DETSKY MIR GROUP

Interim Condensed Consolidated
Financial Information (unaudited)
Half-Year Ended 30 June 2018

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2018 (UNAUDITED)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of Public Joint Stock Company "Detsky Mir" (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group" or "Detsky Mir Group") as at 30 June 2018, and the consolidated results of its operations, cash flows and changes in equity for the half-year then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of the jurisdictions the Group's subsidiaries are operating in;
- 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 interim condensed consolidated financial information of the Group for the half-year ended 30 June 2018 was approved on 20 August 2018.

V.S. Chirakhov Chief Executive Officer PJSC Detsky Mir	**A.S. Garmanova** Chief Financial Officer PJSC Detsky Mir

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

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company "Detsky Mir" (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group") as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the half-year then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information does not present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the half-year then ended in accordance with IAS 34 *Interim Financial Reporting*.

Egor Metelkin,
Engagement partner

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Deloitte & Touche

20 August 2018

The Entity: PJSC "Detsky Mir"

State Registration Certificate No. 869.149 issued by Moscow Registration Chamber on 03.09.1997.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 119415, Russia

Audit Firm: AO "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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2018 (UNAUDITED)

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

	Notes	For the half-year ended 30 June 2018	30 June 2017
REVENUE	3	48,116	42,096
COST OF SALES		(32,581)	(28,325)
GROSS PROFIT		15,535	13,771
Selling, general and administrative expenses	4	(12,029)	(11,627)
Other operating expenses, net		(13)	(31)
OPERATING PROFIT		3,493	2,113
Finance income		2	22
Finance expense	5	(2,337)	(960)
Foreign exchange gain/(loss)		143	(120)
PROFIT BEFORE INCOME TAX EXPENSE		1,301	1,055
Income tax expense	6	(270)	(350)
NET PROFIT FOR THE PERIOD		**1,031**	**705**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		(16)	18
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,015**	**723**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted		738,145,900	738,994,168
Earnings per share, basic and diluted (in Russian Rubles per share)		1.40	0.95

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (UNAUDITED)

(in millions of Russian Rubles)

	Notes	30 June 2018	31 December 2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	7,269	7,486
Intangible assets	7	1,205	1,362
Right-of-use assets	2	32,079	-
Deferred tax assets		1,598	1,593
Other non-current assets		159	241
Total non-current assets		**42,310**	**10,682**
CURRENT ASSETS:			
Inventories	8	29,944	26,440
Trade receivables		2,429	2,244
Advances paid and other receivables		1,718	1,215
Other taxes receivable		7	7
Cash and cash equivalents	9	785	3,155
Total current assets		**34,883**	**33,061**
TOTAL ASSETS		**77,193**	**43,743**
EQUITY AND LIABILITIES			
EQUITY DEFICIT:			
Share capital		1	1
Treasury shares	10	(108)	(60)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(8,123)	(6,386)
Currency translation reserve		114	130
Total equity deficit		**(2,323)**	**(522)**
NON-CURRENT LIABILITIES:			
Lease liabilities	2	28,180	-
Long-term loans and borrowings	12	10,557	8,956
Deferred tax liabilities		36	29
Total non-current liabilities		**38,773**	**8,985**
CURRENT LIABILITIES:			
Trade accounts payable		22,858	24,388
Short-term loans and borrowings and current portion of long-term loans and borrowings	12	9,129	4,635
Lease liabilities	2	4,552	-
Advances received, other payables and accrued expenses	13	3,407	5,404
Deferred revenue		670	606
Income tax payable		127	247
Total current liabilities		**40,743**	**35,280**
Total liabilities		**79,516**	**44,265**
TOTAL EQUITY DEFICIT AND LIABILITIES		**77,193**	**43,743**

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2018 (UNAUDITED)

(in millions of Russian Rubles)

	Notes	Share capital	Treasury shares	Additional paid-in capital	Accumu-lated deficit	Currency translation reserve	Total
Balance as at 1 January 2017		**1**	**-**	**5,793**	**(6,362)**	**114**	**(454)**
Profit for the year		-	-	-	705	-	705
Effect of translation to presentational currency		-	-	-	-	18	18
Total comprehensive income for the period		**-**	**-**	**-**	**705**	**18**	**723**
Recognition of share-based payments	14	-	-	-	142	-	142
Purchase of treasury shares	10	-	(43)		-	-	(43)
Dividends	11	-	-	-	(2,572)	-	(2,572)
Balance as at 30 June 2017		**1**	**(43)**	**5,793**	**(8,087)**	**132**	**(2,204)**
Balance as at 1 January 2018		**1**	**(60)**	**5,793**	**(6,386)**	**130**	**(522)**
Profit for the year		-	-	-	1,031	-	1,031
Effect of translation to presentational currency		-	-	-	-	(16)	(16)
Total comprehensive income for the period		**-**	**-**	**-**	**1,031**	**(16)**	**1,015**
Recognition of share-based payments	14	-	-	-	96	-	96
Purchase of treasury shares	10	-	(48)	-	-	-	(48)
Dividends	11	-	-	-	(2,864)	-	(2,864)
Balance as at 30 June 2018		**1**	**(108)**	**5,793**	**(8,123)**	**114**	**(2,323)**

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2018 (UNAUDITED)
(in millions of Russian Rubles)

	For the half-year ended	
	30 June 2018	**30 June 2017**
OPERATING ACTIVITIES:		
Net profit for the period	1,031	705
Adjustments for:		
Income tax expense	270	350
Expense on equity-settled share-based compensation	96	-
Finance income	(2)	(22)
Finance expenses	2,337	960
Loss on disposal of fixed assets and intangible assets	(4)	33
Bad debts written-off and change in allowance for doubtful accounts	4	(11)
Shrinkage and merchandise inventories obsolescence expenses	377	687
Depreciation and amortization	4,695	874
(Gain)/loss on foreign exchange	(143)	120
Changes in working capital:		
(Increase)/ decrease in trade receivables	(185)	1,909
(Increase)/decrease in other receivables and advances paid	(489)	195
Increase in inventories	(3,881)	(304)
Decrease in trade accounts payable	(1,402)	(6,719)
Decrease in advances received, other accounts payable and accrued expenses	(861)	(77)
Increase/(decrease) in deferred revenue	64	(624)
Cash received from/(used in) operations	**1,907**	**(1,924)**
Interest paid	(2,248)	(828)
Interest received	2	8
Income taxes paid	(394)	(679)
Net cash used in operating activities	**(733)**	**(3,423)**
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(686)	(506)
Purchase of intangible assets	(44)	(57)
Proceeds from repayment of loans issued	-	1,074
Net cash (used in)/received from investing activities	**(730)**	**511**
FINANCING ACTIVITIES:		
Purchase of treasury shares	(48)	(43)
Proceeds from loans and borrowings	28,031	24,113
Repayment of loans and borrowings	(21,936)	(23,058)
Dividends paid	(4,007)	-
Lease payments	(2,947)	-
Net cash (used in)/received from financing activities	**(907)**	**1,012**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,370)**	**(1,900)**
CASH AND CASH EQUIVALENTS, at the beginning of the period	**3,155**	**2,445**
CASH AND CASH EQUIVALENTS, at the end of the period	**785**	**545**

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

(in millions of Russian Rubles)

1. GENERAL INFORMATION

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

The primary activity of the Group is the sale of children's clothing and products through retail stores and online store. During the six months ended 30 June 2018 and as at 30 June 2018 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia.

The registered shareholders of the Company and their effective ownership were as follows, as at each period end:

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

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

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

	Ownership interest and proportion of voting power	
Subsidiaries	**30 June 2018**	**31 December 2017**
LLP Detsky Mir Kazakhstan, Kazakhstan	100%	100%
LLC Kub-Market, RF	100%	100%
JSC Detsky Mir Severo-Zapad	100%	100%

As at 30 June 2018 and 31 December 2017 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The annual consolidated financial statements of PJSC "Detsky Mir" and its subsidiaries are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"). This interim condensed consolidated financial information for the half-year ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (hereinafter, "IAS 34").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

Functional and presentation currency – The amounts in the interim condensed consolidated financial information are presented in Russian Rubles ("RUB"), which is functional currency of the Group's entities and presentation currency, with the exception of LLP Detsky Mir Kazakhstan, which functional currency is Kazakhstani Tenge.

Seasonality of operations – Significant portion of the Group's sales, profit and operating cash flows have historically been realized in the fiscal fourth quarter. As a result, six months results of operations may fluctuate significantly based on many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and our promotional activity. The results of operations and cash flows for the six months ended 30 June are not necessarily indicative of the results that may be expected for the full year.

Income tax – Income tax in the interim periods is accrued using the effective tax rate that would be applicable to expected total annual earnings.

Significant accounting policies

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 2017, except for the adoption of the new standards and interpretations described below.

From 1 January 2018, 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 in the interim condensed consolidated financial information:

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

IFRS 16 "Leases"

As at 1 January 2018, the Group has early adopted IFRS 16 "Leases". At the date of transition to IFRS 16 "Leases" the Group recognized lease liabilities (short-term and long-term portions) in amount of RUB 33,822 million. Previously the Group did not recognize any liabilities because all lease contracts entered into by the Group were classified as operating leases according to IAS 17 "Leases". The amount of liabilities recognized was determined based on the present value of the future minimum lease payments at the transition date. The Group used incremental borrowing rate in determining the present value of future payments.

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

The comparative information for the half-year ended 30 June 2017 has not been restated in accordance with provisions of IFRS 16 "Leases".

(in millions of Russian Rubles)

As at 1 January 2018 the Group also recognized right-of-use assets in amount of RUB 33,886 million. Right-of-use assets are depreciated on a straight-line basis over the lease term within the range from 1 to 7 years.

The result of the transition is represented as follows:

Future minimum lease payments as at 31 December 2017 as disclosed in the consolidated financial statements for the year-ended 31 December 2017	**70,096**
Reassessment of options to extend and cancel lease contracts	(26,074)
Impact of discounting	(10,200)
Lease liabilities recognized as at 1 January 2018	**33,822**
Lease prepayments	64
Right-of-use assets recognized as at 1 January 2018	**33,886**
Net result as at 1 January 2018	**-**

For the half-year ended 30 June 2018 the movement of lease liabilities was as follows:

Balance as at 1 January 2018	**33,822**
Interest expense on lease liabilities	1,492
Lease payments	(4,439)
New lease contracts and modification of existing lease contracts	1,857
Balance as at 30 June 2018	**32,732**

For the half-year ended 30 June 2018 the movement of right-of-use assets was as follows:

Cost at 1 January 2018	**33,886**
Accumulated depreciation at 1 January 2018	-
Balance as at 1 January 2018	**33,886**
Depreciation for six months ended 30 June 2018	(3,664)
New lease contracts and modification of existing lease contracts	1,857
Cost at 30 June 2018	**35,743**
Accumulated depreciation at 30 June 2018	(3,664)
Balance as at 30 June 2018	**32,079**

At 1 January 2018 and 30 June 2018 the carrying value of the right-of-use assets related to the lease of premises.

IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the interim condensed financial information. In accordance with the transition provisions in IFRS 15, management performed assessment of the impact that IFRS 15 might have had on the Group's interim condensed consolidated financial information and concluded that the impact would be limited to immaterial changes to the timing of recognition of revenue related to customer loyalty program. The Group didn't apply a fully retrospective approach upon transition to IFRS 15 and didn't book cumulative impact of transition as an adjustment to accumulated deficit as at 1 January 2018 due to immaterial effect on the accumulated deficit.

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

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

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

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

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

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

IFRS 9 "Financial Instruments"

IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, and were not recognized in the opening balance sheet on 1 January 2018 as had been assessed by management of the Group to be immaterial for the interim condensed consolidated information.

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in certain changes in accounting policies and adjustments to the amounts recognised in interim condensed consolidated financial information. The new accounting policies are set out below.

Classification and measurement of financial assets

<u>Classification</u>

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost.

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

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

Measurement

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

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

Debt instruments

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

Cash and cash equivalents

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

Impairment

The Group's financial assets measured at amortised cost (represented by cash and cash equivalents, trade and other receivables) and are subject to impairment provisions of IFRS 9. From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the trade accounts receivable.

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.

Significant assumptions used applying accounting policies and the sources of uncertainty in estimates

In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS except for those assumed by early adoption of IFRS 16 "Leases".

(in millions of Russian Rubles)

Lease terms determination

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

3. REVENUE

The Group's revenue for the six months ended 30 June 2018 and 2017 was as follows:

	For the half-year ended	
	30 June 2018	**30 June 2017**
Retail	44,996	40,360
Online store	3,078	1,725
Other	42	11
Total	**48,116**	**42,096**

Revenue for sales of goods ordered via the Internet and picked up at Group's retail stores amounting to RUB 1,587 million and RUB 692 million for the period ended 30 June 2018 and 2017 is included within Online store revenue.

Revenue from ELC-branded stores, presented within Retail revenue line, for the years ended 30 June 2018 and 2017 amounted to RUB 349 million and RUB 370 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within Retail revenue line, comprised RUB 986 million and RUB 488 million for the period ended 30 June 2018 and 2017, respectively.

4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general, administrative expenses for the six months ended 30 June 2018 and 2017 were as follows:

	For the half-year ended	
	30 June 2018	**30 June 2017**
Depreciation and amortization	4,695	874
Payroll	4,442	4,032
Rent and utilities	715	4,609
Advertising and marketing expenses	571	596
Banking services	444	369
Repair and maintenance	231	207
Security expenses	185	161
Software maintenance	164	156
Promotional materials	146	171
Consulting services	121	152
Taxes (other than income tax)	66	74
Stationary and office equipment	61	45
Communication expenses	58	52
Travel expenses	44	36
Stationary and other materials	19	15
Other	67	78
Total	**12,029**	**11,627**

(in millions of Russian Rubles)

Starting from 1 January 2018, the Group applies IFRS 16, which affected the change in the amount of expenses presented in the lines Depreciation and amortization, Rent and utilities and the amount of interest expenses on lease liabilities stated in line Finance expense of interim condensed consolidated statement of profit or loss and other comprehensive income (Note 5).

5. FINANCE EXPENSE

The Group's finance expense for the six months ended 30 June 2018 and 2017 were as follows:

	For the half-year ended	
	30 June 2018	**30 June 2017**
Interest expense on lease liabilities	1,492	-
Interest expense on bank loans	704	894
Interest expense on bonds	141	66
Total	**2,337**	**960**

6. INCOME TAXES

Below is a reconciliation of income tax calculated using the income tax rate effective in RF where the Group has its main operating entities to the actual income tax expense recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income for the periods ended 30 June 2018 and 2017:

	For the half-year ended	
	30 June 2018	**30 June 2017**
Profit before tax	1,301	1,055
Income tax expense calculated at 20%	260	211
Non-deductible inventory losses	6	144
Other expenses not deductible for tax purposes /(Other income not taxable), net	4	(5)
Total	**270**	**350**

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the half-year ended 30 June 2018, the Group incurred capital expenditures in the amount of RUB 607 million (for the half-year ended 30 June 2017: RUB 478 million), which mainly comprised leasehold improvements and trade equipment. The total amount of expenditure related to purchase of intangible assets comprised RUB 44 million and RUB 319 million for the half-years ended 30 June 2018 and 30 June 2017, respectively.

8. INVENTORIES

Inventories as at 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018	**31 December 2017**
Merchandise inventories	29,772	26,287
Materials	172	153
Total	**29,944**	**26,440**

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

(in millions of Russian Rubles)

Write-offs of merchandise inventories relating to shrinkage and write-down to net realisable value amount of RUB 377 million and RUB 687 million for the six months ended 30 June 2018 and 2017, were recorded within cost of sales in the consolidated statement of profit and loss and other comprehensive income.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2018 and 31 December 2017 consisted of the following:

	30 June 2018	31 December 2017
Cash in transit	582	2,671
Cash on hand	118	251
Cash in current bank accounts	85	233
Total	**785**	**3,155**

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

10. ORDINARY AND TREASURY SHARES

Ordinary shares

As at 30 June 2018 and 2017, the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 1 January 2017	**739,000,000**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(433,670)	-	-
At 30 June 2017	**738,566,330**	**739,000,000**	**739,000,000**
At 1 January 2018	**738,378,527**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(523,800)	-	-
At 30 June 2018	**737,854,727**	**739,000,000**	**739,000,000**

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

Treasury shares

During the period ended 30 June 2018 and 2017, the Group purchased 523,800 and 433,670 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 43 and 48 million, respectively. As at 30 June 2018 the Group has 1,145,273 treasury shares with cost of RUB 108 million. As at 30 June 2017 the Group had 433,670 treasury shares with cost of RUB 43 million.

11. DIVIDENDS

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

(in millions of Russian Rubles)

On 22 May 2018 annual General meeting of shareholders approved the dividend payment for the year 2017 in the amount of RUB 2,864 million or RUB 3.88 per share. (As at 30 June 2017 dividend payment for the year 2016 was approved in the amount of RUB 2,572 million or RUB 3.48 per share). On 30 May 2018 this amount of dividends was paid in full.

12. LOANS AND BORROWINGS

Loans and borrowings as at 30 June 2018 and 31 December 2017 comprise:

	30 June 2018	31 December 2017
Bank loans		
Unsecured bank loans in rubles	16,686	10,591
Bonds	3,000	3,000
	19,686	**13,591**
Less current portion of long-term debt	(9,129)	(4,635)
Loans and borrowings, non-current	**10,557**	**8,956**

Bank loans in rubles

As at 30 June 2018 and 31 December 2017 the loans in rubles were provided to the Group by 6 and 5 banks respectively.

The fair value of the Group’s bank loans as at 30 June 2018 amounted to RUB 16,435 million. As at 31 December 2017 the fair value of the Group’s bank loans was amounted to RUB 10,852 million.

Inputs of Level 2 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received and for bonds. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 30 June 2018 and 31 December 2017 valuation was determined by reference to the Group’s traded bonds yield of 10.67% and 9.0%, respectively (Level 2 input).

Bonds

In April 2017, the Group issued and placed documentary exchange non-convertible bonds (Series BO 04) in the total amount of RUB 3,000 million at PJSC “Moscow Stock exchange” with a nominal value of 1 thousand rubles each. The interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024.

As at 30 June 2018, the book value of exchange-traded bonds issued and placed by the Group of RUB 3,000 million, excluding accumulated coupon income of RUB 66 million. As at 30 June 2017, the book value of exchange-traded bonds issued and placed by the Group of RUB 3,000 million, excluding accumulated coupon income of RUB 65 million.

The fair value of exchange-traded bonds as at 30 June 2018 and 31 December 2017 amounted to RUB 2,939 million and RUB 3,034 million respectively.

Unused credit lines

As at 30 June 2018 and 31 December 2017, the total amount of undrawn credit lines of the Group amounted to RUB 21,338 million and RUB 17,967 million, including RUB 18,733 million and RUB 12,532 million of long-term credit lines.

Covenants

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

(in millions of Russian Rubles)

Management believes that as at 30 June 2018 and 31 December 2017 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Pledges

As at 30 June 2018, the Group has no any assets or securities transferred as collateral for loans and borrowings granted to the Group. As at 31 December 2017, the Group also had no any assets or securities transferred as collateral for loans and borrowings granted to the Group.

13. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018	31 December 2017
Accrued expenses and other current liabilities	2,437	2,695
Accrued salaries	728	861
Taxes payable (other than income tax)	150	152
Interest payable	92	87
Advances received	-	466
Dividends payable (note 11)	-	1,143
Total	**3,407**	**5,404**

During six months ended 30 June 2018 the Group changed the presentation of accrued liabilities for rent expenses within early adoption of IFRS 16 “Leases”. In order to align the comparative information as at 31 December 2017 the Group retrospectively changed the classification and presentation of accrued expenses in line Advances received, other payables and accrued expenses and advances paid in line Advances paid and other receivables of interim condensed consolidated statement of financial position as at 30 June 2018: advances paid in the amount of RUB 672 million were netted of with accrued expenses as at 31 December 2017.

14. SHARE-BASED COMPENSATION

During the half-year ended 30 June 2018 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Liabilities recognized in relation to long-term incentive plans

As at 30 June 2018, the Group recognized liabilities of RUB 249 million in relation to cash-settled share-based payment arrangement (at 31 December 2017: RUB 93 million), calculated as the fair value of the phantom shares granted to employees as at this date. These liabilities include accrued social contributions of RUB 31 million (as at 31 December 2017: RUB 12 million).

As at 30 June 2018 the Group also recognized a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements of RUB 96 million. This amount includes accrued social contributions of RUB 13 million.

Expenses recognized in relation to long-term incentive plans

Expenses in the amount of RUB 272 million incurred by the Group in relation to Incentive Plan, Incentive Plan 2 and Incentive Plan 2 for the General Director were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for half-year ended 30 June 2018 (half-year ended 30 June 2017: expenses totaling RUB 341 million).

(in millions of Russian Rubles)

15. RELATED PARTIES

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

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

	30 June 2018		**31 December 2017**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	52	-	227	-
Trade payables	-	(28)	-	-
Advances paid for purchase of property, plant and equipment	-	-	440	-
Other receivables/(payables)	258	(13)	22	(66)
Dividends payable	-	-	-	(1,143)

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

The Group's transactions with subsidiaries of PJSFC Sistema and other related parties for the half-year ended 30 June 2018 and 2017, as follows:

		For the half-year ended	
Related party	**Type of operation**	**30 June 2018**	**30 June 2017**
MTS (i)	Communication costs	13	13
MTS (i)	Advertising and	38	56
PA-Maxima (ii)	Marketing expenses	23	2
MTS – Bank (i)	Bank commission	-	3
MTS – Bank (i)	Interest income	1	1
JSC "Reestr" (i)	Consulting and information services	1	-
CJSC "NVision group" (i)	Acquisition of fixed assets	7	18
CJSC "NVision group" (i)	Software maintenance	7	-
CJSC "DM-Finance" (i)	Repayment of loans receivable	-	1,060
	Interest income	-	14
LLC "Concept Group" (ii)	Purchase of goods	83	56
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	466	-
LLC "UK LandProfit" (i)	Rent	10	-
JSC "Progress" (iii)	Acquisition of goods	796	-
LLC "Altai resort" (i)	Charity	-	9
JSC "Elavius" (i)	Communication costs	-	1

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

The information about dividends declared and paid is disclosed in Note 11.

Remuneration of key management personnel of the Group

During the half-year ended 30 June 2018 and 2017, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 421 million (including RUB 342 million of short-term non-share-based benefits and RUB 79 million of accrued long-term share-based compensation) and RUB 439 million (including RUB 131 million of short-term non-share-based benefits, RUB 305 million of accrued short-term share-based compensation and RUB 3 million of accrued long-term share-based compensation), respectively.

16. COMMITMENTS AND CONTINGENCIES

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 may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has 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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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

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

17. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 20 August 2018, the date on which the interim condensed consolidated financial information was approved.