costs incurred by the Group in selling the suppliers' products. Supplier allowances provided as a reimbursement of specific incremental and identifiable costs incurred to promote a supplier's product are included as a reduction in the respective expenses when the cost is incurred.

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.

(in million of Russian Rubles)

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

	At 31 December 2015	At 31 December 2014	At 1 January 2014
Closing exchange rates at the year end – RUB			
1 EUR	79.6972	68.3427	44.9699
1 Tenge	0.2152	0.3083	0.2131
1 USD	72.8827	56.2584	32.7292

	2015	2014
Average exchange rates for the year ended – RUB		
1 EUR	67.7767	50.8150
1 Tenge	0.2833	0.2146
1 USD	60.9579	38.4217

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 capitalisation.

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 utilised. 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 utilise 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 realised, 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 proft 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	20-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office equipment and other property, plant and equipment	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 amortisation and accumulated impairment losses. Amortisation is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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 usefulives 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	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 products 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 obesrvable 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 FVTPL. 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 payments

In 2014-2015, certain Company's employees of managerial positions were entitled to share-based payments ("phantom" shares). The Group's liabilities related to such payments are recognized as "cash-settled share-based payments" 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 payments

Equity-settled share-based payments 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 recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognised 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 other subsidiaries of the Group.

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.

Estimated useful lives of leasehold improvements is based on leases retail space contracts, as it is the intent, and experience, that these leases will be kept until the expiration of the agreed term.

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.

Recoverability of loans issued

Loans granted to related parties (Note 14) are measured at amortized cost. On each reporting date, the management of the Group reviews them to identify indicators of chances for not being repaid to the Group in cash. If such indicators are identified, an amount of impairment is determined and charged directly to equity as a distribution to Company's shareholders. The Group's management believes that the loans granted to related parties included in the consolidated statement of financial position in the amount of RUB 5,806,809 thousand are fully recoverable, which is supported by repayment of a significant part of this amount after the reporting date (Note 29).

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, margin protection 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.

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, obsolete inventories and partially or fully damaged inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Damaged stock is either provided for or written off depending on the extent of damage. 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 of 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 then as a revenue over the period that the award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which may be based on prior periods' statistics. These assumptions are connected with significant uncertainty at each reporting date, as far as issued points are expired through the passage of time in the future.

6. FIRST TIME ADOPTION OF IFRS

The consolidated financial statements of the Group have been prepared in accordance with *IFRS 1 First time adoption of International Financial Reporting Standards ("IFRS 1")*, as a part of the Group's conversion to IFRS. The term "International Financial Reporting Standards" includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") which replaced the Standing Interpretations Committee.

Until 2014 (inclusively) the Group prepared its annual consolidated financial statements in compliance with accounting principles generally accepted in the United States of America ("US GAAP"), which may differ from IFRS. Hence, adjustments necessary for preparing the consolidated financial statements in compliance with IFRS have been made to the financial statements of the Group.

(in million of Russian Rubles)

The Group applied IFRS 1 in the preparation of its consolidated statement of financial position as at 1 January 2014, the Group's transition date to IFRS with the following exemption to its opening balance sheet:

- IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 (2008), Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has applied this exemption as part of the transition to IFRS and as a result has not restated business combinations that occurred prior to the date of transition thereby retaining the amounts recognised under U.S. GAAP.
- In accordance with IFRS 1, if a company elects to apply IFRS 3 (2008), Business Combinations, retrospectively, IAS 27, Consolidated and Separate Financial Statements, must also be applied retrospectively. As the Company elected to apply IFRS 3 (2008) effective 1 January 2014 prospectively through the use of the Business Combinations exemption under IFRS 1, the Group has also applied IAS 27 for the same period. This exemption also applies to past acquisitions of investments in associate.

IFRS 1 requires the Group to disclose reconciliations of its equity reported in accordance with US GAAP to its equity in accordance with IFRS at the date of transition to IFRS and at the end of the latest period presented in the entity's most recent annual financial statements in accordance with US GAAP as well as reconciliation of its total comprehensive income in accordance with IFRS for the latest period in the Group's most recent annual financial statements with total comprehensive income in accordance with US GAAP for the same period. The Group has decided not to present these reconciliations in these consolidated financial statements because transition to IFRS has impacted neither equity at the respective dates nor total comprehensive income for the respective period.

7. REVENUE

	2015	**2014**
Retail, excluding luxury and the online store	59,446,805	44,405,304
Online store	968,807	442,569
Luxury retail	107,794	587,787
Other	20,867	10,419
Total	**60,544,273**	**45,446,079**

Revenue for sales of goods ordered via the Internet and picked up at Group's retail shops is included in retail revenue.

Revenue from ELC-branded stores, shown within retail revenue, for the years ended 31 December 2015 and 2014 amounted to RUB 934,306 thousand and RUB 812,815 thousand, respectively.

(in million of Russian Rubles)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Rent and utility	7,073,117	5,798,620
Payroll	6,808,576	5,216,991
Advertising and marketing expenses	1,090,709	781,861
Depreciation and amortisation	954,055	739,693
Banking services	457,316	303,133
Repair and maintenance	287,336	256,589
Promotional materials	228,585	180,393
Security expenses	227,914	226,362
Support of software	121,600	90,138
Communication expense	89,399	73,512
Taxes (other than income tax)	83,157	47,317
Travel expenses	72,889	57,682
Stationary and other materials	53,081	16,600
Consulting services	45,922	66,038
Bad debts written off and change in allowance for doubtful debts	(26,291)	50,953
(Income)/losses from fines for cancellation of orders from luxury goods suppliers*	(92,579)	119,594
Other	250,146	236,791
Total	**17,724,932**	**14,262,267**

* Income included in this line is connected with partial release of provisions for fines booked in 2014.

9. FINANCE INCOME AND EXPENSES

Finance income

	2015	2014
Interest income on bank deposits	94,220	54,491
Interest income on loans issued to related parties	628,927	1,297
Total	**723,147**	**55,788**

Finance expenses

	2015	2014
Interest expense on bonds	39,099	97,750
Interest expense on bank loans	2,013,622	819,975
Total	**2,052,721**	**917,725**

10. INCOME TAXES

10.1. Income tax recognized in profit or loss

	31 December 2015	31 December 2014
Current tax		
In respect of the current year	(1,044,279)	(967,321)
In respect of prior years	53,182	15,529
Others	(2,220)	-
	(993,317)	(951,792)
Deferred tax		
In respect of the current year	415,480	268,048
	415,480	268,048
Total income tax expense recognized in profit or loss	**(577,837)**	**(683,744)**

(in million of Russian Rubles)

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation 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:

	2015	**2014**
Profit before tax	1,553,603	2,726,544
Income tax expense calculated at 20% (2014: 20%)	310,721	545,309
Non-deductible inventory losses	172,568	128,666
Loss from goodwill impairment not deductible for tax purposes	72,516	-
Other non-deductible expenses, net	33,022	31,190
Deferred tax assets not recognized in respect of current period tax losses	42,629	-
Other charges not deductible for tax purposes	2,220	-
Prior period income tax adjustment	(53,182)	(15,529)
Effect of rates different from Russian statutory rate	(2,657)	(5,892)
Income tax expense recognized in profit or loss	**577,837**	**683,744**

10.2. 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:

2015	**Opening balance**	**Recognized in profit or loss**	**Closing balance**
Deferred tax /assets in relation to:			
Inventories	1,814,180	1,451,969	3,266,149
Accrued expenses and other deductible temporary differences	1,220,020	761,842	1,981,862
Deferred revenue	347,015	(69,279)	277,736
Losses carried forward	162,505	63,996	226,501
Less: valuation allowance	(9,365)	9,365	-
Total temporary differences	**3,534,355**	**2,217,893**	**5,752,248**
Deferred tax assets	**706,871**	**443,579**	**1,150,450**
Deferred tax liabilities:			
Property, plant and equipment	(52,850)	(262,617)	(315,467)
Other taxable temporary differences	(122,120)	122,120	-
Total temporary differences	**(174,970)**	**(140,497)**	**(315,467)**
Deferred tax liabilities	**(34,994)**	**(28,099)**	**(63,093)**
Net deferred tax assets	**671,877**	**415,480**	**1,087,357**

(in million of Russian Rubles)

2014	Opening balance	Recognized in profit or loss	Disposals resulting from reorganization (Note 1)	Closing balance
Deferred tax /assets in relation to:				
Inventories	964,365	849,815	-	1,814,180
Accrued expenses and other deductible temporary differences	1,181,715	38,305	-	1,220,020
Deferred revenue	353,805	(6,790)	-	347,015
Losses carried forward	514,500	166,757	(518,752)	162,505
Less: valuation allowance	(33,270)	23,905	-	(9,365)
Total temporary differences	**2,981,115**	**1,071,992**	**(518,752)**	**3,534,355**
Deferred tax assets	**596,223**	**214,398**	**(103,750)**	**706,871**
Deferred tax liabilities:				
Property, plant and equipment	(129,445)	76,595	-	(52,850)
Accrued supplier bonuses and marketing compensations	(263,305)	263,305	-	-
Other taxable temporary differences	(50,470)	(71,650)	-	(122,120)
Total temporary differences	**(443,220)**	**268,250**	**-**	**(174,970)**
Deferred tax liabilities	**(88,644)**	**53,650**	**-**	**(34,994)**
Net deferred tax assets	**507,579**	**268,048**	**(103,750)**	**671,877**

As at 31 December 2015 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 (31 December 2014 and 1 January 2014: nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leashold improvements	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Historical cost					
At 1 January 2014	2,573,901	1,597,109	707,289	106,043	4,984,342
Additions	97,764	2,178	6,686	1,642,434	1,749,062
Transfers	667,479	598,463	(2,514)	(1,263,428)	-
Disposals	(368,976)	(173,719)	(50,854)	(4)	(593,553)
At 31 December 2014	**2,970,168**	**2,024,031**	**660,607**	**485,045**	**6,139,851**
Additions	22,554	4,466	8,274	4,558,641	4,593,935
Transfers	3,373,371	175,422	1,277,106	(4,825,899)	-
Disposals	(40,743)	(28,261)	(27,744)	(43,186)	(139,934)
At 31 December 2015	**6,325,350**	**2,175,658**	**1,918,243**	**174,601**	**10,593,852**

(in million of Russian Rubles)

	Buildings and leashold improvements	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Accumulated depreciation and impairment					
At 1 January 2014	1,143,216	1,366,358	234,409	-	2,743,983
Depreciation expense	294,751	274,115	75,906	-	644,772
Disposals	(127,460)	(172,140)	(47,314)	-	(346,914)
At 31 December 2014	**1,310,507**	**1,468,333**	**263,001**	**-**	**3,041,841**
Depreciation expense	431,208	106,620	312,202	-	850,030
Disposals	(36,871)	(27,123)	(25,239)	-	(89,233)
At 31 December 2015	**1,704,844**	**1,547,830**	**549,964**	**-**	**3,802,638**
Carrying amount / net book value					
Balance at 1 January 2014	**1,430,685**	**230,751**	**472,880**	**106,043**	**2,240,359**
Balance at 31 December 2014	**1,659,661**	**555,698**	**397,606**	**485,045**	**3,098,010**
Balance at 31 December 2015	**4,620,506**	**627,828**	**1,368,279**	**174,601**	**6,791,214**

In December 2014 the Group sold the building occupied by its luxury retail store, which on the date of disposal had a carrying amount of RUB 229,007 thousand, to a third party for cash consideration of RUB 1,440,520 thousand. In addition, the Group incurred transaction costs for the disposal of the building totalling RUB 47,761 thousand. Gain on disposal of the building of RUB 1,163,752 thousand was presented as a separate line item in the consolidated statement of operations and comprehensive income.

In 2015, the Group completed construction of a distribution center in Bekasovo, Moscow Region. The carrying value at the date of putting into operation amounted to RUB 2,648,311 thousand and was included within the “Buildings and leashold improvements” group. Also, in 2015, the Group purchased warehouse equipment with the carrying value of RUB 524,106 thousand, which were included within the “Office and warehouse equipment and other fixed assets” group.

Loss on disposal of other property, plant and equipment of RUB 30,570 thousand and RUB 28,943 thousand 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 2015 and 2014, respectively.

12. GOODWILL

	31 December 2015	31 December 2014	1 January 2014
Goodwill relating to acquisition of Kub-Market LLC – cost	362,581	362,581	362,581
Accumulated impairment losses	(362,581)	-	-
Balance at end of year	**-**	**362,581**	**362,581**

As at 31 December 2015, the Group performed an impairment testing of goodwill, which resulted in recognition of impairment loss of RUB 362,581 thousand (as of 31 December 2014 no impairment was identified). Goodwill impairment as of 31 December 2015 was primarily caused by the impact of the existing economic instability and Russian Ruble exchange rate dynamics on the cash flows generated by Kub-Market LLC, and also high sensitivity of the forecast model to changes of key parameters.

(in million of Russian Rubles)

13. OTHER INTANGIBLE ASSETS

	Software	Trademarks	Total
Cost			
At 1 January 2014	638,612	4,484	643,096
Additions	497,549	29	497,578
Disposals	-	(1,200)	(1,200)
At 31 December 2014	**1,136,161**	**3,313**	**1,139,474**
Additions	757,303	326	757,629
Disposals	(2,044)		(2,044)
At 31 December 2015	**1,891,420**	**3,639**	**1,895,059**
Accumulated amortisation			
At 1 January 2014	398,296	-	398,296
Amortisation expense	94,921	-	94,921
Disposals	(14)	-	(14)
At 31 December 2014	**493,203**	**-**	**493,203**
Amortisation expense	104,025	-	104,025
Disposals	(1,797)	-	(1,797)
Balance at 31 December 2015	**595,431**	**-**	**595,431**
Currying amount			
Balance at 1 January 2014	**240,316**	**4,484**	**244,800**
Balance at 31 December 2014	**642,958**	**3,313**	**646,271**
Balance at 31 December 2015	**1,295,989**	**3,639**	**1,299,628**

The increase of the carrying amount of software in 2014 and 2015 relates primarily to licenses acquired for an ERP system (SAP) and capitalised implementation costs. The Group launched SAP in 2015.

14. LOANS ISSUED

Long-term loans receivable as at 31 December 2015 and 2014 comprised the following:

	2015	2014
A loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at 10.55% per annum maturing in September 2020 (Note 1)	4,553,112	4,543,911
Accrued interest	1,253,697	695,989
Total	**5,806,809**	**5,239,900**

Short-term loans receivable as at 31 December 2015 and 2014 comprised the following:

	2015	2014
A loan granted to CJSC Sistema-Telecom-Aktivy, a related party, denominated in Rubles at 12% per annum maturing in December 2015 *	-	1,220,000
Accrued interest	-	-
Total	**-**	**1,220,000**

* Disposed of as part of the Detskaya Galereya “Yakimanka” LLC disposal (Note 1).

Long-term and short-term loans granted to subsidiaries of Sistema, related parties, are unsecured.

(in million of Russian Rubles)

The fair value of long-term loans receivable from related parties as at 31 December 2015 was RUB 4,486,617 (2014: RUB 3,264,320 thousand). The fair value of short-term loans granted to related parties as at 31 December 2015 and 2014 approximated their carrying amount.

15. OTHER NON-CURRENT ASSETS

	31 December 2015	31 December 2014	1 January 2014
Long-term advances paid under operating lease agreements for warehouses and stores	243,919	230,848	189,175
Other	3,528	71	17,282
Total	**247,447**	**230,919**	**206,457**

16. INVENTORIES

	31 December 2015	31 December 2014	1 January 2014
Merchandise inventories	17,274,622	11,086,896	8,550,845
Materials	71,492	37,309	84,885
Total	**17,346,114**	**11,124,205**	**8,635,730**

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 market in the amount of RUB 888,153 thousand and RUB 455,444 thousand for the years ended 31 December 2015 and 2014, respectively, were recorded within cost of sales in the consolidated statements of operations and comprehensive income.

As at 31 December 2015 and 2014 and 1 January 2014 no inventories were pledged.

17. TRADE RECEIVABLES

	31 December 2015	31 December 2014	1 January 2014
Trade receivables	2,710,138	1,331,119	1,457,794
Allowance for doubtful debts	(244)	(244)	(879)
Total	**2,709,894**	**1,330,875**	**1,456,915**

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

(in million of Russian Rubles)

18. ADVANCES PAID AND OTHER RECEIVABLES

	31 December 2015	31 December 2014	1 January 2014
Advances paid to suppliers	295,899	252,434	112,968
Value added tax receivable	1,162,169	439,896	231,428
Other advances paid	196,038	169,482	109,316
Other taxes receivable	1,152	5,101	11,934
Prepaid expenses	23,705	19,661	12,462
Loyalty program receivables from OJSC Sberbank of Russia	-	1,673	154,446
Other receivables	203,613	309,785	159,620
Less: allowance for doubtfull accounts	(32,197)	(34,284)	(28,159)
	1,850,379	**1,163,748**	**764,015**

Other advances paid include prepayments on leases and customs duties. Other receivables include amounts due from Detsky Mir – Rosnichnye Aktivy, a subsidiary of JSFC Sistema, of RUB 12,010 thousand (31 December 2014: RUB 16,687 thousand; 1 January 2014: RUB 31,944 thousand).

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

	2015	2014
Balance at beginning of the year	(34,284)	(28,159)
Impairment loss recognized on other receivables	(7,651)	(7,694)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	9,588	1,177
Reversal of impairment loss on other receivables and advances paid	150	392
Balance at the end of the year	**(32,197)**	**(34,284)**

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 28

19. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014	1 January 2014
Cash on bank accounts	316,657	716,789	392,456
Cash in transit	757,992	590,799	376,713
Bank deposits in USD	-	175,808	-
Bank deposits in RUB	690,000	56,000	-
Cash on hand	169,133	130,639	90,733
Total	**1,933,782**	**1,670,035**	**859,902**

Cash and cash equivalents as at 31 December 2015 include RUB-denominated term deposits of RUB 690,000 thousand with interest rate of 4.4% and maturity on 11 January 2016.

Cash and cash equivalents as at 31 December 2014 include a RUB-denominated term deposit of RUB 56,000 thousand with interest rate 23% and USD-denominated term deposits of 175,808 thousand with interest rates from 0.3% to 1.5% with maturity date 12 January 2015.

There were no term deposits as 1 January 2014.

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

(in million of Russian Rubles)

20. SHAREHOLDERS' EQUITY / (DIFICIT)

All share and per share information for all periods herein retroactively reflect the Company's 250,000-for-1 stock split, which was effective on 18 February 2014.

Ordinary shares

As at 31 December 2015, 2014 and 1 January 2014 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorised ordinary shares
At 1 January 2014	**554,000,000**	**739,000,00**	**739,000,000**
Sale of treasury shares to the General Director	7,984,499	-	-
Transfer of treasury shares to shareholders in course of reorganization	177,015,501	-	-
At 31 December 2014	**739,000,000**	**739,000,000**	**739,000,000**
At 31 December 2015	**739,000,000**	**739,000,000**	**739,000,000**

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

Treasury shares

In September 2013 following the approval by the Board of Directors, the Group purchased 185,000,000 issued ordinary shares of the Company from OJSC Sberbank of Russia for total cash consideration of RUB 4,542,514 thousand.

In December 2014, the Group sold 7,984,499 treasury shares to the General Director (Note 22), and the remaining treasury shares were transferred to the Group's shareholders – Sistema and subsidiaries – as part of reorganisation (Note 1).

Dividends

In accordance with the Russian legislation, earnings available for dividends are limited to retained earnings of the Company, calculated in accordance with statutory rules in local currency. On 30 June 2014, the Annual General Meeting approved dividends of RUB 846,776 thousand for 2013. On 17 November 2014, an Extraordinary General Meeting approved dividends for 2011, 2013 and 9 months of 2014 of RUB 1,628,757 thousand. Dividends attributable to treasury shares of RUB 619,721 thousand were fully eliminated when preparing these consolidated financial statements.

On 2 July 2015, the Annual General Meeting approved dividends of RUB 839,060 thousand for 2014. On 4 December 2015, an Extraordinary General Meeting approved dividends for 9 months of 2015 of RUB 2,133,567 thousand.

(in million of Russian Rubles)

21. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2015, 2014 and 1 January 2014 comprise:

	31 December 2015	31 December 2014	1 January 2014
RUB-denominated corporate bonds	-	1,150,000	1,150,000
Bank loans			
RUB-denominated secured bank loans	3,200,000	3,200,000	3,200,000
RUB-denominated unsecured bank loans	15,158,914	5,365,979	1,572,321
	18,358,914	**9,715,979**	**5,922,321**
Less current portion of long-term debt	(12,893,789)	(6,228,309)	(1,572,321)
Loans and borrowings, net of current portion	**5,465,125**	**3,487,670**	**4,350,000**

Corporate bonds

In May 2015, the Group fully repaid corporate bonds issued in December 2005 with a total par value of RUB 1,150,000 thousand.

RUB-denominated bank loans

At 31 December 2015 the Group's RUB denominated bank loans were obtained from 6 Russian banks (31 December 2014–6 banks).

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2015, 2014 and 1 January 2014 was RUB 18,309,735 thousand, RUB 8,441,284 thousand and RUB 5,025,478 thousand, respectively. The carrying amount of this debt was RUB 18,358,914 thousand, RUB 8,565,979 thousand and RUB 4,772,321 thousand, respectively.

Unused credit line facilities

As of 31 December 2015 and 2014 the Group had total available unused credit line facilities of RUB 7,217,600 thousand and RUB 4,032,230 thousand, including RUB 3,610,000 thousand and RUB 983,152 thousand available under long-term credit lines.

Covenants

Certain of the Group's loan agreements contain covenants requiring the Group to meet certain financial ratios. The loan agreements contain various provisions that are triggered in the case of non-compliance with the specific covenants and these provisions differ in each agreement. Specifically, the banks may either increase interest rates on the loans, request the Group to contribute additional collateral, or request immediate repayment of the respective debt. Management believes that the Group was in compliance with all restrictive financial covenants as at 31 December 2015, 31 December 2014 and 1 January 2014.

Pledges

Loan agreement with one of the Group's banks effective as at 31 December 2015 obliges the Group to secure its liabilities with a mortgage of a building with the carrying value of RUB 2,416,944 thousand as at 31 December 2015. As at 31 December and 1 January 2014, 100% stake in LLC Detskaya Galereya "Yakimanka" was pledged as security under one of the Group's loan agreements.

Except for the assets mentioned above, as at 31 December 2015, 31 December 2014 and 1 January 2014 the Group had no other assets or securities pledged to secure loans and borrowings granted to the Group.

(in million of Russian Rubles)

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the bonds and bank loans principal outstanding as at 31 December 2015, 2014 and 2014:

As at 31 December 2015

Within the first month	2,385,495
From one to three months	3,807,666
From three months to one year	6,700,628
From one year to two years	1,600,045
From two year to five year	3,865,080
More than five years	-
Total	**18,358,914**

As at 31 December 2014

Within the first month	6,228,309
From one to three months	290,045
From three months to one year	930,045
From one year to two years	930,045
From two year to five year	910,867
More than five years	426,668
Total	**9,715,979**

22. SHARE BASED PAYMENTS

Long-term incentive plan

In August 2014, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan"). Under the conditions of the Incentive Plan, certain employees at senior levels are entitled to share-based compensation, so-called "phantom" shares, that are to be granted by the Group in annual tranches over 2014-2016. The phantom shares vest on 31 December 2016 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.

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 2014	**-**	**-**
Granted during the period	2,648,588	-
Forfeited / canceled during the period	-	-
Outstanding at 31 December 2014	**2,648,588**	**-**
Granted during the period	1,331,479	-
Forfeited / canceled during the period	(711,940)	-
Outstanding at 31 December 2015	**3,268,127**	-
Exercisable at 31 December 2014	-	-

(in million of Russian Rubles)

According to the terms of the Incentive Plan, the right to receive Company's ordinary shares or cash compensation in exchange for the phantom shares granted to the employees as at 31 December 2015 arises during 2016-2018 provided they continue to be employed by the Company.

As at 31 December 2015, the Group recognized liabilities of RUB 278,077 thousand in relation to the Incentive Plan, calculated as the fair value of the phantom shares granted to employees as at this date (as at 31 December 2014: RUB 20,347 thousand). These liabilities include accrued social contributions of RUB 65,483 (as at 31 December 2014: RUB 4,695 thousand). The respective expense of RUB 257,730 thoussand was recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 (for the year ended 31 December 2014: RUB 20,347 thousand).

When estimating its liability under the Incentive Plan the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 65.1 per share as at 31 December 2015 and RUB 32.9 per share as at 31 December 2014), and that all of the employees participating in the Incentive Plan will stay employed by the Group until their rights vest.

Share-based compensation of the General Director

In December 2014, the Board of Directors approved payment of one-off stock based compensation to the Group's General Director. Compensation of RUB 373,134 thousand was paid in cash and used by the General Director to acquire 7,984,499 shares in the Company which were taken from treasury shares carried on the Group's balance sheet. Gain on sale of treasury shares to the General Director of RUB 177,091 thousand was recognised in equity as additional paid-in capital as at 31 December 2014.

In December 2015, in connection with the sale of a certain share in the Group by the controlling shareholder to an investor, the Group's Board of Directors approved payment of compensation to the Groups' General Director consisting of two parts:

- compensation of RUB 378,408 thousand was paid in cash in December 2015;
- compensation of RUB 426,400 thousand will be settled by granting the General Director a right to receive Company's ordinary shares. The shares may be received by the General Director in August 2016 subject to his continued employement by the Company and Group's shares reaching certain level of market value established by the Board of Directors. The Group classified this compensation as an equity-settled share-based payment and recognized an expense of RUB 426,400 thousand within the consolidated statement of profit or loss and other comprehensive income, with an identical amount charged directly to equity within the Accumulated losses line. The amount was calculated as the fair value of the ordinary shares to which the General Director is entitled, based on an assessment of one share's market value of RUB 65.1. The above amount includes accrued social contributions of RUB 98,400 thousand.

23. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

	31 December 2015	31 December 2014	1 January 2014
Taxes payable other than income tax	415,859	500,314	272,984
Salaries payable	631,138	389,358	353,475
Interest payable	53,988	37,400	16,954
Accrued expenses and other current liabilities	1,851,641	1,525,418	961,846
	2,952,626	**2,452,490**	**1,605,259**

(in million of Russian Rubles)

24. DEFERRED REVENUE

Deferred revenue relating to the Group's customer loyalty program as at 31 December 2015, 2014 and 1 January 2014 was as follows:

	2015	2014
As at 1 January	347,013	353,770
Revenue deferred during the period	2,027,107	1,268,275
Revenue released to the consolidated statement of profir or loss and other comprehensive income	(2,096,386)	(1,275,032)
As at 31 December	**277,734**	**347,013**

25. RELATED PARTIES

For the purposes of these consolidated financial statements, related parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. Management has used reasonable judgments in considering each possible related party relationship with attention directed to the substance of the relationship, not merely the legal form.

Transactions with related parties may be performed on terms that would not necessarily be available to third parties. The Group had the following transactions and balances with subsidiaries of Sistema:

	31 December 2015		31 December 2014		1 January 2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties						
Bank deposits	11,207	-	68,631	-	22,354	-
Other receivables /(payables)	12,010	(107,943)	16,687	(76,065)	31,944	(7,364)
Loans issued/(received)	5,806,809	-	6,459,900	-	-	-

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

During the years ended 31 December 2015 and 2014 the Group entered into transactions with fellow subsidiaries of Sistema as follows:

- Rent and utility expenses – During the years ended 31 December 2015 and 2014, the Group incurred costs payable under contracts with Detsky Mir – Roznichnye Aktivy, a subsidiary of Sistema, of RUB 40,500 thousand and RUB 43,986 thousand, respectively.
- Communication expenses – During the years ended 31 December 2015 and 2014, the Group incurred costs payable to MTS, a subsidiary of Sistema, of RUB 19,568 thousand and RUB 39,523 thousand, respectively.
- Advertising and marketing expenses – During the years ended 31 December 2015 and 2014 the Group incurred Advertising and marketing expenses payable to PA Maxima, an affiliate of Sistema, in the amount of RUB 10,431 thousand and RUB 19,458 thousand, respectively. The Group also incurred advertising and marketing expenses payable to MTS, a subsidiary of Sistema, of RUB 44,099 thousand and RUB 269,457 thousand, respectively.
- Security expenses – During the years ended 31 December 2015 and 2014 the Group incurred security expenses payable to LLC PSE AB-Safety, a subsidiary of Sistema, in the amount of RUB 88 thousand and RUB 13,390 thousand, respectively.
- Acquisition of property, plant and equipment – During the years ended 31 December 2015 and 2014 the Group purchased property, plant and equipment from CJSC NVision Group, a subsidiary of Sistema, in the amount of RUB 8,824 thousand and RUB 17,395 thousand, respectively.

(in million of Russian Rubles)

- Medical services – During the years ended 31 December 2015 and 2014 the Group incurred expenses under an agreement with CJSC Medsi Group, a subsidiary of Sistema, in the amount of RUB 4,000 thousand and RUB 403 thousand, respectively.
- Event organization expenses – During the years ended 31 December 2015 and 2014 the Group incurred expenses under an agreement with VAO Intourist, a subsidiary of Sistema, in the amount of RUB 1,150 thousand and nil, respectively.
- Interest income – During the years ended 31 December 2015 and 2014 the Group earned interest income from subsidiaried of Sistema in the amount of RUB 628,927 thousand and RUB 1,297 thousand, respectively.

Compensation of key management personnel of the Group

During 2015 and 2014 the Group's directors and other members of key management received as remuneration RUB 1,187 million and RUB 817 million, respectively.

26. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debt (borrowings offset by cash and bank balances) 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.

Debt to equity ratio at the end of the reporting period was as follows:

	31 December 2015	31 December 2014	1 January 2014
Loans and borrowings	18,358,914	9,715,979	5,922,321
Cash and cash equivalents	(1,933,782)	(1,670,035)	(859,902)
Net borrowings	16,425,132	8,045,944	5,062,419
Equity/(deficit)	394,532	2,646,312	(2,097,951)
Net debt to equity/(deficit) ratio	41.63	3,04	Not applicable

Categories of financial instruments as at 31 December 2015, 2014 and 1 January 2014 are presented as follows:

	31 December 2015	31 December 2014	1 January 2014
Financial assets			
Loans issued	5,806,809	6,459,900	-
Cash and cash equivalents	1,933,782	1,670,035	859,902
Trade accounts receivable	2,709,894	1,330,875	1,456,915
Other receivables	203,613	309,785	159,620
	10,654,098	**9,770,595**	**2,476,437**
Financial liabilities at amortized cost			
Loans and borrowings	(18,358,914)	(9,715,979)	(5,922,321)
Trade payables	(16,717,972)	(10,993,231)	(9,167,930)
Other payables	(2,536,767)	(1,952,176)	(1,332,275)
	(37,613,653)	**(22,661,386)**	**(16,422,526)**
Net financial liabilities	**(26,959,555)**	**(12,890,791)**	**(13,946,089)**

(in million of Russian Rubles)

27. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, fluctuations in foreign exchange rates and market movements in interest rates. A description of the Group's risks and management policies in relation to these risks follows.

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, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of goods for sale is 3 to 5 months. No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and credit lines. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

Presented below is the maturity profile of the Group's financial obligations based on contractual undiscounted payments, including interest:

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2015				
Fixed rate borrowings				
Loan principal	15,452,401	6,112,638	6,353,096	2,986,667
Interest	49,850	49,850	-	-
	15,502,251	**6,162,488**	**6,353,096**	**2,986,667**
Floating rate borrowings				
Loan principal	2,906,513	80,521	347,534	2,478,458
Interest	4,138	4,138	-	-
	2,910,651	**84,659**	**347,534**	**2,478,458**
Other financial liabilities				
Trade payables	16,717,972	-	16,717,972	-
Other non-interest bearing liabilities	2,482,779	2,482,779	-	-
	19,200,751	**2,482,779**	**16,717,972**	**-**
Total	**37,613,653**	**8,729,926**	**23,418,602**	**5,465,125**

(in million of Russian Rubles)

At 31 December 2014	Total	Less than 1 year	1-5 years
Fixed rate borrowings			
Loan principal	8,512,290	5,312,290	3,200,000
Interest	30,608	30,608	-
	8,542,898	**5,342,898**	**3,200,000**
Floating rate borrowings			
Loan principal	1,203,689	916,019	287,670
Interest	6,792	6,792	-
	1,210,481	**922,811**	**287,670**
Other financial liabilities			
Trade payables	10,993,231	10,993,231	-
Other non-interest bearing liabilities	1,914,776	1,914,776	-
	12,908,007	**12,908,007**	**-**
	22,661,386	**19,173,716**	**3,487,670**

At 1 January 2014	Total	Less than 1 year	1-5 years
Fixed rate borrowings			
Loan principal	5,415,372	1,065,372	4,350,000
Interest	16,815	16,815	-
	5,432,187	**1,082,187**	**4,350,000**
Floating rate borrowings			
Loan principal	506,949	506,949	-
Interest	139	139	-
	507,088	**507,088**	**-**
Other financial liabilities			
Trade payables	9,167,930	9,167,930	-
Other non-interest bearing liabilities	1,315,321	1,315,321	-
	10,483,251	**10,483,251**	**-**
	16,422,526	**12,072,526**	**4,350,000**

Weithed average effective interest rate as at 31 December 2015 was 13.9% (31 December 2014: 12.3%; 1 January 2014: 9.6%).

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 are potentially subject the Group to credit risk consist primarily of loans issued, bonuses receivable from suppliers, other receivables as well as cash on current and deposit accounts with banks and other financial institutions.

Bonuses receivable from suppliers are either offset against respective accounts payable or paid in cash. At 31 December 2015 bonuses receivable from three major suppliers comprised 52% of the Group's consolidated trade accounts receivable (31 December 2014: 31%). 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. The 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.

(in million of Russian Rubles)

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

Counterparty	Rating (Moody's)	Carrying amount as at 31 December 2015
Sberbank	Ba2	714,937
Raiffeisenbank	Ba2	121,723
ING Bank	Ba1	41,098
VTB 24	Ba2	16,299
MTS bank	B3	11,207
Total		**905,264**

At of 31 December 2015 all loans issued in amount of 5,806,809 are granted to subsidiaries of Sistema which has a credit rating of Ba3 (Moody's). The Group's management believes that such rating is indicative of a high probability of repayment of these loans.

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 2015 and 2014.

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 utilising forward foreign exchange contracts.

The carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency were as follows:

	31 December 2015		31 December 2014	
	EUR	USD	EUR	USD
Assets				
Cash and and cash equivalents	3,071	79,494	565	455,541
Trade and other receivables	190,608	145,718	7,124	233,161
Total assets	**193,679**	**225,212**	**7,689**	**688,702**
Liabilities				
Trade and other payables	(167,212)	(2,898,131)	(283,797)	(1,944,692)
Total liabilities	**(167,212)**	**(2,898,131)**	**(283,797)**	**(1,944,692)**
Total net position	**26,467**	**(2,672,919)**	**(276,108)**	**(1,255,990)**

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to a depreciation 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.

	31 December 2015		31 December 2014	
	EUR	USD	EUR	USD
Profit/(loss)	5,293	(534,584)	(55,222)	(251,198)

(in million of Russian Rubles)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The Group manages this risk through analysis of current interest rates, performed by treasury function on the Group entities level. To mitigate the risk exposure the Group receives loans at both fixed and floating rates. In case of changes in market interest rates management may consider refinancing of a particular financial instrument on more favorable terms.

The table below details the Group’s sensitivity to change of floating rates by 3%, which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the reporting date was outstanding for the entire annual period.

	2015	2014
Profit or loss	87,195	36,111

28. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Group leases retail space through operating lease contracts which expire in various years through 2023, all of which are classified as operating leases. 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.

Future minimum rental payments (without VAT) under non-cancellable operating leases in effect as at 31 December 2015, 31 December 2014 and 1 January 2014 are as follows:

	31 December 2015	31 December 2014	1 January 2014
Within one year	6,447,600	6,962,552	5,203,059
After one year but not more than five years	32,805,763	31,197,923	23,395,389
More than five years	9,490,268	8,746,352	6,507,678
Total	**48,743,631**	**46,906,827**	**35,106,126**

Legal

In the ordinary course of business, the Group may become a party to various legal and tax proceedings, and may be subject to claims. In the opinion of management, the Group’s liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. 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 could be significant.

Operating environment

Emerging markets, including Russia, are subject to economic, political, social, legal, and legislative risks which differ from the risks affecting more developed markets. Laws and regulations affecting businesses in the RF may change rapidly and may be subject to arbitrary interpretations. The future economic direction of the RF is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Because the RF produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market. During 2014, 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.

In December 2014, the Central Bank of of the RF raised the key interest rate sharply, which caused a significant growth of credit interest rates on the domestic market. In the first quarter of 2015 two international credit agencies downgraded Russia’s long-term foreign currency sovereign rating to the speculative level with the negative outlook.

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.

29. SUBSEQUENT EVENTS

The Group has evaluated subsequent events through 29 February 2016, the date on which the consolidated financial statements are available to be issued.

On 29 January 2016 and 5 February 2016, CJSC LM-Finance partially repaid the loan previously issued by the Group in the amount of RUB 4,694,994 thousand and RUB 180,242 thousand, respectively.