

O'Key Group S.A.

**Consolidated Financial Statements
for the year ended 31 December 2016**
(with the report of the Réviseur d'Entreprises
Agréé thereon)

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To the Shareholders of
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of O'KEY GROUP S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated Directors' report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of réviseur d'entreprises agréé thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Other matter

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as applicable for the year ended 31 December 2016.

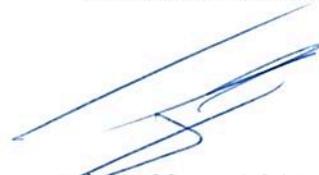
Report on other legal and regulatory requirements

The consolidated Directors' report, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as applicable for the year ended 31 December 2016 and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Luxembourg, 27 March 2017

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



Jean-Manuel Sérís

Consolidated Statement of Financial Position as at 31 December 2016

'000 RUB	Note	2016	2015
	36		re-presented
ASSETS			
Non-current assets			
Investment property	18	572 542	564 000
Property, plant and equipment	15	48 241 868	43 088 062
Construction in progress	15	3 485 879	6 694 671
Lease rights	16	4 578 535	4 847 537
Intangible assets	17	893 103	635 058
Deferred tax assets	20	1 277 273	654 512
Other non-current assets	19	2 002 680	2 745 910
Total non-current assets		61 051 880	59 229 750
Current assets			
Inventories	21	13 706 868	12 628 304
Trade and other receivables	22	5 871 010	6 937 346
Prepayments		958 467	1 515 881
Other current assets		41 250	-
Cash and cash equivalents	23	11 463 467	9 768 130
Total current assets		32 041 062	30 849 661
Total assets		93 092 942	90 079 411

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

'000 RUB	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital		119 440	119 440
Legal reserve		10 597	10 597
Additional paid-in capital		8 555 657	8 903 606
Hedging reserve		(75 329)	(138 872)
Retained earnings		13 324 398	14 757 649
Translation reserve		720 301	838 547
Total equity	24	22 655 064	24 490 967
Non-current liabilities			
Loans and borrowings	26	31 673 078	23 558 269
Deferred tax liabilities	20	692 091	826 874
Other non-current liabilities		139 304	99 352
Total non-current liabilities		32 504 473	24 484 495
Current liabilities			
Loans and borrowings	26	4 465 260	11 750 125
Interest accrued on loans and borrowings	26	156 870	249 605
Trade and other payables	27	32 480 892	28 817 333
Current income tax payable		830 383	286 886
Total current liabilities		37 933 405	41 103 949
Total liabilities		70 437 878	65 588 444
Total equity and liabilities		93 092 942	90 079 411

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

'000 RUB	Note	2016	2015
Revenue	8	175 470 671	162 510 392
Cost of goods sold		(135 261 292)	(124 143 425)
Gross profit		40 209 379	38 366 967
General, selling and administrative expenses	9	(35 764 206)	(32 371 077)
Other operating income and expenses	10	(1 050 739)	(148 353)
Operating profit		3 394 434	5 847 537
Finance income	12	281 631	81 691
Finance costs	12	(3 550 403)	(3 413 258)
Foreign exchange gain/(loss)	13	145 973	(614 562)
Profit before income tax		271 635	1 901 408
Income tax (expense)/benefit	14	(409 425)	16 299
(Loss)/profit for the year		(137 790)	1 917 707
Other comprehensive (loss)/income			
<i>Items that will never be reclassified to profit or loss</i>			
Exchange differences on translating to presentation currency		(118 246)	266 887
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedges and reclassification from hedging reserve	12	79 428	(308 749)
Other comprehensive income		(170 999)	-
Income tax on other comprehensive income	12, 14	(15 885)	61 750
Other comprehensive (loss)/income for the year, net of income tax		(225 702)	19 888
Total comprehensive (loss)/income for the year		(363 492)	1 937 595
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (RUB)	25	(0.5)	7.1

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2015		119 440	10 597	8 903 606	108 127	14 483 713	571 660	24 197 143
Total comprehensive income for the year								
Profit for the year		-	-	-	-	1 917 707	-	1 917 707
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	266 887	266 887
Change in fair value of hedges and reclassification from hedging reserve	12	-	-	-	(308 749)	-	-	(308 749)
Income tax on other comprehensive income	14	-	-	-	61 750	-	-	61 750
Total other comprehensive income		-	-	-	(246 999)	-	266 887	19 888
Total comprehensive income for the year		-	-	-	(246 999)	1 917 707	266 887	1 937 595
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	24	-	-	-	-	(1 643 771)	-	(1 643 771)
Total contributions by and distributions to owners		-	-	-	-	(1 643 771)	-	(1 643 771)
Balance at 31 December 2015		119 440	10 597	8 903 606	(138 872)	14 757 649	838 547	24 490 967

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2016		119 440	10 597	8 903 606	(138 872)	14 757 649	838 547	24 490 967
Total comprehensive income for the year								
(Loss) for the year		-	-	-	-	(137 790)	-	(137 790)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(118 246)	(118 246)
Change in fair value of hedges and reclassification from hedging reserve	12	-	-	-	79 428	-	-	79 428
Income tax on other comprehensive income	14	-	-	-	(15 885)	-	-	(15 885)
Other comprehensive income		-	-	-	-	(170 999)	-	(170 999)
Total other comprehensive income		-	-	-	63 543	(170 999)	(118 246)	(225 702)
Total comprehensive income for the year		-	-	-	63 543	(308 789)	(118 246)	(363 492)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	24	-	-	(347 949)	-	(1 124 462)	-	(1 472 411)
Total contributions by and distributions to owners		-	-	(347 949)	-	(1 124 462)	-	(1 472 411)
Balance at 31 December 2016		119 440	10 597	8 555 657	(75 329)	13 324 398	720 301	22 655 064

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

Consolidated Statement of Cash Flows for the year ended 31 December 2016

'000 RUB	2016	2015
Cash flows from operating activities		
Cash receipts from customers	199 801 345	185 480 172
Other cash receipts	684 044	381 666
Interest received	257 541	49 708
Cash paid to suppliers and employees	(186 678 063)	(175 156 270)
Operating taxes	(670 313)	(681 509)
Other cash payments	(76 312)	(205 326)
VAT paid	(1 485 904)	(762 978)
Income tax paid	(159 780)	34 651
Net cash from operating activities	11 672 558	9 140 114
Cash flows from investing activities		
Purchase of property, plant and equipment and lease rights (excluding VAT)	(5 880 420)	(8 348 734)
Purchase of other intangible assets (excluding VAT)	(450 701)	(272 017)
Proceeds from sales of property, plant and equipment and intangible assets (excluding VAT)	917 819	6 289 003
Net cash used in investing activities	(5 413 302)	(2 331 748)
Cash flows from financing activities		
Proceeds from loans and borrowings	24 498 000	18 002 000
Repayment of loans and borrowings	(23 480 067)	(14 911 105)
Interest paid	(3 939 956)	(4 303 410)
Dividends paid	(1 472 411)	(1 643 771)
Other financial payments	(134 577)	(28 205)
Net cash used in financing activities	(4 529 011)	(2 884 491)
Net increase in cash and cash equivalents	1 730 245	3 923 875
Cash and cash equivalents at beginning of the period	9 768 130	5 810 182
Effect of exchange rate fluctuations on cash and cash equivalents	(34 908)	34 073
Cash and cash equivalents at end of the year	11 463 467	9 768 130

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 58.

1 Reporting entity

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union for the year ended 31 December 2016 for O'Key Group S.A. and its subsidiaries (together referred to as the “Group”).

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are three individuals, Mr.Korzhev, Mr.Troitsky and Mr.Volchek (“the shareholder group”). They also have a number of other business interests outside of the Group.

As at 31 December 2016 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs).

Related party transactions are detailed in note 32.

The Company's registered address is: Luxembourg 13, rue Edward Steichen, L – 2540.

The Group's principal business activity is the operation of a retail chain in Russia under the brand name “O'KEY”. In September 2015 the Group launched the discounter chain under the brand name “Da!”. At 31 December 2016 the Group operated 164 stores including 54 discounter stores (31 December 2015: 146 stores including 35 discounter stores) in major Russian cities, including but not limited to Moscow, St.Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 27 March 2017.

3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated. Functional currency of the Company is USD and functional currency of Russian subsidiaries is RUB.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
- profit and loss items for each statement of profit and loss and other comprehensive income are translated at the date of transaction;
- all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2016 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 60.6569; EUR 1 = RUB 63.8111 (2015: USD 1 = RUB 72.8827; EUR 1 = RUB 79.6972).

4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 31.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of sales and inventory cost. The calculation of these amounts is in part dependent on an estimation of whether amounts due under agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions. The process for calculating and recording supplier bonuses involves significant manual processes which are more susceptible to error. Furthermore, the allocation of the bonuses to inventory cost also has some element of judgement.

Determination of net realizable value of inventory. The Group performs analysis of stock for write-off as at each reporting date and writes down inventories to their net realizable value when necessary. For details of approach used for determination of net realizable value refer to note 21.

Determination of recoverable amount of property, plant and equipment. For those stores, where impairment indicators exist as at reporting date, the Group estimates recoverable amount being higher of its value in use and fair value less cost of disposal. For details of impairment testing performed as at 31 December 2016 refer to note 15.

5 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Appraisers considered current prices in an active market. The appraisers used average between the income and comparative approaches for determining the fair value.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Derivatives

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

6 Operating segments

The Group is engaged in management of retail stores located in Russia. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO.

The Group has two reportable segments: O'Key and Da!. Each segment has similar format of their stores which is described below:

- O'Key –chain of modern Western European style hypermarkets under the “O'KEY” brand reinforced by O'KEY supermarkets throughout Russian Federation;
- Da! – chain of discounter stores in Moscow and Central region.

The assortment of goods in each chain is different, and the segments are managed separately. For each of the segments, the CEO of the Group reviews internal management reports on at least a monthly basis.

Within each reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the components manage their operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the components' activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items. Term EBITDA is not defined in IFRS. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements. The accounting policies used for the segment reporting are the same as accounting policies applied for the consolidated financial statements as described in note 35.

The segment information for the year ended 31 December 2016 is as follows:

'000 RUB	O'Key		Da!		Total	
	2016	2015	2016	2015	2016	2015
External revenue	169 695 802	161 822 399	5 774 869	687 993	175 470 671	162 510 392
Inter-segment revenue	-	-	30 274	12 338	30 274	12 338
EBITDA	11 845 435	11 672 274	(2 592 229)	(1 563 108)	9 253 206	10 109 166

Inter-segment revenue for 2016 amounts RUB 30 274 thousand (2015: RUB 12 338 thousand) and relates to a rental agreement between LLC Fresh Market (operator of discounter chain Da!) and LLC O'Key.

A reconciliation of EBITDA to (loss)/profit for the year is as follows:

'000 RUB	Note	2016	2015
EBITDA		9 253 206	10 109 166
Revaluation of investment property	10	(27 055)	(49 854)
Loss from disposal of non-current assets	10	(568 004)	(126 069)
Impairment of non-current assets	10	(434 370)	(41 127)
Loss from write-off of receivables	10	(279 015)	(137 696)
Impairment of receivables	10	(395)	(848)
Depreciation and amortisation	9	(4 549 933)	(3 838 115)
Finance income	12	281 631	81 691
Finance costs	12	(3 550 403)	(3 413 258)
Foreign exchange gain/(loss)	13	145 973	(614 562)
Other expenses		-	(67 920)
Profit before income tax		271 635	1 901 408
Income tax (expense)/benefit		(409 425)	16 299
(Loss)/profit for the year		(137 790)	1 917 707

7 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2016 and 31 December 2015 are as follows:

Subsidiary	Country of incorporation	Nature of operations	2016 Ownership/ voting	2015 Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
JSC Dorinda	Russian Federation	Real estate	100%	100%
LLC O'Key Group	Russian Federation	Managing Company	100%	100%
LLC O'Key Logistics	Russian Federation	Import operations	100%	100%
LLC Fresh Market	Russian Federation	Retail and real estate	100%	100%

8 Revenue

'000 RUB	2016	2015
Sales of trading stock	165 210 286	153 112 272
Sales of self-produced catering products	7 269 694	7 172 270
Revenue from sale of goods	172 479 980	160 284 542
Rental income	1 620 671	1 529 250
Revenue from advertising services	1 370 020	696 600
Total revenues	175 470 671	162 510 392

Total revenues comprise sale of goods, rental income from tenants, which rent trade area in the Group stores and income from placing advertising in the Group stores.

9 General, selling and administrative expenses

'000 RUB	Note	2016	2015
Personnel costs	11	(16 185 073)	(14 988 722)
Operating leases	29	(5 343 910)	(4 728 035)
Depreciation and amortisation	15, 16, 17	(4 549 933)	(3 838 115)
Communication and utilities		(3 485 840)	(3 046 569)
Advertising and marketing		(1 795 089)	(1 650 564)
Repairs and maintenance costs		(1 182 822)	(940 327)
Security expenses		(825 314)	(739 972)
Insurance and bank commission		(737 305)	(687 075)
Operating taxes		(713 223)	(758 886)
Legal and professional expenses		(602 704)	(659 763)
Materials and supplies		(301 595)	(300 245)
Other costs		(41 398)	(32 804)
		(35 764 206)	(32 371 077)

Fees billed to the Company and its subsidiaries by KPMG Luxembourg Societe cooperative, and other member firms of the KPMG network during the year are as follows:

'000 RUB	2016	2015
Auditors' remuneration for annual and consolidated accounts	13 902	13 905
Auditors' remuneration for other assurance services	4 721	3 534
Auditors' remuneration for tax advisory services	115	855
	18 738	18 294

10 Other operating income and expenses

'000 RUB	Note	2016	2015
Loss from disposal of non-current assets		(568 004)	(126 069)
Impairment of non-current assets	15, 16, 17	(434 370)	(41 127)
Loss from write-off of receivables		(279 015)	(137 696)
Impairment of receivables		(395)	(848)
Loss from revaluation of investment property	18	(27 055)	(49 854)
Sundry income and expense, net		258 100	207 241
		(1 050 739)	(148 353)

Loss from disposal of other non-current assets amounted RUB 568 004 thousand (2015: RUB 126 069 thousand) relating to stores and land plots in Moscow and other regions which the Group closed or disposed of during the year 2016.

Sundry income includes gain in the amount of RUB 203 256 thousand (2015: RUB 115 871 thousand) from one-off construction services performed to third party.

11 Personnel costs

'000 RUB	2016	2015
Wages and salaries	(10 706 956)	(9 894 169)
Social security contributions	(3 352 398)	(3 036 655)
Employee benefits	(1 100 248)	(965 467)
Other personnel costs	(1 025 471)	(1 092 431)
Total personnel costs	(16 185 073)	(14 988 722)

During the year ended 31 December 2016 the Group employed 25 thousand employees on average (2015: 25 thousand employees on average). Approximately 95% of employees are store and warehouse employees and the remaining part is office employees.

12 Finance income and finance costs

'000 RUB	2016	2015
Recognised in profit or loss		
Interest income on loans, receivables and bank deposits	264 891	67 866
Other finance income	16 740	13 825
Finance income	281 631	81 691
Interest costs on loans and borrowings	(3 497 546)	(3 413 258)
Reclassification from hedging reserve	(52 857)	-
Finance costs	(3 550 403)	(3 413 258)
Net finance costs recognised in profit or loss	(3 268 772)	(3 331 567)

The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:

Total interest income on financial assets	281 631	81 691
Total interest expense on financial liabilities	(3 550 403)	(3 413 258)

'000 RUB	2016	2015
Recognised in other comprehensive income		
Change in fair value of hedges	79 428	(308 749)
Income tax on income and expense recognised in other comprehensive income	(15 885)	61 750
Finance income/(costs) recognised in other comprehensive income, net of tax	63 543	(246 999)

During 2016 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 491 704 thousand (2015: RUB 1 054 770 thousand).

In 2016 a capitalisation rate of 11.24% was used to determine the amount of borrowing costs eligible for capitalisation (2015: 12.99 %).

13 Foreign exchange gain/(loss)

During 2016 the Russian Rouble strengthened against the USD. Net foreign exchange gain recognized in profit and loss in the amount of RUB 145 973 thousand for the year ended 31 December 2016 (2015: loss RUB 614 562 thousand) mainly relates to USD-denominated borrowing. In 2016 the Group has not used hedging instruments to hedge foreign exchange risks.

The Group's risk management policy is to receive borrowings in the same currency which generated revenue (Russian Rouble). As at 31 December 2016, the share of USD-denominated borrowings in Group's debt was not significant. The Group's exposure to currency risk is disclosed in note 28.

14 Income tax (expense)/benefit

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2015: 20%).

'000 RUB	2016	2015
	_____	_____
Current tax (expense)/benefit	(1 182 854)	559 716
Deferred tax benefit/(expense)	773 429	(543 417)
Total income tax (expense)/benefit	<u>(409 425)</u>	<u>16 299</u>

Income tax recognised directly in other comprehensive income

'000 RUB	2016			2015		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences	(118 246)	-	(118 246)	266 887	-	266 887
Change in fair value of hedges and reclassification from hedging reserve	79 428	(15 885)	63 543	(308 749)	61 750	(246 999)
	(38 818)	(15 885)	(54 703)	(41 862)	61 750	19 888

Reconciliation of effective tax rate:

'000 RUB	2016	2015
	<hr/>	<hr/>
Profit before income tax	271 635	1 901 408
Income tax at applicable tax rate (2016: 20%, 2015: 20%)	(54 327)	(380 281)
Effect of income taxed at different rates	(33 110)	(41 053)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(94 522)	(100 783)
- Other non-deductible expenses	(101 470)	(64 619)
Tax withheld on dividends received from subsidiaries	(143 415)	(88 213)
Adjustments to current income tax for previous periods	7 601	702 255
Other items	9 818	(11 007)
Income tax (expense)/benefit for the year	(409 425)	16 299

During the year ended 31 December 2015 tax authorities reimbursed to the Group RUB 702 255 thousand of income tax previously paid for 2013 and 2014.

The amount of income tax reimbursed for previous years was recognized as reduction of income tax expense and relates to expenses, which the Group treats as deductible since 2014.

15 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Cost or deemed cost</i>						
Balance at 1 January 2015	6 024 426	29 540 699	5 414 339	11 627 685	7 203 116	59 810 265
Additions	99 682	315 512	-	2 124 001	8 775 248	11 314 443
Transfers	-	3 894 591	1 901 588	974 790	(6 770 969)	-
Disposals	(1 284 920)	(1 337 159)	(397 779)	(379 596)	(2 512 724)	(5 912 178)
Balance at 31 December 2015	4 839 188	32 413 643	6 918 148	14 346 880	6 694 671	65 212 530

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2016	4 839 188	32 413 643	6 918 148	14 346 880	6 694 671	65 212 530
Additions	61 050	1 330 346	-	2 044 418	3 558 131	6 993 945
Transfers	-	4 867 621	1 182 516	497 253	(6 547 390)	-
Transfers from Lease rights	127 317	-	-	-	-	127 317
Disposals	(6 079)	(9 375)	(393 091)	(1 343 184)	(219 533)	(1 971 262)
Balance at 31 December 2016	5 021 476	38 602 235	7 707 573	15 545 367	3 485 879	70 362 530
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2015	-	(3 693 025)	(1 608 556)	(7 299 022)	(22 324)	(12 622 927)
Depreciation for the year	-	(1 044 440)	(462 381)	(1 991 854)	-	(3 498 675)
Impairment losses	-	(41 127)	-	-	-	(41 127)
Disposals	-	128 567	231 563	350 478	22 324	732 932
Balance at 31 December 2015	-	(4 650 025)	(1 839 374)	(8 940 398)	-	(15 429 797)

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2016	-	(4 650 025)	(1 839 374)	(8 940 398)	-	(15 429 797)
Depreciation for the year	-	(1 181 577)	(606 709)	(2 344 466)	-	(4 132 752)
Impairment losses	-	(434 370)	-	-	-	(434 370)
Disposals	-	31	80 095	1 282 010	-	1 362 136
Balance at 31 December 2016	-	(6 265 941)	(2 365 988)	(10 002 854)	-	(18 634 783)
Carrying amounts						
At 1 January 2015	6 024 426	25 847 674	3 805 783	4 328 663	7 180 792	47 187 338
At 31 December 2015	4 839 188	27 763 618	5 078 774	5 406 482	6 694 671	49 782 733
At 31 December 2016	5 021 476	32 336 294	5 341 585	5 542 513	3 485 879	51 727 747

During 2016 the Group has capitalised interest in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 491 704 thousand (2015: RUB 1 054 770 thousand). In 2016 capitalisation rate of 11.24 % was used to determine the amount of borrowing costs eligible for capitalisation (2015: 12.99%).

Depreciation expense of RUB 4 132 752 thousand has been charged to selling, general and administrative expenses (2015: RUB 3 498 675 thousand). Impairment loss in the amount of RUB 434 370 thousand was recognized in 2016 (2015: RUB 41 127 thousand).

As at 31 December 2016 the Group performed impairment test for low-performing stores. For four stores carrying amount exceeded recoverable amount and the Group recognized an impairment loss of RUB 434 370 thousand.

For two stores relating to “O’Key” segment the Group determined recoverable amount being their fair value less cost of disposal. The fair value measurement has been categorised as a Level 3 fair value based on the inputs to the valuation technique used. An estimate was made of annual net operating income which is mainly based on annual net rent rate of RUB 7 200 – 10 500 per sq. m. and full occupancy. Discount rate of 15.7%-16.7% was applied to discount future cash flows. Recoverable amount of stores amounted to RUB 1 676 000 thousand and impairment loss amounted to RUB 381 420 thousand.

For two stores relating to “Da!” segment the Group determined recoverable amount being their value in use. Recoverable amount of stores amounted to RUB 74 000 thousand and impairment loss amounted to RUB 52 950 thousand. Discount rate of 13% was applied to discount future cash flows.

Security

At 31 December 2016, 4 stores have been pledged to third parties as collateral for borrowings (2015: 4 stores). Refer to notes 26 and 31.

16 Lease rights

Leasehold rights consist of initial cost of land lease and premises. Lease rights include purchase price and costs directly attributable to the acquisition of lease rights for land plots and premises.

Lease rights are amortised over the period of the lease: 49-51 years for land leases and 8-19 years for leases of premises.

Movements in the carrying amount of lease rights were as follows:

'000 RUB	Note 36	2016	2015 re-presented
<i>Cost</i>			
Balance at 1 January		6 287 181	5 880 558
Additions		36 000	761 180
Transfers to land		(140 565)	-
Disposals		(157 856)	(354 557)
Balance at 31 December		6 024 760	6 287 181
<i>Amortisation and impairment losses</i>			
Balance at 1 January		(1 439 644)	(1 264 563)
Amortisation charge		(174 640)	(190 899)
Transfers to land		13 248	-
Disposals		154 811	15 818
Balance at 31 December		(1 446 225)	(1 439 644)
Net book value		4 578 535	4 847 537

Amortisation of RUB 174 640 thousand has been charged to selling, general and administrative expenses (2015: RUB 190 899 thousand).

As at 31 December 2016 the Group reassessed its plans in relation to certain land lease rights which it previously planned to lease for a period of up to 50 years.

Now the Group plans to acquire these land plots in ownership within 1-10 years after reporting date.

This resulted in decrease of residual useful lives of certain lease rights from 50 years to 1-10 years.

The Group expects that change in estimated useful life will result in increase of lease rights amortization for 2017 by RUB 99 500 thousand.

17 Intangible assets

'000 RUB	Note	Software	Other intangible assets	Total
	36			re-presented
Cost				
Balance at 1 January 2015		851 771	49 708	901 479
Additions		241 279	78 404	319 683
Transfer		(44)	44	-
Balance at 31 December 2015		<u>1 093 006</u>	<u>128 156</u>	<u>1 221 162</u>
Balance at 1 January 2016		1 093 006	128 156	1 221 162
Additions		476 499	24 677	501 176
Disposals		(160 307)	(4 424)	(164 731)
Balance at 31 December 2016		<u>1 409 198</u>	<u>148 409</u>	<u>1 557 607</u>
Amortisation and impairment losses				
Balance at 1 January 2015		(420 815)	(16 748)	(437 563)
Amortisation for the year		(137 318)	(11 223)	(148 541)
Transfer		56	(56)	-
Balance at 31 December 2015		<u>(558 077)</u>	<u>(28 027)</u>	<u>(586 104)</u>
Balance at 1 January 2016		(558 077)	(28 027)	(586 104)
Amortisation for the year		(220 700)	(21 841)	(242 541)
Disposals		160 252	3 889	164 141
Balance at 31 December 2016		<u>(618 525)</u>	<u>(45 979)</u>	<u>(664 504)</u>
Carrying amounts				
At 1 January 2015		<u>430 956</u>	<u>32 960</u>	<u>463 916</u>
At 31 December 2015		<u>534 929</u>	<u>100 129</u>	<u>635 058</u>
At 31 December 2016		<u>790 673</u>	<u>102 430</u>	<u>893 103</u>

Amortisation and impairment losses

Amortisation of RUB 242 541 thousand has been charged to selling, general and administrative expenses (2015: RUB 148 541 thousand).

18 Investment property

(a) Reconciliation of carrying amount

'000 RUB	Note	Investment property
Investment properties at fair value as at 1 January 2015		548 500
Expenditure on subsequent improvements		65 354
Fair value loss (unrealized)	10	(49 854)
Investment properties at fair value as at 31 December 2015		564 000
Investment properties at fair value as at 1 January 2016		564 000
Expenditure on subsequent improvements		35 597
Fair value loss (unrealized)	10	(27 055)
Investment properties at fair value as at 31 December 2016		572 542

(b) Measurement of fair value

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The fair value measurement for investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 5).

The appraisers used average between the income and comparative approaches for determining the fair value. Under income approaches an estimate was made of annual net operating income which is mainly based on annual net rent rate of RUB 7 000 per sq. m. (2015: RUB 7 000 per sq. m.) and expected occupancy of 93% (2015: 95%). Discount rate of 13% (2015: 19%) was applied to discount future cash flows.

There were no direct operating expenses arising from investment property that did not generate rental income for the year ended 31 December 2016 (2015: Nil).

19 Other non-current assets

'000 RUB	Note	2016	2015
	36		re-presented
Long-term prepayments to entities under control of shareholder group		894 175	651 302
Prepayments for property plant and equipment		769 210	1 703 876
Long-term deposits to lessors		339 295	390 732
		2 002 680	2 745 910

Long-term prepayments to entities under control of the shareholder group represent prepayments for rent of hypermarkets for the period until 2034. Related party transactions are detailed in note 32.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Investment property	994	-	-	(1 113)	994	(1 113)
Property, plant and equipment	173 210	357 514	(974 315)	(922 764)	(801 105)	(565 250)
Construction in progress	-	-	(267 198)	(210 954)	(267 198)	(210 954)
Intangible assets	-	-	(126 179)	(95 313)	(126 179)	(95 313)
Other non-current assets	-	-	(101 467)	(118 434)	(101 467)	(118 434)
Inventories	602 017	572 154	(1 510)	(29 245)	600 507	542 909
Trade and other receivables and payables	615 767	-	(577 189)	(261 414)	38 578	(261 414)
Long-term investments	6 613	-	-	-	6 613	-
Tax loss carry-forwards	1 234 439	537 207	-	-	1 234 439	537 207
Tax assets/(liabilities)	2 633 040	1 466 875	(2 047 858)	(1 639 237)	585 182	(172 362)
Set off of tax	(1 355 767)	(812 363)	1 355 767	812 363	-	-
Net tax assets/(liabilities)	1 277 273	654 512	(692 091)	(826 874)	585 182	(172 362)

(b) Unrecognised deferred tax liability

As at 31 December 2016 a temporary difference of RUB 23 979 879 thousand (2015: RUB 22 842 672 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

(c) Movement in temporary differences during the year

'000 RUB	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
Investment property	(1 113)	2 107	-	994
Property, plant and equipment	(565 250)	(235 855)	-	(801 105)
Construction in progress	(210 954)	(56 244)	-	(267 198)
Intangible assets	(95 313)	(30 866)	-	(126 179)
Other non-current assets	(118 434)	16 967	-	(101 467)
Inventories	542 909	57 598	-	600 507
Trade and other receivables and payables	(261 414)	315 877	(15 885)	38 578
Long-term investments	-	6 613	-	6 613
Tax loss carry-forwards	537 207	697 232	-	1 234 439
	(172 362)	773 429	(15 885)	585 182

'000 RUB	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Investment property	(4 203)	3 090	-	(1 113)
Property, plant and equipment	(669 692)	104 442	-	(565 250)
Construction in progress	(149 162)	(61 792)	-	(210 954)
Intangible assets	(14 649)	(80 664)	-	(95 313)
Other non-current assets	60 656	(179 090)	-	(118 434)
Inventories	674 915	(132 006)	-	542 909
Trade and other receivables and payables	247 782	(570 946)	61 750	(261 414)
Tax loss carry-forwards	163 658	373 549	-	537 207
	309 305	(543 417)	61 750	(172 362)

21 Inventories

'000 RUB	2016	2015
Goods for resale	13 370 212	12 436 674
Raw materials and consumables	700 673	595 017
Write-down to net realisable value	(364 017)	(403 387)
	13 706 868	12 628 304

Due to write-off and discount given for obsolete and slow moving goods for resale the Group tested the related stock for write-off and also wrote down the related inventories to their net realisable value, which resulted in decrease of carrying value of stock by RUB 364 017 thousand as at 31 December 2016 (2015: RUB 403 387 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the management's best estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.

22 Trade and other receivables

'000 RUB	2016	2015
Trade receivables	545 464	362 599
VAT receivable	1 562 138	1 902 761
Prepaid taxes other than income tax	132 565	67 747
Prepaid income tax	14 282	791 787
Bonuses receivable from suppliers	3 081 243	1 653 027
Other receivables	535 318	2 159 425
	5 871 010	6 937 346

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

23 Cash and cash equivalents

'000 RUB	2016	2015
Cash on hand	417 766	404 853
Bank current account	589 988	739 135
Term deposits	8 240 763	7 180 674
Cash in transit	2 214 950	1 443 468
Cash and cash equivalents	11 463 467	9 768 130

Term deposits had original maturities of less than three months.

The Group keeps its deposits in the following banks: VTB bank, Saint-Petersburg bank, Unicredit bank, BNP Paribas.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 28.

24 Equity

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2016	2015
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269 074 000	269 074 000
On issue at 31 December, fully paid	269 074 000	269 074 000

As at 31 December 2016 the Group's subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand) is represented by 269 074 000 shares with a par value of 0.01 EUR each.

In accordance with Luxemburg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. There were no transfers to legal reserve during 2016 (2015: nil).

In July 2016 the Group paid interim dividends to shareholders in amount of RUB 1 472 411 thousand (2015: RUB 1 643 771 thousand). Interim dividends paid were recognised as distribution to owners in the Consolidated Statement of Changes in Equity. Interim dividends for 2016 comprise distribution of profit in the amount of RUB 1 124 462 thousand and additional paid-in capital redemption in the amount of RUB 347 949 thousand.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2016 amounted to RUB 5.5 (2015: RUB 6.1).

In April 2016 shareholders of the Company approved annual dividends for the year ended 31 December 2015. The amount of annual dividends for 2015 was paid by the Group to shareholders as interim dividends in 2015 in the amount of RUB 1 643 771 thousand.

25 (Loss)/earnings per share

The calculation of basic earnings per share at 31 December 2016 was based on the loss attributable to ordinary shareholders of RUB 137 790 thousand (2015: profit RUB 1 917 707 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000, calculated as shown below. The Company has no dilutive potential ordinary shares.

<i>Number of shares</i>	2016	2015
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for the year ended 31 December	269 074 000	269 074 000

26 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

'000 RUB	2016	2015
<i>Non-current liabilities</i>		
Secured bank loans	2 500 000	5 000 000
Unsecured bank facilities	23 000 000	17 052 875
Unsecured bonds	5 243 118	385 144
Unsecured loans from related parties	929 960	1 117 400
Unsecured loans from third parties	-	2 850
	31 673 078	23 558 269
<i>Current liabilities</i>		
Secured bank loans	2 500 000	-
Unsecured bank facilities	1 000 000	1 770 125
Unsecured bonds	962 410	9 980 000
Unsecured loans from third parties	2 850	-
Loans and borrowings	4 465 260	11 750 125
Unsecured bonds interest	146 904	238 714
Interest accrued on loans	9 966	10 891
Interest accrued on loans and borrowings	156 870	249 605
	4 622 130	11 999 730

As at 31 December 2016 loans and borrowings with carrying value of RUB 5 000 000 thousand were secured by property, plant and equipment (2015: RUB 5 000 000 thousand). Refer to note 31.

As at 31 December 2016 the Group has RUB 15 800 000 thousand (2015: RUB 6 300 000 thousand) of undrawn, committed borrowing facilities available in respect of which all conditions present had been met.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB	Cur rency	Year of maturity	31 December 2016		31 December 2015	
			Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	RUB	2017 - 2021	6 205 528	6 205 528	10 365 144	10 365 144
Secured bank facility	RUB	2017 - 2018	5 000 000	5 000 000	5 000 000	5 000 000
Unsecured bank facility	RUB	2017 - 2021	24 000 000	24 000 000	18 823 000	18 823 000
Unsecured loans from related parties	USD	2018	929 960	929 960	1 117 400	1 117 400
Unsecured loans from other companies	RUB	2017	2 850	2 850	2 850	2 850
			36 138 338	36 138 338	35 308 394	35 308 394

In April 2016 the Group placed unsecured bonds on Moscow Exchange in the amount of RUB 5,000,000 thousand. The bonds mature after 5 years in 2021. However, bond holders have an option to claim repayment after 2.5 years – in October 2018.

Compliance with loan covenants

The Group monitors compliance with loan covenants on an ongoing basis. Where noncompliance is unavoidable in management's view, the Group requests waiver letters from the banks before the year-end, confirming that the banks shall not use its right to demand early redemption.

At 31 December 2016 and during the year then ended the Group complied with all loan covenants.

27 Trade and other payables

'000 RUB	2016	2015
Trade payables	29 374 499	24 000 558
Advances received	350 816	1 772 204
Taxes payable (other than income tax)	1 085 381	627 824
Payables to staff	1 339 925	1 603 412
Deferred income	99 489	85 310
Interest rate swap liability	147 019	173 590
Other current payables	83 763	554 435
	32 480 892	28 817 333

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28 Financial instruments and risk management**(a) Overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, bonuses receivable and investments.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		2016	2015
Trade and other receivables	22	4 162 025	4 175 051
Cash and cash equivalents	23	11 463 467	9 768 130
		15 625 492	13 943 181

Due to the fact that the Group's principal activities are located in the Russian Federation the credit risk is mainly associated with its domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of its customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key stores. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 RUB	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not overdue and past due less than 90 days	4 045 013	-	4 064 535	-
Past due 90-180 days	43 875	-	57 304	-
Past due 181-360 days	36 658	-	36 799	-
More than 360 days	67 736	(31 257)	45 690	(29 277)
	4 193 282	(31 257)	4 204 328	(29 277)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 RUB	2016	2015
Balance at beginning of the year	29 277	28 429
Impairment loss recognised	1 980	848
Impairment loss reversed	-	-
Balance at end of the year	31 257	29 277

The management has performed a thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 11 463 467 thousand at 31 December 2016 (2015: RUB 9 768 130 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated from Ba2 to Ba3 based on Moody's rating.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 4.0;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2016

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loan	5 001 141	(5 467 111)	(1 445 164)	(1 394 695)	(2 627 252)
Unsecured bonds	6 352 432	(7 574 128)	(1 076 276)	(734 925)	(5 762 927)
Unsecured bank facilities	24 008 799	(31 602 297)	(2 214 692)	(1 202 048)	(28 185 557)
Unsecured loans from related parties	929 960	(1 010 471)	(37 096)	(37 096)	(936 279)
Unsecured loans from other companies	2 876	(2 878)	(2 878)	-	-
Trade and other payables	30 945 206	(30 945 206)	(30 945 206)	-	-
	67 240 414	(76 602 091)	(35 721 312)	(3 368 764)	(37 512 015)

As at 31 December 2016 Group's current liabilities exceed current assets by RUB 5 892 343 thousand (2015: RUB 10 254 288 thousand). Excess of current liabilities over current assets is usual for retail industry. The Group uses excess of trade and other payables over inventory to finance its investing activities.

In April 2016 the Group placed unsecured bonds on Moscow Exchange in the amount of RUB 5 000 000 thousand. The bonds mature after 5 years in 2021. However, bond holders have an option to claim repayment after 2.5 years – in October 2018.

2015

'000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loan	5 000 000	(5 858 020)	(207 034)	(210 466)	(5 440 520)
Unsecured bonds	10 603 858	(11 277 679)	(5 724 587)	(5 125 475)	(427 617)
Unsecured bank facilities	18 833 868	(23 184 757)	(1 846 406)	(2 216 104)	(19 122 247)
Unsecured loans from related parties	1 117 400	(1 303 777)	(44 329)	(44 329)	(1 215 119)
Unsecured loans from other companies	2 873	(2 878)	(25)	(1)	(2 852)
Trade and other payables	26 331 994	(26 331 994)	(26 331 994)	-	-
	61 889 993	(67 959 105)	(34 154 375)	(7 596 375)	(26 208 355)

There are no payments due after 5 years.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group holds its business in the Russian Federation and mainly collects receivables nominated in Russian Roubles. However, financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to an acceptable level by keeping the proportion of financial assets and liabilities in foreign currencies to total financial liabilities at an acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers the necessity of using derivatives to hedge its exposure to currency risk.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	USD-denominated	USD-denominated
	2016	2015
Trade and other receivables	1 760	2 101
Cash and cash equivalents	3 582	750
Unsecured loans from related parties	(929 960)	(1 117 400)
Trade and other payables	(176 595)	(760 753)
Gross exposure	(1 101 213)	(1 875 302)
Net exposure	(1 101 213)	(1 875 302)

The following significant exchange rates applied during the year:

Russian Rouble equals	Average rate		Reporting date rate	
	2016	2015	2016	2015
US Dollar	67.0349	60.9579	60.6569	72.8827

Sensitivity analysis

A 20% weakening of the RUB against USD at 31 December 2016 would have decreased equity and profit and loss by RUB 220 243 thousand (2015: RUB 375 060 thousand). This analysis is based on

foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2015.

A strengthening of the RUB against USD at 31 December 2016 would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2016, 6% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2015: 39%).

The Group uses swap to hedge its exposure to variability of interest rates. As at 31 December 2016 the Group had interest swap agreement with VTB bank. Under this agreement the Group swaps Mosprime rate for fixed rate. At inception, the swap had a maturity of three years. As at 31 December 2016 fair value of swap liability was RUB 147 018 thousand (31 December 2015: RUB 173 590 thousand).

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUB	Carrying amount	
	2016	2015
Fixed rate instruments		
Financial assets	8 240 763	7 180 674
Financial liabilities	(36 295 208)	(26 736 999)
Variable rate instruments		
Financial liabilities	-	(8 821 000)

Cash flow sensitivity analysis for variable rate instruments

A change of 500 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2015.

'000 RUB	Profit or loss		Equity	
	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
2016				
Variable rate instruments	-	-	-	-
Interest rate swap	75 000	(75 000)	96 306	(96 845)
Cash flow sensitivity (net)	75 000	(75 000)	96 306	(96 845)
2015				
Variable rate instruments	(441 050)	441 050	-	-
Interest rate swap	163 250	(163 250)	246 893	(231 668)
Cash flow sensitivity (net)	(277 800)	277 800	246 893	(231 668)

(e) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2016		
Gross amounts	2 356 574	13 602 195
Amounts offset in accordance with IAS 32 offsetting criteria	(5 013)	(5 013)
Net amounts presented in the statement of financial position	2 351 561	13 597 182
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(2 351 561)	(2 351 561)
Net amount	-	11 245 621

	Trade and other receivables	Trade and other payables
	<hr/>	<hr/>
31 December 2015		
Gross amounts	1 222 653	9 429 773
Amounts offset in accordance with IAS 32 offsetting criteria	(1 053)	(1 053)
	<hr/>	<hr/>
Net amounts presented in the statement of financial position	1 221 600	9 428 720
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1 221 600)	(1 221 600)
	<hr/>	<hr/>
Net amount	-	8 207 120
	<hr/>	<hr/>

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

Amounts offset in accordance with IAS 32 offsetting criteria comprise mainly trade payables for goods and bonuses receivable from suppliers.

(f) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 5. Fair value of Group's financial assets and liabilities, including loans and borrowings, approximates their carrying amounts.

(g) Fair value hierarchy

Group's derivative financial assets and liabilities comprise interest rate swap which is carried at fair value. Fair value of swap was determined based on observable market data (Level 2 fair value), including forward interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs (Level 3 fair value).

Group's bonds are listed on Moscow Exchange. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

(h) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

29 Operating leases

Leases as lessee

The Group has both owned and leased land plots. The owned land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalized as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years, although some leases may be for longer periods. Property leases can be renewed based on mutual agreement of the lessor and the Group. The Group has subleases. Fees payable by the Group for operating leases of stores comprise fixed payments and contingent rent which is determined as an excess of 2%-6% of the revenue of related stores over the fixed rent rate.

During the year ended 31 December 2016 RUB 5 518 550 thousand was recognised as an expense (including amortisation of Lease rights amounting to RUB 174 640 thousand) in the profit and loss in respect of operating leases (2015: RUB 4 728 035 thousand). Contingent rent recognised as an expense for the year ended 31 December 2016 amounted to RUB 467 947 thousand (2015: RUB 359 180 thousand).

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

RUB 000'	2016	2015
Less than one year	3 771 246	3 012 410
Between one and five years	14 239 837	10 775 153
More than five years	30 089 728	20 743 629
	48 100 811	34 531 192

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2016 RUB 1 620 671 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2015: RUB 1 529 250 thousand). All leases where the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 79 877 thousand for the year ended 31 December 2016 (2015: RUB 67 483 thousand). Contingent rent is determined as an excess of 4%-25% of the tenant's revenue over the fixed rent rate.

30 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 1 078 308 thousand as at 31 December 2016 (2015: RUB 3 570 470 thousand). The capital commitments mostly consist of construction contracts for stores.

31 Contingencies

(a) Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the Group's tax positions based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. In addition to tax liabilities recognised in these consolidated financial statements, the Group is exposed to uncertain tax positions for which no provision has been made because management has assessed that additional payments are not probable. However, the interpretations of the relevant authorities could differ. If the authorities are successful in enforcing their interpretations, the maximum unrecognised exposures approximate RUB 2 400 million as at 31 December 2016.

(c) Assets pledged or restricted

The Group has the following assets pledged as collateral for loans and borrowings:

'000 RUB	Note	2016	2015
Property, plant and equipment (carrying value)	15	2 529 768	2 592 895
Total		2 529 768	2 592 895

32 Related party transactions

(a) Major shareholders

The major shareholders of the Group are three individuals Mr. Korzhev, Mr. Troitsky and Mr. Volchek ("the shareholder group").

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 11)

'000 RUB	2016	2015
Salaries and bonuses	359 436	236 815
Social security contributions	10 718	16 389
Long-service bonus	98 358	28 691
Other payments	7 500	401 165
	476 012	683 060

During the year ended 31 December 2016 the Group revised list of employees included in key management personnel. Comparative information for the year ended 31 December 2015 was represented to reflect current structure of key management personnel.

In addition members of Board of Directors received remuneration in the amount of RUB 59 942 thousand for the year ended 31 December 2016 (2015: RUB 32 438 thousand) which is included in legal and professional expenses.

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1).

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value 2016	Transaction value 2015	Trade receivable 2016	Trade payables 2015
Services provided:				
Other related parties	2 225	35 562	94	(6 007)
	2 225	35 562	94	(6 007)

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Prepayments	Prepayments
	2016	2015	2016	2015
Other related parties	(788 700)	(726 151)	921 195	936 956
Including:				
Rental fee	(653 097)	(616 077)	-	-
Reimbursement of utilities	(73 197)	(54 518)	-	-
Reimbursement of other expenses	(62 406)	(55 556)	-	-
Other services received:				
Other related parties	(2 756)	(3 922)	2 143	-
Finance costs:				
Other related parties	(81 347)	(76 095)	-	-
	(872 803)	(806 168)	923 338	936 956

All outstanding balances with related parties, except for prepayments for operating leases, are to be settled in cash within six months of the reporting date. None of the balances are secured.

Outstanding balance of RUB 921 195 thousand as at 31 December 2016 comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 925 704 thousand and current liabilities for rent of hypermarkets in the amount of RUB 4 509 thousand. Long-term part of prepayments amounting to RUB 894 175 thousand is disclosed in note 19. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 81 347 thousand for the year ended 31 December 2016 (2015: RUB 76 095 thousand) and were recorded as finance costs in profit or loss.

All other outstanding balances are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

'000 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2016	2015	2016	2015
Loans paid back:				
Other related parties	-	-	(929 960)	(1 117 400)

The loans from other related parties bear interest at 8% per annum and are payable in 2018.

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

33 Events subsequent to the reporting date

In January 2017 the Group paid interim dividends to shareholders in the amount of RUB 1 418 998 thousand.

In March 2017 the Group announced the appointment of Miodrag Borojevic as its new Chief Executive Officer of hypermarket and supermarket business. He will be succeeding Heigo Kera from May 2017.

34 Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value;
- Investment property is remeasured at fair value.

35 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 36, which addresses changes in presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange

rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Non-derivative financial assets - measurement*

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) *Non-derivative financial liabilities - measurement*

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iv) *Derivative financial instruments*

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit

or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit and loss and other comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholder group) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 30 years;
- Machinery and equipment, auxiliary facilities 2-20 years;
- Motor vehicles 5-10 years;
- Leasehold improvements over the term of underlying lease;
- Other fixed assets 2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Intangible assets**(i) Other intangible assets**

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software,

licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software licenses 1-7 years;
- other intangible assets 1-5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortized using straight-line method over the period of lease being up to 51 years. Where the Group is a lessee in a lease of premises, the lease rights are amortized using straight-line method over the period of lease being up to 8-19 years.

(ii) Finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted moving average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment**(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) Goods sold

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

(ii) Services

Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax reflects the tax consequences that would follow 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.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions

with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) Presentation of the statement of cash flows

The Group reports cash flows from operating activities using direct method. Cash flows from investing activities are presented net of VAT. VAT paid to suppliers of non-current assets and VAT in proceeds from sale of non-current assets are presented in line "VAT paid" in operating activities.

(u) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(v) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group does not intend to adopt this standard early.

The Group expects that the new Standard will not have significant impact on its financial position or performance.

- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises 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.

The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group does not intend to adopt this standard early.

The Group expects that the new Standard will not have significant impact on its financial position or performance.

- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The Group is a lessee in significant number of operating lease agreements (stores and land plots). Application of IFRS 16 will result in recognition of these leases as asset on balance sheet. At the same time, a financial liability will be recognized.

The Group does not intend to adopt this standard early as it is not yet endorsed by the European Union.

The Group has not analysed the likely impact of the new Standard on its financial position or performance.

- Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Group does not intend to adopt this standard early.

36 Changes in presentation

As at 31 December 2016 the Group presented lease rights as a separate line item in the consolidated statement of financial position. Previously lease rights were presented as other non-current assets (initial cost of land lease) and intangible assets (lease rights for premises). Comparative information has been re-presented accordingly. The effect of change in presentation on the statement of financial position as at 31 December 2015 and 1 January 2015 was as follows:

As at 31 December 2015

'000 RUB	As previously presented	Effect of change in presentation	Re-presented
As at 31 December 2015	8 228 505	-	8 228 505
Lease rights	-	4 847 537	4 847 537
Other non-current assets	6 934 782	(4 188 872)	2 745 910
Intangible assets	1 293 723	(658 665)	635 058

As at 1 January 2015

'000 RUB	As previously presented	Effect of change in presentation	Re-presented
As at 1 January 2015	11 543 739	-	11 543 739
Lease rights	-	4 615 995	4 615 995
Other non-current assets	11 004 304	(4 540 476)	6 463 828
Intangible assets	539 435	(75 519)	463 916