DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2016
And Independent Auditor’s Report

DETSKY MIR GROUP

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC "Detsky mir" (the "Company") and its subsidiaries (the "Group") as of 31 December 2016, 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 28 February 2017.

On behalf of the Management:

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses The Group receives significant amounts of supplier incentives, discounts, and bonuses. These agreements largely comprise of volume-based bonuses based on percentage levels agreed for the calendar year, but also include arrangements with a greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support. We consider this to be a key audit matter because judgment is required in determining the period over which the reduction in cost of sales should be recognized, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data that is subject to bulky manual calculations. The Group's principal accounting policy on supplier bonuses is in Note 4 on page 21.	We obtained understanding of internal processes and controls in respect of accounting for supplier bonuses and assessed whether the amounts recognized in the consolidated financial statements were in line with the Group's accounting policies. We circularized a sample of suppliers to gain assurance that the amounts recorded were accurate and complete and, where outstanding balances were significant at the year-end, to confirm the amounts owed. Where responses were not received, we completed alternative procedures such as obtaining individual supplier bonus agreements and tracing the amounts recorded to primary documents signed by suppliers and evidencing their concurrence with the Group's right for a particular bonus earned. In addition, for a sample of volume-based agreements, we recalculated the bonuses due based on shipments in the year and contractual terms. We recomputed the management's calculation of rebates earned but not recognized and allocated to year-end inventory, in particular focusing on the completeness and accuracy of source data as well as consistency of the calculations with the adopted accounting policies. We also performed a 'look-back' analysis of bonuses recognized in prior period to check that these amounts were appropriately recovered.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2016 the value of inventories held by the Group was RUB 24,796 million (31 December 2015: RUB 17,346 million). The valuation of inventories was a focus for our audit because assessing the valuation of inventories is an area of significant judgement that involves, among others, estimating the eventual selling price of items held, assessing which items may be slow-moving, obsolete and partially or fully damaged. The assessment process includes studying historical performance of the inventories, current operational plans for the inventories as well as industry and customer specific trends.	We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventories by: • Checking the effectiveness of key inventories controls through attending inventory counts at the distribution center and 10 stores; • Testing the carrying value for a sample of individual goods by checking that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated; • Comparing the net realizable value, obtained through a detailed review of sales subsequent to the reporting date, to the cost of inventories; • Reviewing, recalculating and assessing the inventory provisioning for reasonableness, including challenging the appropriateness of provisioning with reference to inventory ageing, both historical and post year-end performance and a review of the provision as a percentage of gross stock year on year;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
The Group’s inventories provisions are disclosed in Note 14 on page 35.	• Recomputing management calculations of provisions to ensure they are accurate and free from errors.
Revenue recognition – customer loyalty programs We focused our work on revenue that is deferred and recognized on the Group’s customer loyalty program and co-branded loyalty program. We consider this to be a key audit matter because judgment is involved in determining the amount of revenue to be deferred and recognized on customer loyalty programs relating to expected redemption rate applied to loyalty points in issue. The movement of the Group’s deferred revenue in respect of customer loyalty programs is in Note 22 on page 41.	Our audit focused on challenging the Group’s assumptions applied in determining the redemption rates and included: • Obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty programs, as well as of key controls over deferring and recognizing revenue on customer loyalty programs; • Assessing expected redemption rates used by the Group against historical data on factual redemptions; • Using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs; • Recomputing management calculations of revenues deferred and recognized to ensure they are accurate and free from errors.

Other Information

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

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Vladimir Biryukov
Engagement partner

DELOITTE & TOUCHE

28 February 2017

Audited entity: PJSC “Detsky mir”

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

Primary State Registration Number: 1027700047100

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

Audit Firm: ZAO “Deloitte & Touche CIS”

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

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles, except per share data)

	Notes	2016	2015
REVENUE	6	79,547	60,544
COST OF SALES		(52,439)	(38,640)
GROSS PROFIT		**27,108**	**21,904**
Selling, general and administrative expenses	7	(20,483)	(17,725)
Share of profit of associate, net of income tax		9	9
Other operating expenses, net		(30)	(20)
OPERATING PROFIT		**6,604**	**4,168**
Finance income	8	170	723
Finance expenses	8	(1,938)	(2,053)
Impairment of goodwill		-	(363)
Gain on acquisition of controlling interest in associate	1	16	-
Foreign exchange gain/(loss), net		33	(921)
PROFIT BEFORE TAX		**4,885**	**1,554**
Income tax expense	9.1	(1,065)	(578)
PROFIT FOR THE YEAR		**3,820**	**976**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		65	62
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,885**	**1,038**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:		739,000,000	739,000,000
Earnings per share, basic and diluted (in Russian Rubles per share)		5.17	1.32

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	At 31 December 2016	At 31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	6,943	6,791
Intangible assets	11	1,301	1,300
Investment in associate		-	56
Long-term loan receivable	12	1,060	5,807
Deferred tax assets	9.2	1,708	1,151
Other non-current assets	13	263	247
Total non-current assets		**11,275**	**15,352**
CURRENT ASSETS:			
Inventories	14	24,796	17,346
Trade receivables	15	3,855	2,710
Advances paid and other receivables	16	2,351	1,850
Prepaid income tax		7	2
Cash and cash equivalents	17	2,445	1,934
Total current assets		**33,454**	**23,842**
TOTAL ASSETS		**44,729**	**39,194**
EQUITY AND LIABILITIES			
SHAREHOLDERS' (DEFICIT)/EQUITY:			
Share capital	18	1	1
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,362)	(5,448)
Currency translation reserve		114	49
Total (deficit)/equity		**(454)**	**395**
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	19	6,514	5,465
Deferred tax liabilities	9.2	69	63
Total non-current liabilities		**6,583**	**5,528**
CURRENT LIABILITIES			
Trade payables		25,215	16,718
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	8,124	12,894
Advances received, other payables and accrued expenses	21	3,834	2,952
Deferred revenue	22	816	278
Current income tax liability		611	429
Total current liabilities		**38,600**	**33,271**
Total liabilities		**45,183**	**38,799**
TOTAL EQUITY AND LIABILITIES		**44,729**	**39,194**

The notes on pages 11 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 2016
(in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2015	**1**	**6,537**	**(3,878)**	**(13)**	**2,647**
Profit for the year	-	-	976	-	976
Effect of translation to presentational currency	-	-	-	62	62
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**976**	**62**	**1,038**
Share-based compensation (Note 20)	-	-	427	-	427
Disposal of a subsidiary to the shareholder	-	(744)	-	-	(744)
Dividends (Note 18)	-	-	(2,973)	-	(2,973)
Balance at 31 December 2015	**1**	**5,793**	**(5,448)**	**49**	**395**
Profit for the year	-	-	3,820	-	3,820
Effect of translation to presentational currency	-	-	-	65	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**3,820**	**65**	**3,885**
Settlement of share-based compensation (Note 20)	-	-	(307)	-	(307)
Dividends (Note 18)	-	-	(4,427)	-	(4,427)
Balance at 31 December 2016	**1**	**5,793**	**(6,362)**	**114**	**(454)**

The notes on pages 11 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 2016
(in millions of Russian Rubles)

	Notes	2016	2015
Operating activities:			
Profit for the year		3,820	976
Adjustments for:			
Income tax expense recognized in profit or loss		1,065	578
Share based compensation		-	684
Impairment of goodwill		-	363
Finance income		(170)	(723)
Finance expense		1,938	2,053
Loss on disposal of property, plant and equipment and intangible assets		4	31
Bad debts written-off and change in allowance for doubtful debts		34	(26)
Shrinkage and inventory obsolescence expenses		1,264	888
Depreciation and amortization expense		1,591	954
Foreign exchange (gain)/loss, net		(33)	921
Gain on acquisition of controlling interest in associate		(16)	-
Share of profit of associate, net of income tax		(9)	(9)
Changes in working capital:			
Increase in trade receivables		(1,149)	(1,365)
Increase in advances paid and other receivables		(566)	(790)
Increase in inventories		(8,654)	(7,110)
Increase in trade payables		8,579	4,866
Increase in advances received, other payables and accrued expenses		845	167
Increase/(decrease) in deferred revenue		538	(69)
Cash generated by operations		**9,081**	**2,389**
Interest paid		(1,857)	(2,042)
Interest received		45	165
Income tax paid		(1,468)	(1,190)
Net cash generated by/(used in) operating activities		**5,801**	**(678)**
Investing activities:			
Payments for property, plant and equipment		(1,468)	(4,589)
Payments for intangible assets		(279)	(719)
Net inflow of cash and cash equivalents on acquisition of controlling interest in associate (Note 1)		15	-
Repayment of loans receivable		4,888	98
Dividends received from associate		9	3
Proceeds from disposal of property, plant and equipment		-	20
Loans issued to related parties		-	(31)
Net cash received from/(used in) investing activities		**3,165**	**(5,218)**
Financing activities:			
Repayment of loans and borrowings		(30,290)	(27,783)
Dividends paid		(4,427)	(2,973)
Share-based compensation		(307)	-
Proceeds from loans and borrowings		26,569	36,746
Cash consideration received in the course of disposal of a subsidiary		-	170
Net cash (used in)/generated by financing activities		**(8,455)**	**6,160**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**511**	**264**
CASH AND CASH EQUIVALENTS, beginning of the year		**1,934**	**1,670**
CASH AND CASH EQUIVALENTS, end of the year		**2,445**	**1,934**

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

(in million of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (the "Company") together with its subsidiaries (the "Group") is the largest retail chain in the children's goods 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).

The primary activity of the Group is the sale of children's clothing and goods through retail and internet stores. In 2016 and as at 31 December 2016 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia.

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

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

	31 December 2016	31 December 2015
PJSFC Sistema and subsidiaries	72.57%	75.82%
Floette Holdings Limited [1]	11.55%	11.55%
Exarzo Holdings Limited [1]	11.55%	11.55%
Other shareholders	4.33%	1.08%
Total	**100%**	**100%**

[1] Represent the interests of the "Russian-Chinese investment Fund" (Note 26).

As at 31 December 2016 and 2015 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 2016**	**31 December 2015**
Detsky mir Kazakhstan, LLP, Kazakhstan	100%	100%
Kub-Market LLC, RF	100%	100%
Detsky mir-Orel, JSC	100%	50%

As at 31 December 2016 and 2015 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

Acquisition of controlling interest in associate

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

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

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

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

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

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

Gain on acquisition of controlling interest in associate of RUB 16 million, represented by excess of fair value of acquired net assets over consideration paid, has been recognized in consolidated statement of profit and loss and other comprehensive income and results from the Group's strong position in negotiations with the previous holder of 50% interest in DM Orel.

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

2. BASIS OF PREPARATION

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

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2015, except for the adoption of the new standards and interpretations described below.

In 2016 the Group has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB:

- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Annual Improvements to IFRS 2012-2014 Cycle.

The adoption of these standards and interpretations has not had a significant impact on the consolidated financial statements of the Group for 2016.

New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRS 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 2 – *Classification and Measurement of Share-based Payment Transactions* [2];
- Amendments to IAS 7 – *Disclosure Initiative* [1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* [2];
- Annual Improvements to IFRS 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, 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 recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized 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 amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. 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 does not anticipate that the application of IFRS 9 in the future may have a significant impact in future period, except that IFRS 9 will impact disclosures of financial instruments. 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 recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

The management of the Group does not anticipate 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 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

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

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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 IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify that in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- the original liability is derecognized;
- the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

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

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

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

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognized. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively

The management of the Group does not anticipate that the application of IFRIC 22 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS 2014-2016 Cycle

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarized financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management does not anticipate that the application of these amendments will have a material 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 2016 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 millions 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.

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

Business combinations

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

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

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

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

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

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

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

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

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 recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

Revenue recognition

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

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

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

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

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

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

Bonuses and allowances received from suppliers

The Group receives bonuses and allowances 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' goods. Supplier allowances provided as a reimbursement of specific incremental and identifiable costs incurred to promote a supplier's goods 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.

(in millions of Russian Rubles)

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

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

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

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

	At 31 December 2016	**At 31 December 2015**
Closing exchange rates at the year-end – RUB		
1 EUR	63.8111	79.6972
1 Tenge	0.1816	0.2152
1 USD	60.6569	72.8827

	2016	**2015**
Average exchange rates for the year ended – RUB		
1 EUR	74.2310	67.7767
1 Tenge	0.1960	0.2833
1 USD	67.0349	60.9579

Borrowing costs

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

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

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

Income tax

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

Current income tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

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

Purchased software	2-10 years
Other	2-10 years

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

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

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

Inventories

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

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

Financial instruments

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

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

Effective interest method

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

Fair value of financial instruments

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

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Investments held-to-maturity

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

Loans and receivables

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

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

Cash and cash equivalents

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

Impairment of financial assets

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

Objective evidence that financial assets are impaired can include:

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

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

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

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

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

Derecognition of financial assets

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

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

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

Financial liabilities

Classification as debt or equity

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

Equity instrument

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

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

Financial liabilities

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

Derecognition of financial liabilities

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

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at 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 compensation

In 2014-2016, certain Company's employees of managerial positions were entitled to share-based compensation ("phantom" shares). The Group's liabilities related to such payments are recognized as "cash-settled share-based compensation" and initially measured at the fair value of such liabilities. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

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

Dividends

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

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.

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.

(in millions of Russian Rubles)

Measuring inventories

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

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

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as 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 as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

	2016	2015
Retail, excluding luxury and the online store	77,621	59,447
Online store	1,868	969
Luxury retail	-	108
Other	58	20
Total	**79,547**	**60,544**

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

Revenue from ELC-branded stores, shown within retail revenue, for the years ended 31 December 2016 and 2015 amounted to RUB 1,001 million and RUB 934 million, respectively.

(in millions of Russian Rubles)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Rent and utility	8,191	7,073
Payroll	7,106	6,809
Depreciation and amortization	1,591	954
Advertising and marketing expenses	1,058	1,091
Banking services	656	457
Repair and maintenance	338	287
Software maintenance	313	122
Promotional materials	282	229
Security expenses	253	228
Taxes (other than income tax)	142	83
Consulting services	118	46
Communication expense	103	89
Travel expenses	91	73
Bad debts written off and change in allowance for doubtful debts	34	(26)
Stationery and other materials	28	53
Income from partial release in provisions for fines for cancellation of orders from luxury goods suppliers booked in 2014	-	(93)
Other	179	250
Total	**20,483**	**17,725**

8. FINANCE INCOME AND EXPENSES

Finance income

	2016	2015
Interest income on bank deposits	35	94
Interest income on loans issued to related parties	135	629
Total	**170**	**723**

Finance expenses

	2016	2015
Interest expense on bonds	-	39
Interest expense on bank loans	1,938	2,014
Total	**1,938**	**2,053**

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

	2016	2015
Current tax		
In respect of the current year	(1,952)	(1,044)
In respect of prior years	340	52
Other	(4)	(2)
	(1,616)	(994)
Deferred tax		
In respect of the current year	551	416
	551	416
Total income tax expense recognized in profit or loss	**(1,065)**	**(578)**

(in millions 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:

	2016	2015
Profit before tax	4,885	1,554
Income tax expense calculated at 20% (2015: 20%)	977	311
Non-deductible inventory losses	365	173
Loss from goodwill impairment not deductible for tax purposes	-	73
Provision uncertain tax positions	43	-
Other non-deductible expenses, net	16	28
Deferred tax assets not recognized in respect of current period tax losses	-	43
Other charges not deductible for tax purposes	4	2
Prior period income tax adjustment	(340)	(52)
Income tax expense recognized in profit or loss	**1,065**	**578**

9.2. Deferred tax balances

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

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

(in millions of Russian Rubles)

2015	**Opening balance**	**Recognized in profit or loss**	**Closing balance**
Deferred tax assets in relation to:			
Inventories	1,814	1,452	3,266
Accrued expenses and other deductible temporary differences	1,220	762	1,982
Deferred revenue	347	(69)	278
Losses carried forward	163	64	227
Less: valuation allowance	(9)	9	-
Total temporary differences	**3,535**	**2,218**	**5,753**
Deferred tax assets	**707**	**444**	**1,151**
Deferred tax liabilities in relation to:			
Property, plant and equipment	(52)	(263)	(315)
Other taxable temporary differences	(122)	122	-
Total temporary differences	**(174)**	**(141)**	**(315)**
Deferred tax liabilities	**(35)**	**(28)**	**(63)**
Net deferred tax assets	**672**	**416**	**1,088**

As at 31 December 2016 and 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.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improve-ments	**Trade equipment**	**Office and warehouse equipment and other fixed assets**	**Construction in-progress**	**Total**
Cost					
At 1 January 2015	**2,970**	**2,024**	**661**	**485**	**6,140**
Additions	24	4	8	4,559	4,595
Transfers	3,374	175	1,277	(4,826)	-
Disposals	(41)	(28)	(28)	(43)	(140)
At 31 December 2015	**6,327**	**2,175**	**1,918**	**175**	**10,595**
Additions	35	10	27	1,409	1,481
Transfers	559	704	202	(1,465)	-
Disposals	(32)	(649)	(67)	-	(748)
Acquisition of subsidiaries	3	3	-	-	6
At 31 December 2016	**6,892**	**2,243**	**2,080**	**119**	**11,334**

(in millions of Russian Rubles)

	Buildings and leasehold improve-ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Accumulated depreciation and impairment					
At 1 January 2015	**1,311**	**1,468**	**263**	**-**	**3,042**
Depreciation expense	431	107	312	-	850
Disposals	(36)	(27)	(25)	-	(88)
At 31 December 2015	**1,706**	**1,548**	**550**	**-**	**3,804**
Depreciation expense	638	172	504	-	1,314
Disposals	(25)	(645)	(63)		(733)
Acquisition of subsidiaries	3	3	-	-	6
At 31 December 2016	**2,322**	**1,078**	**991**	**-**	**4,391**
Carrying amount / net book value					
Balance at 1 January 2015	**1,659**	**556**	**398**	**485**	**3,098**
Balance at 31 December 2015	**4,621**	**627**	**1,368**	**175**	**6,791**
Balance at 31 December 2016	**4,570**	**1,165**	**1,089**	**119**	**6,943**

Normally the Group's additions of items of property, plant and equipment relate to new stores openings. In addition, 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 million and was included within the "Buildings and leasehold improvements" group. Also, in 2015, the Group purchased warehouse equipment with the carrying value of RUB 524 million, 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 4 million and RUB 31 million was recognized in other operating income and expense, net in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016 and 2015, respectively.

11. INTANGIBLE ASSETS

	Software	Trademarks	Intangible assets not ready for use	Total
Cost				
At 1 January 2015	**1,136**	**3**	**-**	**1,139**
Additions	757	1	-	758
Disposals	(2)	-	-	(2)
At 31 December 2015	**1,891**	**4**	**-**	**1,895**
Additions	226	-	53	279
At 31 December 2016	**2,117**	**4**	**53**	**2,174**
Accumulated amortization				
At 1 January 2015	**493**	**-**	**-**	**493**
Amortization expense	104	-	-	104
Disposals	(2)	-	-	(2)
At 31 December 2015	**595**	**-**	**-**	**595**
Amortization expense	278	-	-	278
Balance at 31 December 2016	**873**	**-**	**-**	**873**
Carrying amount				
Balance at 1 January 2015	**643**	**3**	**-**	**646**
Balance at 31 December 2015	**1,296**	**4**	**-**	**1,300**
Balance at 31 December 2016	**1,244**	**4**	**53**	**1,301**

(in millions of Russian Rubles)

The increase of the carrying amount of software in 2015 and 2016 relates primarily to licenses acquired for an ERP system (SAP) and capitalized implementation costs. The Group launched SAP in 2015.

12. LONG-TERM LOAN RECEIVABLE

Long-term loan receivable as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
A loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at Mosprime1M+2% per annum maturing in September 2020	754	4,553
Accrued interest	306	1,254
Total	**1,060**	**5,807**

Long-term loan granted to subsidiaries of Sistema, related parties, is unsecured.

In January-February 2016, CJSC "DM-Finance" has partially repaid the loan previously issued by the Group in the amount of RUB 4,875 million, including interest. On 27 February 2017 CJSC "DM-Finance" has fully repaid the remaining part of the loan previously issued by the Group (Note 27).

The fair value of long-term loan receivable from related party as at 31 December 2016 approximated it's carrying amount (31 December 2015: RUB 4,487 million).

13. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Long-term advances paid under operating lease agreements for warehouses and stores	259	244
Other	4	3
Total	**263**	**247**

14. INVENTORIES

Inventories as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Merchandise inventories	24,677	17,275
Materials	119	71
Total	**24,796**	**17,346**

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

Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value in the amount of RUB 1,264 million and RUB 888 million for the years ended 31 December 2016 and 2015, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2016 and 2015 no inventories were pledged.

(in millions of Russian Rubles)

15. TRADE RECEIVABLES

Trade receivables as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Trade receivables	3,856	2,711
Allowance for doubtful debts	(1)	(1)
Total	**3,855**	**2,710**

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

16. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Advances paid to suppliers	329	296
Value added tax receivable	965	1,162
Other advances paid	85	196
Other taxes receivable	11	1
Prepaid expenses	31	24
Other receivables	975	203
Less: allowance for doubtful accounts	(45)	(32)
Total	**2,351**	**1,850**

Other advances paid include prepayments on leases and customs duties. Other receivables as at 31 December 2016 include amounts due from Detsky mir – Retail Assets, a subsidiary of PJSFC Sistema, of nil (31 December 2015: RUB 12 million).

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

	2016	2015
Balance at beginning of the year	(32)	(34)
Impairment loss recognized on other receivables	(16)	(8)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	3	10
Balance at the end of the year	**(45)**	**(32)**

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

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Cash on bank accounts	324	317
Cash in transit	1,811	758
Bank deposits in RUB	69	690
Cash on hand	241	169
Total	**2,445**	**1,934**

(in millions of Russian Rubles)

Cash and cash equivalents as at 31 December 2016 include RUB-denominated term deposits of RUB 69 million with interest rate of 4.5% and maturity on 9 January 2017.

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

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

18. SHAREHOLDERS' (DEFICIT)/EQUITY

Ordinary shares

As at 31 December 2016 and 2015 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 31 December 2016 and 2015	739,000,000	739,000,000	739,000,000

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

Dividends

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

On 2 July 2015 at the annual general meeting of shareholders the dividend payment for the year 2014 was approved in an amount of RUB 839 million. On 4 December 2015 at the extraordinary general meeting of shareholders the dividend payment for 9 months 2015 was approved in an amount of RUB 2,134 million.

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

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

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Bank loans		
Secured bank loans in rubles	2,285	3,200
Unsecured bank loans in rubles	12,353	15,159
	14,638	**18,359**
Less current portion of long-term debt	(8,124)	(12,894)
Loans and borrowings, non-current	**6,514**	**5,465**

(in millions of Russian Rubles)

Bank loans in rubles

At 31 December 2016 the loans in rubles were provided to the Group by 5 Russian banks (31 December 2015 – 6 banks).

The fair value of the Group’s bank loans, including amounts due within one year, as at 31 December 2016 and 31 December 2015 was RUB 14,825 million and 18,310 million, respectively. The carrying amount of this debt was RUB 14,638 million, RUB 18,359 million, respectively.

Unused credit line facilities

As at 31 December 2016 and 31 December 2015, the total amount of undrawn credit lines of the Group was RUB 11,983 million and RUB 7,218 million, respectively, including RUB 8,283 million and RUB 3,610 million relating to long-term credit lines, respectively.

Restrictive covenants

Some of the Group’s loan agreements contain certain restrictive covenants, including requirements to comply with specified financial ratios. The Group’s loan agreements contain various provisions that come into force in the case of Group’s failure to comply with restrictive covenants. In particular, a bank may increase the interest rate on the loan, require additional collateral or immediate repayment of the corresponding amount of debt. Management believes that as at 31 December 2016 and 31 December 2015 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Collateral

The performance of the Group’s obligations under a loan agreement with one of its banks as of 31 December 2016 and 31 December 2015 is secured by a mortgage of the building with a net book value of RUB 2,418 million and RUB 2,593 million, respectively.

With the exception of the above mentioned assets as at 31 December 2016 and 31 December 2015 the Group has no other assets or securities pledged as collateral for loans and borrowings granted to the Group.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the bank loans principal outstanding as at 31 December 2016 and 2015:

As at 31 December 2016

Within the first month	756
From one to three months	1,930
From three months to one year	5,438
From one year to two years	1,668
From two year to five year	4,846
Total	**14,638**

As at 31 December 2015

Within the first month	2,385
From one to three months	3,808
From three months to one year	6,701
From one year to two years	1,600
From two year to five year	3,865
Total	**18,359**

(in millions of Russian Rubles)

20. SHARE-BASED COMPENSATION

Cash-settled share-based compensation

Long-term incentive plan adopted in 2014

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 2015	**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**	**-**
Forfeited / canceled during the period	(130,525)	
Exercised during the period	(1,639,124)	-
Outstanding at 31 December 2016	**1,498,478**	**-**
Exercisable at 31 December 2016	-	-

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.

In June 2016, the Group settled part of its obligations under previously granted employee rights to receive a cash equivalent of phantom shares value by paying to them a cash consideration, of which 50% was designated to purchase 0.11% Company's ordinary shares from a PJSFC Sistema subsidiary.

As at 31 December 2016, the Group recognized liabilities of RUB 139 million 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 2015: RUB 278 million). These liabilities include accrued social contributions of RUB 33 million (as at 31 December 2015: RUB 65 million). Income upon partial settlement of the phantom shares of RUB 32 million 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 2016 (for the year ended 31 December 2015: expense of RUB 258 million).

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 85.52 per share as at 31 December 2016 and RUB 65.1 per share as at 31 December 2015), and that all of the employees participating in the Incentive Plan will stay employed by the Group until their rights vest.

(in millions of Russian Rubles)

Long-term incentive plan adopted in 2016

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

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

	Number of phantom shares	**Weighted average exercise price**
Outstanding at 1 January 2016	**-**	**-**
Granted during the period	1,981,691	-
Forfeited / canceled during the period	(132,817)	
Outstanding at 31 December 2016	**1,848,874**	-
Exercisable at 31 December 2016	-	-

As at 31 December 2016, the Group recognized liabilities of RUB 40 million in relation to the Incentive Plan 2, calculated as the fair value of the phantom shares granted to employees as at this date. These liabilities include accrued social contributions of RUB 5 million. The respective expense of RUB 40 million 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 2016.

When estimating its liability under the Incentive Plan 2, the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 85.52 per share as at 31 December 2016), and that all of the employees participating in the Incentive Plan 2 will stay employed by the Group until their rights vest.

As disclosed in Note 27, in February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 will vest in 2017.

Equity-settled share-based compensation

In December 2015 the Group's Board of Directors approved an equity-settled share-based compensation. In June 2016, the participants' previously granted right to receive Company's ordinary shares was extinguished by mutual agreement of the parties through cash settlement that was designated to purchase ordinary shares of the Company from a PJSFC Sistema's subsidiary. This settlement was recognized as debit movement in equity within the Accumulated deficit line.

(in millions of Russian Rubles)

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Taxes payable other than income tax	357	416
Salaries payable	629	631
Interest payable	41	54
Accrued expenses and other current liabilities	2,807	1,851
Total	**3,834**	**2,952**

22. DEFERRED REVENUE

Deferred revenue relating to the Group's customer loyalty program as at 31 December 2016 and 2015 was as follows:

	2016	2015
As at 1 January	278	347
Revenue deferred during the period	3,261	2,027
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(2,723)	(2,096)
As at 31 December	**816**	**278**

23. RELATED PARTIES

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

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

	31 December 2016		31 December 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	158	-	11	-
Other receivables /(payables)	1	(124)	12	(108)
Loans receivable	1,060	-	5,807	-

(in millions of Russian Rubles)

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

The Group's transactions with subsidiaries and associates of Sistema for the years ended 31 December 2016 and 2015 were as follows:

Related party	Type of transaction	2016	2015
Detsky mir-Retail assets (i)	Rent and utilities	21	41
MTS (i)	Communication costs	23	20
MTS (i)	Advertising and	86	44
PA-Maxima (ii)	marketing expenses	2	10
VAO "Intourist" (i)	Costs of organizing events	35	1
CJSC "NVision group" (i)	Acquisition of fixed assets	22	9
CJSC "DM-Finance" (i)	Repayment of loans receivable	4,875	-
	Interest income	135	629
Group of companies "Medsi" (i)	Medical services	-	4

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

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

Remuneration of key management personnel of the Group

During 2016 and 2015, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 448 million (including RUB 435 million of short-term benefits and RUB 13 million of accrued share-based compensation) and RUB 1,187 million (including RUB 301 million of short-term benefits and RUB 886 million of accrued share-based compensation), respectively.

24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and bank balances as detailed in Note 17) and equity of the Group.

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

Categories of financial instruments as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Financial assets		
Loans receivable	1,060	5,807
Cash and cash equivalents	2,445	1,934
Trade accounts receivable	3,855	2,710
Other receivables	975	203
	8,335	**10,654**
Financial liabilities at amortized cost		
Loans and borrowings	(14,638)	(18,359)
Trade payables	(25,215)	(16,718)
Other payables	(3,477)	(2,536)
	(43,330)	**(37,613)**
Net financial liabilities	**(34,995)**	**(26,959)**

(in millions of Russian Rubles)

25. RISK MANAGEMENT ACTIVITIES

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

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2016				
Fixed rate borrowings				
Loan principal	12,353	2,606	4,965	4,782
Interest	37	37	-	-
	12,390	**2,643**	**4,965**	**4,782**
Floating rate borrowings				
Loan principal	2,285	80	473	1,732
Interest	4	4	-	-
	2,289	**84**	**473**	**1,732**
Other financial liabilities				
Trade payables	25,215	-	25,218	-
Other non-interest bearing liabilities	3,436	3,436	-	-
	28,651	**3,436**	**25,218**	**-**
Total	**43,330**	**6,163**	**30,656**	**6,514**

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2015				
Fixed rate borrowings				
Loan principal	15,452	6,112	6,353	2,987
Interest	50	50	-	-
	15,502	**6,162**	**6,353**	**2,987**
Floating rate borrowings				
Loan principal	2,907	81	348	2,478
Interest	4	4	-	-
	2,911	**85**	**348**	**2,478**
Other financial liabilities				
Trade payables	16,718	-	16,718	-
Other non-interest bearing liabilities	2,482	2,482	-	-
	19,200	**2,482**	**16,718**	**-**
Total	**37,613**	**8,729**	**23,419**	**5,465**

Weighted average effective interest rate as at 31 December 2016 was 11.94% (31 December 2015: 13.9%).

(in millions of Russian Rubles)

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 receivable, trade and other receivables as well as cash on current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable or paid in cash. At 31 December 2016 trade receivables from three major suppliers comprised 45% of the Group's consolidated trade receivables (31 December 2015: 52%). 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.

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

Bank	Rating	Carrying amount as at 31 December 2016	Carrying amount as at 31 December 2015
Sberbank	Ba2 (Moody's)	1,384	715
Raiffeisenbank	Baa2 (Moody's)	317	122
MTS bank	B+ (Fitch)	158	11
VTB	Ba2 (Moody's)	121	16
Alfa-Bank	Ba2 (Moody's)	65	-
Total		**2,045**	**864**

At of 31 December 2016 all loans receivable in amount of RUB 1,060 million are due from subsidiaries of Sistema which has a credit rating of BB- (Fitch). The Group's management believes that Sistema's strong credit rating and liquidity position are indicative of a high probability of repayment of these loans.

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 2016 and 2015.

Foreign currency risk management

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

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

	31 December 2016		31 December 2015	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	-	31	3	79
Trade and other receivables	-	189	191	146
Total assets	**-**	**220**	**194**	**225**
Liabilities				
Trade and other payables	(46)	(3,241)	(167)	(2,898)
Total liabilities	**(46)**	**(3,241)**	**(167)**	**(2,898)**
Total net position	**(46)**	**(3,021)**	**27**	**(2,673)**

(in millions of Russian Rubles)

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 2016		31 December 2015	
	EUR	**USD**	**EUR**	**USD**
(Loss)/profit and (decrease)/increase in equity	(9)	(604)	5	(535)

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 sensitivity of the Group's borrowings with floating rates 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.

	2016	**2015**
Profit or loss	69	87

26. COMMITMENTS AND CONTINGENCIES

Option agreements

In December 2015, PJSFC "Sistema" sold 23.1% of the Company to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The Group has granted the buyer an option to put its stake in the Company at fair value in case of the non-occurrence of prescribed future events which, among others, include initial public offering of the Company. The option is exercisable between 2021 and 2023. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group and PJSFC "Sistema".

As disclosed in Note 27, in February 2017 the Company completed an initial public offering meaning that the above put option will not be exercisable thereafter.

Operating leases

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

(in millions of Russian Rubles)

Future minimum rental payments (net of VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
During one year	7,578	6,448
More than one year, but no more than 5 years	41,044	32,806
More than 5 years	12,409	9,490
Total	**61,031**	**48,744**

Legal

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and 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 that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. 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 adequately provided 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 such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

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. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

27. SUBSEQUENT EVENTS

Long-Term Incentive Plan

In January 2017, the General Shareholders' Meeting approved a long-term incentive plan for the Company's senior management personnel ("Incentive Plan"). Under the conditions of the plan, the participants are entitled to share-based compensation ("phantom" shares). The "phantom" are to be provided in annual tranches over 2017-2019, subject to continued employment with the Group and certain established targets relating to the increase in the market value of one ordinary share. The "phantom" shares vest automatically upon occurrence of certain events, which include, among others, initial public offering of the Company.

The grant date for the plan has been determined to be subsequent to 31 December 2016, and accordingly the Incentive Plan has not been accounted for and no compensation expense has been recognized in the year ended 31 December 2016.

Initial public offering

In February 2017 the Company completed an initial public offering and its ordinary shares were admitted to trading on the Moscow Exchange. As a part of the offering some of the Company's existing shareholders sold a portion of ordinary shares held in the Company to third party investors, thus resulting in a change in the Company's shareholding structure. PJSFC Sistema has retained its controlling shareholding in the Company after the offering.

Repayment of long-term loan receivable

On 27 February 2017 CJSC "DM-Finance" fully repaid the long-term loan previously issued by the Group with the carrying amount as at 31 December 2016 of RUB 1,060 (Note 12).