DETSKY MIR GROUP

Interim Condensed Consolidated
Financial Information (Unaudited)
Three Months and Nine Months Ended
30 September 2016

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 THREE-MONTHS AND THE NINE-MONTHS ENDED 30 SEPTEMBER 2016 (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" (the "Company") and its subsidiaries (the "Group") as at 30 September 2016, the consolidated results of its operations for the three months and the nine months then ended, cash flows and changes in equity for the nine months 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 Russian Federation;
- 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 was approved on 23 November 2016.

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

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE 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" (the "Company") and its subsidiaries (the "Group") as at 30 September 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three months and the nine months then ended, changes in equity and cash flows for the nine months 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 is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE & TOUCHE

Moscow
23 November 2016

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)
(in millions of Russian Rubles, except earnings per share)

	Notes	For the nine months ended 30 September 2016	For the nine months ended 30 September 2015	For the three months ended 30 September 2016	For the three months ended 30 September 2015
REVENUE	4	54,226	39,967	20,490	15,222
COST OF SALES		(36,151)	(26,125)	(13,622)	(9,819)
GROSS PROFIT		18,075	13,842	6,868	5,403
Selling, general and administrative expenses	5	(14,618)	(11,534)	(5,056)	(4,001)
Share of profit of associate, net of income tax		9	5	-	5
Other operating expenses, net		(19)	(11)	(5)	(12)
OPERATING PROFIT		3,447	2,302	1,807	1,395
Finance income	16	148	535	32	206
Finance expense	6	(1,418)	(1,251)	(453)	(576)
Gain on acquisition of controlling interest in associate	3	16	-	16	-
Foreign exchange loss, net		(10)	(595)	(56)	(543)
PROFIT BEFORE TAX		2,183	991	1,346	482
Income tax expense	7	(498)	(334)	(288)	(193)
PROFIT FOR THE PERIOD		**1,685**	**657**	**1,058**	**289**
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss					
Effect of translation to presentation currency		36	16	(35)	8
TOTAL COMPREHENSIVE INCOME for the period		**1,721**	**673**	**1,023**	**297**
Earnings per share					
Weighted average number of shares outstanding, basic and diluted		739,000,000	739,000,000	739,000,000	739,000,000
Earnings per share, basic and diluted (in Russian Rubles per share)		2.28	0.89	1.43	0.39

The Notes on pages 7 to 17 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016 (UNAUDITED)
(in millions of Russian Rubles)

	Notes	30 September 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	8	6,552	6,791
Intangible assets		1,289	1,300
Investment in associate	3	-	56
Long-term loans receivable	9	1,049	5,807
Deferred tax assets, net		1,307	1,151
Other non-current assets		260	247
Total non-current assets		**10,457**	**15,352**
CURRENT ASSETS:			
Inventories	10	20,744	17,346
Trade receivables		2,661	2,710
Advances paid and other receivables		2,148	1,850
Other taxes receivable		3	2
Cash and cash equivalents	11	455	1,934
Total current assets		**26,011**	**23,842**
TOTAL ASSETS		**36,468**	**39,194**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		1	1
Additional paid-in capital		5,793	5,793
Accumulated deficit		(5,378)	(5,448)
Currency translation reserve		85	49
Total equity		**501**	**395**
NON-CURRENT LIABILITIES:			
Long-term loans and borrowings	13	4,265	5,465
Deferred tax liabilities		32	63
Total non-current liabilities		**4,297**	**5,528**
CURRENT LIABILITIES:			
Trade accounts payable		18,714	16,718
Short-term loans and borrowings and current portion of long-term loans and borrowings	13	8,737	12,894
Advances received, other payables and accrued expenses	14	3,642	2,952
Deferred revenue		473	278
Income tax payable		104	429
Total current liabilities		**31,670**	**33,271**
Total liabilities		**35,967**	**38,799**
TOTAL EQUITY AND LIABILITIES		**36,468**	**39,194**

The Notes on pages 7 to 17 form an integral part of this interim condensed consolidated financial information.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)
(in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Accumula-ted deficit	Currency translation reserve	Total
Balance as at 1 January 2015		**1**	**6,536**	**(3,878)**	**(13)**	**2,646**
Profit for the period		-	-	657	-	657
Effect of translation to presentation currency		-	-	-	16	16
Total comprehensive income for the period		-	-	657	16	673
Dividends declared		-	-	(839)	-	(839)
Balance as at 30 September 2015		**1**	**6,536**	**(4,060)**	**3**	**2,480**
Balance as at 1 January 2016		**1**	**5,793**	**(5,448)**	**49**	**395**
Profit for the period		-	-	1,685	-	1,685
Effect of translation to presentation currency		-	-	-	36	36
Total comprehensive income for the period		-	-	1,685	36	1,721
Dividends declared	12	-	-	(1,308)	-	(1,308)
Settlement of share based payments	15	-	-	(307)	-	(307)
Balance as at 30 September 2016		**1**	**5,793**	**(5,378)**	**85**	**501**

The Notes on pages 7 to 17 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016 (UNAUDITED)
(in millions of Russian Rubles)

	For the nine months ended	
	30 September 2016	**30 September 2015**
OPERATING ACTIVITIES:		
Profit for the period	1,685	657
Adjustments for:		
Income tax expense	498	334
Share based compensation	-	40
Finance income	(148)	(535)
Finance expense	1,418	1,251
Loss on disposal of fixed assets and intangible assets	-	57
Bad debts written off and change in allowance for doubtful accounts	10	16
Shrinkage and merchandise inventories obsolescence expenses	1,102	714
Depreciation and amortization	1,176	638
Foreign exchange loss, net	10	595
Gain on acquisition of controlling interest in associate	(16)	-
Interest in earnings of associates, net of tax	(9)	(5)
Changes in working capital:		
Decrease/(increase) in trade receivables	47	(2,106)
Increase in advances paid and other receivables	(146)	(1,150)
Increase in inventories	(4,483)	(3,684)
Increase in trade accounts payable	2,012	2,088
Increase in advances received, other payables and accrued expenses	474	193
Increase in deferred revenue	195	-
Cash received from / (used in) operations	**3,825**	**(897)**
Interest paid	(1,423)	(1,390)
Interest received	29	-
Income taxes paid	(893)	(771)
Net cash received from / (used in) operating activities	**1,538**	**(3,058)**
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(749)	(3,450)
Purchase of intangible assets	(196)	(887)
Issuance of loans	-	(26)
Dividends received from associates	9	3
Net inflow of cash and cash equivalents on acquisition of controlling interest in associate (Note 3)	15	-
Proceeds from repayment of loans issued	4,876	5
Net cash received from / (used in) investing activities	**3,955**	**(4,355)**
FINANCING ACTIVITIES:		
Proceeds from loans and borrowings	13,570	25,496
Repayment of loans and borrowings	(18,927)	(17,101)
Dividends paid	(1,308)	(839)
Share-based payments	(307)	-
Net cash (used in) / received from financing activities	**(6,972)**	**7,556**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(1,479)**	**143**
CASH AND CASH EQUIVALENTS, at the beginning of the period	**1,934**	**1,670**
CASH AND CASH EQUIVALENTS, at the end of the period	**455**	**1,813**

The Notes on pages 7 to 17 form an integral part of this interim condensed consolidated financial information.

(in millions of Russian Rubles)

1. GENERAL INFORMATION

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

The primary activity of the Group is the sale of children's clothing and products through retail stores. During the three months and the nine months ended 30 September 2016 and as at 30 September 2016 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia. See below a full listing of the Group entities.

The controlling party of the Company is JSFC Sistema ("Sistema"). The ultimate controlling party of the Company is Mr. Vladimir Yevtushenkov.

As at 30 September 2016 and 31 December 2015 the registered shareholders of the Company and their effective ownership were as follows:

	30 September 2016	**31 December 2015**
JSFC Sistema and its subsidiaries	72.63%	75.82%
Floette Holdings Limited [1]	11.55%	11.55%
Eksapzo Holdings Limited [1]	11.55%	11.55%
Mr. V.S. Chirakhov	1.79%	1.08%
Other individuals	2.48%	-
Total	**100%**	**100%**

[1] Represent the interests of the "Russian-Chinese investment Fund" (Note 16).

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 September 2016**	**31 December 2015**
Detsky Mir Kazakhstan, LLP, Kazakhstan	100%	100%
Kub-Market LLC, RF	100%	100%
Spartema Limited, Cyprus	100%	100%
Detsky Mir GMBH, Germany	100%	100%
Detsky Mir-Orel, JSC (Note 3)	100%	50%

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 ("IFRS"). This interim condensed consolidated financial information for the three months and the nine months ended 30 September 2016 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("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 2015.

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

(in millions of Russian Rubles)

Seasonality of operations – Significant portion of the Group's sales, profit and operating cash flows have historically been realized in the fourth quarter. Thus the results of operations for the three months and the nine months ended 30 September 2016 and cash flows for the nine months ended 30 September 2016 are not necessarily indicative of the results that may be expected for the full year, because of many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and our promotional activity.

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 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:

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

The adoption of these standards and interpretations has not had a significant impact on interim condensed consolidated financial information of the Group for the three months and the nine months ended 30 September 2016.

3. 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. This interim condensed consolidated financial information includes the results of DM Orel for September 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**

(in millions of Russian Rubles)

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 condensed consolidated interim 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 30 September 2016, DM Orel has contributed RUB 18 million to revenue and RUB 1 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 the nine months ended 30 September 2016 would have been RUB 1,690 million and revenue for the respective period would have been RUB 54,357 million.

4. REVENUE

The Group's revenue for the nine months and three months ended 30 September 2016 and 2015 was as follows:

	For the nine months ended		**For the three months ended**	
	30 September 2016	**30 September 2015**	**30 September 2016**	**30 September 2015**
Retail, excluding luxury and the online store	53,017	39,300	20,046	15,019
Online store	1,158	496	426	184
Luxury	-	108	-	2
Other	51	63	18	17
Total	**54,226**	**39,967**	**20,490**	**15,222**

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

Revenue from stores "ELC", reflected in retail sales, for the nine months ended 30 September 2016 and 2015 was RUB 655 million and RUB 597 million, respectively (for the three months ended 30 September 2016 and 2015 – RUB 216 million and RUB 206 million, respectively).

(in millions of Russian Rubles)

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the nine months and three months ended 30 September 2016 and 2015 were as follows:

	For the nine months ended		For the three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Rent and utility	5,971	5,104	2,008	1,756
Payroll	4,957	3,904	1,832	1,347
Depreciation and amortisation	1,176	638	405	229
Advertising and marketing expenses	671	596	200	227
Banking services	499	299	182	103
Repair and maintenance	247	198	92	71
Software maintenance	234	66	69	19
Security expenses	178	169	63	57
Promotional materials	164	192	62	112
Taxes (other than income tax)	105	39	35	14
Consulting services	83	67	21	7
Communication expenses	79	59	25	20
Travel expenses	58	48	21	20
Stationary and other materials	20	46	6	6
Other	176	109	35	13
Total	**14,618**	**11,534**	**5,056**	**4,001**

6. FINANCE EXPENSE

The Group's finance expense for the nine months and three months ended 30 September 2016 and 2015 was as follows:

	For the nine months ended		For the three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Interest expense on bank loans	1,418	1,212	453	576
Interest expense on bonds	-	39	-	-
Total	**1,418**	**1,251**	**453**	**576**

7. INCOME TAX EXPENSE

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 interim condensed consolidated statement of profit or loss and other comprehensive income:

	For the nine months ended		For the three months ended	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
Profit before tax	2,183	991	1,346	482
Income tax expense calculated at 20%	437	198	269	96
Non-deductible inventory losses	228	111	57	72
Prior period income tax adjustment	(227)	-	(76)	-
Other charges non-deductible for tax purposes	60	25	38	25
Total	**498**	**334**	**288**	**193**

(in millions of Russian Rubles)

8. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2016, the Group incurred capital expenditures in the amount of RUB 729 million (for the nine months ended 30 September 2015: RUB 3,831 million), which mainly comprised leasehold improvements and trade equipment.

During the three months ended 30 September 2016 the Group incurred capital expenditures in the amount of RUB 303 million (for the three months ended 30 September 2015: RUB 1,968 million).

9. LOANS RECEIVABLE

Long-term loans issued on 30 September 2016 and 31 December 2015 were as follows:

	30 September 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 December 2018	764	4,553
Accrued interest	285	1,254
Total	**1,049**	**5,807**

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.

10. INVENTORIES

Inventories as at 30 September 2016 and 31 December 2015 were as follows:

	30 September 2016	31 December 2015
Goods for resale	20,605	17,275
Materials	139	71
Total	**20,744**	**17,346**

Materials represent spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs relating to shrinkage and write-down to net realizable value in the amount of RUB 1,102 million and RUB 714 million for the nine months ended 30 September 2016 and 2015, were recorded within cost of sales in profit or loss.

Write-offs relating to shrinkage and write-down to net realizable value in the amount of RUB 318 million and RUB 223 million for the three months ended 30 September 2016 and 2015, were recorded within cost of sales in profit or loss.

(in millions of Russian Rubles)

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 September 2016 and 31 December 2015 consisted of the following:

	30 September 2016	31 December 2015
Cash in current bank accounts	122	317
Cash in transit	143	758
Bank deposits in rubles	38	690
Cash on hand	152	169
Total	**455**	**1,934**

Cash in transit comprises cash collected in the stores of the Group and not yet placed in the bank accounts of the Group as at the reporting date.

12. DIVIDENDS

In accordance with Russian legislation, earnings available for distribution as dividends are limited to retained earnings of the Company, calculated in accordance with Russian statutory rules, and expressed in local currency. 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.

13. LOANS AND BORROWINGS

Loans and borrowings as at 30 September 2016 and 31 December 2015 comprised:

	30 September 2016	31 December 2015
Bank loans		
Secured bank loans in rubles	2,365	3,200
Unsecured bank loans in rubles	10,637	15,159
	13,002	**18,359**
Less current portion of long-term debt	(8,737)	(12,894)
Loans and borrowings, non-current	**4,265**	**5,465**

Bank loans in rubles

As of September 30, 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 30 September 2016 approximated their carrying amount. The fair value of the Group’s bank loans, including amounts due within one year, as at 31 December 2015 amounted to RUB 18,310 million. The carrying amount of this debt as at 30 September 2016 and 31 December 2015 was RUB 13,002 million and RUB 18,359 million, respectively.

Unused credit lines

As at 30 September 2016 and 31 December 2015, the total amount of undrawn credit lines of the Group amounted to RUB 11,913 million and RUB 7,217 million, including RUB 7,011 million and RUB 3,610 million of long-term credit lines.

(in millions of Russian Rubles)

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 30 September 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 30 September 2016 and 31 December 2015 is secured by a mortgage of the building with a net book value of RUB 2,460 million and RUB 2,417 million, respectively.

With the exception of the above mentioned assets as at 30 September 2016 and 31 December 2015 the Group has no other assets or securities pledged as collateral for loans and borrowings granted to the Group.

14. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 30 September 2016 and 31 December 2015 consisted of the following:

	30 September 2016	31 December 2015
Accrued expenses and other current liabilities	2,376	1,851
Accrued salaries	583	631
Taxes payable (other than income tax)	526	416
Forward foreign exchange contracts	127	-
Interest payable	30	54
Total	**3,642**	**2,952**

As at 30 September 2016 the fair value of a liability related to forward foreign exchange contracts amounted to RUB 127 million. As at 31 December 2015 the fair value of foreign exchange contracts was represented by an asset in the amount of RUB 44 million and disclosed within "Advances paid and other receivables" line in the interim condensed consolidated statement of financial position.

15. SHARE-BASED PAYMENTS

Long-term incentive plan adopted in 2014

Under the conditions of an employee long-term incentive plan (the "Incentive Plan 1") effective since 2014, certain employees at senior levels were entitled to share-based compensation, so-called "phantom" shares.

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 JSFC Sistema subsidiary.

As at 30 September 2016, the Group recognized liabilities of RUB 139 million in relation to the Incentive Plan 1, 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 in Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: expense of RUB 28 million).

(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.

In September 2016 the Group granted 1,934,238 phantom shares to the participants of the Incentive Plan 2.

As at 30 September 2016, the Group recognized liabilities of RUB 121 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 16 million. The respective expense of RUB 121 million was recognized as Selling, General and Administrative expenses in the condensed consolidated consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 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 54.21 per share as at 30 September 2016), and that all of the employees participating in the Incentive Plan 2 will stay employed by the Group until their rights vest.

Share-based compensation of the General Director

In June 2016, the Group General Director's previously granted right to receive Company's ordinary shares was extinguished by cash settlement mutually agreed by the Group and the General Director. This cash settlement was designated to be used to purchase 0.71% of Company's ordinary shares from a JSFC Sistema subsidiary. This settlement was recognized as debit movement in equity within the Accumulated deficit line.

16. 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 JSFC Sistema:

	30 September 2016		**31 December 2015**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances with related parties				
Bank deposits	6	-	11	-
Other receivables/ (payables)	11	(123)	12	(108)
Loans issued/ (received)	1,049	-	5,807	-

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

(in millions of Russian Rubles)

The Group's transactions with subsidiaries and associates of Sistema for the three months and the nine months ended 30 September 2016 and 2015 were as follows:

		For the nine months ended		**For the three months ended**	
Related party	**Type of transaction**	**30 September 2016**	**30 September 2015**	**30 September 2016**	**30 September 2015**
Detsky Mir-Retail assets (i)	Rent and utilities	21	29	3	-
MTS (i)	Communication costs	14	14	7	4
MTS (i)	Advertising and	29	30	5	-
PA-Maxima (ii)	marketing expenses	2	10	1	-
VAO «Intourist» (i)	Costs of organizing events	18	1	1	1
CJSC "NVision group" (i)	Acquisition of fixed assets	22	10	11	-
CJSC "DM-Finance" (i)	Repayment of loans receivable	4,875	-	-	-
	Interest income	118	514	24	203

(i) – subsidiary of JSFC "Sistema";
(ii) – associate of JSFC "Sistema".

The information about dividends declared and paid is disclosed in Note 12.

Remuneration of key management personnel of the Group

During the nine-month period ended 30 September 2016 and 2015, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 413 million (including RUB 292 million of short-term benefits and RUB 121 million of accrued share-based payments) and RUB 234 million (comprising solely short-term benefits), respectively. During the three months ended 30 September 2016 and 2015, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 320 million (including RUB 199 million of short-term benefits and RUB 121 million of accrued share-based payments) and RUB 99 million (comprising solely short-term benefits), respectively.

17. COMMITMENTS AND CONTINGENCIES

Operating leases

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

Future minimum rental payments (net of VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 30 September 2016 and 31 December 2015 were as follows:

	30 September 2016	**31 December 2015**
During one year	7,439	6,447
More than one year, but no more than 5 years	36,636	32,806
More than 5 years	11,056	9,490
Total	**55,131**	**48,743**

Option agreements

In December 2015, AFK "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. 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 AFK "Sistema".

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. During 2014-2015 and the 1st 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.

In addition in the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

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

18. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 3 November 2016 the Company's Board of Directors approved a recommendation to the general meeting of shareholders to distribute dividends in an amount of RUB 4.22 per one ordinary share. The total amount of dividends recommended for the distribution is RUB 3,119 million. The recommendation is subject to approval at the general meeting of shareholders which has not taken place by the date on which the interim condensed consolidated financial information was authorised for issue.

In October-November 2016, the Group opened additional and prolonged existing credit lines in total amount of RUB 10,350 million.

The Group has evaluated subsequent events through 23 November 2016, the date on which the interim condensed consolidated financial information was authorised for issue.