O'Key Group S.A.

Consolidated Financial Statements
for the year ended 31 December 2017
(with the report of the Réviseur d'Entreprises Agréé thereon)

Contents

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To the Shareholders of
O'KEY GROUP S.A.
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the consolidated financial statements of O'KEY GROUP S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Suppliers' bonuses	
Please refer to note 4 (estimates and judgements) and note 23 (financial disclosures).	
a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	***b. How the matter was addressed in our audit***
The Group receives various bonuses from suppliers based on volume-related allowance, promotional and marketing allowances and discounts received in connection with the purchase of goods. This represents a significant reduction in the cost of sales and inventory. The calculation of bonuses is in part dependent on an estimation of whether these amounts due under various agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions such as promotional activities or marketing compaign undertaken by the Group for certain goods. The process for calculating and recording supplier bonuses involves significant manual processes which are more susceptible to error.	Our procedures over supplier bonuses included, but were not limited to: ▪ We tested key internal controls over completeness, existence and accuracy of recoginsed bonuses from suppliers, including authorisation and performance review of recorded bonuses versus budget and historical data. ▪ We tested the Group's manual calculations made in the process of recording of supplier bonuses. With assistance of our own IT specialists we tested accuracy and completeness of system-generated reports which the Group used as input data for these manual calculations. We agreed relevant data elements in these reports to source documents on a sample basis. ▪ We compared bonuses' trends by bonus type, product category and supplier to historical data adjusted for current market conditions where necessary. ▪ We agreed bonuses receivable as at year-end to external confirmations obtained from suppliers on a sample basis. ▪ We recalculated the effects of reduction in the inventory cost due to allocation of bonuses to unsold inventory and compared results to the amounts determined by the Group.

Valuation of deferred tax asset	
Please refer to notes 4 (estimates and judgements) and note 20 (financial disclosures).	
a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	***b. How the matter was addressed in our audit***
The Group has recognised significant deferred tax asset in respect of tax losses carried forward by LLC Fresh Market, a subsidiary operating a discounter chain. The recovery of the deferred tax asset depends on achieving sufficient taxable profits by the discounter chain in the future. There is an inherent uncertainty involved in forecasting the timing and amount of future taxable profits, which supports the extent to which deferred tax asset is to be recognised. The discounter business is relatively new for the Group and historical data on financial results of the discounter chain is limited. Therefore, this is a key judgmental area our audit is concentrated on.	Our procedures over valuation of deferred tax asset included, but were not limited to: ▪ The Group prepares taxable profits forecast model based on the long-term budget of the discounter chain. We tested design and implementation of key internal controls over preparation of the discounter chain's long-term budget. ▪ We analysed the underlying methodology and tested the mathematical accuracy of the taxable profits forecast model used to estimate the amount of the deferred tax asset to be recognised by the Group. ▪ We evaluated the appropriateness of the Group's key assumptions used in taxable profits forecast such as revenue growth and operating profit margin through comparison of the forecast to historical performance and observable market data, including competitors' historical data and inflation rate forecasts. ▪ We challenged the Group's assumptions regarding expansion of the discounter chain by comparing them to the Group's long-term cash-flow forecast and historical cash-flow trends. ▪ We assessed the accuracy of the Group's forecasts used in prior years to obtain information regarding the effectiveness of the Group's forecasting process and identify potential bias. ▪ We also assessed the adequacy of Group's disclosures in respect of deferred tax asset.

Sale of supermarkets	
Please refer to note 4 (estimates and judgements) and note 8 (financial disclosures).	
a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	***b. How the matter was addressed in our audit***
During the year ended 31 December 2017 the Group entered into a complex arrangement to sell most of its supermarket business. The net book value of assets already disposed and to be disposed and the sale proceeds are significant to the Group's consolidated financial statements. The arrangement is structured into several stages. Significant judgement is required to determine the part of the total consideration for the sale of supermarkets that should be recognised during the year ended 31 December 2017 and the part that should be deferred to the year ending 31 December 2018. Significant judgement is required to assess the effect of indemnities and warranties included in the sale agreement on the sale proceeds recognised in the Group's consolidated financial statements.	Our procedures over sale of supermarkets included, but were not limited to: ▪ We reconciled the consideration received for the sale to the sale agreement. ▪ We assessed whether the total consideration for the sale was allocated to the components of the arrangement in the proportion to their fair values. ▪ We evaluated whether the timing of the gain recognized for each significant component corresponds to the transfer of control or substantial risks and rewards to the buyer as appropriate. ▪ We inspected key terms of the sale agreement and assessed whether the effect of the seller's warranties and indemnities to the buyer was appropriately recognised as a part of the sale's consideration. ▪ We also assessed the adequacy of the Group's disclosures related to the sale of supermarkets and non-current assets held for sale.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, 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.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

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

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

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 6 October 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 8 years since the Company became public interest entity.

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

The Corporate Governance Statement, included in the consolidated Directors' report, is the responsibility of the Board of Directors. The information required by Article 68ter 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 amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

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We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68ter 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 amended.

Luxembourg, 26 March 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Jean-Manuel Séris

'000 RUB	Note	2017	2016
ASSETS			
Non-current assets			
Investment property	16	1 075 010	572 542
Property, plant and equipment	17	44 964 135	48 241 868
Construction in progress	17	3 313 175	3 485 879
Lease rights	18	4 437 856	4 578 535
Intangible assets	19	961 108	893 103
Deferred tax assets	20	1 917 572	1 277 273
Other non-current assets	21	1 817 452	2 002 680
Total non-current assets		**58 486 308**	**61 051 880**
Current assets			
Inventories	22	13 524 236	13 706 868
Trade and other receivables	23	10 275 841	5 871 010
Prepayments		1 280 658	958 467
Other investments		10 290	41 250
Cash and cash equivalents	25	7 750 177	11 463 467
Non-current assets held for sale	24	129 589	-
Total current assets		**32 970 791**	**32 041 062**
Total assets		**91 457 099**	**93 092 942**

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 8 to 64.

'000 RUB	Note	2017	2016
EQUITY AND LIABILITIES			
Equity	26		
Share capital		119 440	119 440
Legal reserve		10 597	10 597
Additional paid-in capital		8 555 657	8 555 657
Hedging reserve		(99 861)	(75 329)
Retained earnings		15 025 513	13 324 398
Translation reserve		639 633	720 301
Total equity		**24 250 979**	**22 655 064**
Non-current liabilities			
Loans and borrowings	28	24 679 352	31 673 078
Deferred tax liabilities	20	888 997	692 091
Other non-current liabilities		121 890	139 304
Total non-current liabilities		**25 690 239**	**32 504 473**
Current liabilities			
Loans and borrowings	28	11 429 881	4 465 260
Interest accrued on loans and borrowings	28	231 897	156 870
Trade and other payables	29	28 854 731	32 480 892
Current income tax payable		999 372	830 383
Total current liabilities		**41 515 881**	**37 933 405**
Total liabilities		**67 206 120**	**70 437 878**
Total equity and liabilities		**91 457 099**	**93 092 942**

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 8 to 64.

'000 RUB	**Note**	**2017**	**2016**
Revenue	9	177 454 848	175 470 671
Cost of goods sold		(137 010 445)	(135 261 292)
Gross profit		**40 444 403**	**40 209 379**
General, selling and administrative expenses	10	(36 189 311)	(35 764 206)
Other operating income and expenses, net	11	3 335 349	(1 050 739)
Operating profit		**7 590 441**	**3 394 434**
Finance income	13	114 239	281 631
Finance costs	13	(3 532 915)	(3 550 403)
Foreign exchange (loss)/gain	14	(376 375)	145 973
Profit before income tax		**3 795 390**	**271 635**
Income tax expense	15	(628 477)	(409 425)
Profit/(loss) for the year		**3 166 913**	**(137 790)**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Exchange differences on translating to presentation currency		(80 668)	(118 246)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of hedges and reclassification from hedging reserve	13	(30 665)	79 428
Other comprehensive income		-	(170 999)
Income tax on other comprehensive income	13, 15	6 133	(15 885)
Other comprehensive loss for the year, net of income tax		**(105 200)**	**(225 702)**
Total comprehensive income/(loss) for the year		**3 061 713**	**(363 492)**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (RUB)	27	**11.8**	**(0.5)**

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 8 to 64.

'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	13	-	-	-	79 428	-	-	79 428
Income tax on other comprehensive income	15	-	-	-	(15 885)	-	-	(15 885)
Other comprehensive income		-	-	-	-	(170 999)	-	(170 999)
Total other comprehensive loss		**-**	**-**	**-**	**63 543**	**(170 999)**	**(118 246)**	**(225 702)**
Total comprehensive loss 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	26	-	-	(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 8 to 64.

'000 RUB	**Note**	**Share capital**	**Legal reserve**	**Additional paid-in capital**	**Hedging reserve**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 1 January 2017		**119 440**	**10 597**	**8 555 657**	**(75 329)**	**13 324 398**	**720 301**	**22 655 064**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	3 166 913	-	3 166 913
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(80 668)	(80 668)
Change in fair value of hedges and reclassification from hedging reserve	13	-	-	-	(30 665)	-	-	(30 665)
Income tax on other comprehensive income	15	-	-	-	6 133	-	-	6 133
Total other comprehensive loss		**-**	**-**	**-**	**(24 532)**	**-**	**(80 668)**	**(105 200)**
Total comprehensive income for the year		**-**	**-**	**-**	**(24 532)**	**3 166 913**	**(80 668)**	**3 061 713**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	26	-	-	-	-	(1 465 798)	-	(1 465 798)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**(1 465 798)**	**-**	**(1 465 798)**
Balance at 31 December 2017		**119 440**	**10 597**	**8 555 657**	**(99 861)**	**15 025 513**	**639 633**	**24 250 979**

'000 RUB	2017	2016
Cash flows from operating activities		
Cash receipts from customers	202 566 776	199 801 345
Other cash receipts	497 880	684 044
Interest received	104 391	257 541
Cash paid to suppliers and employees	(194 385 579)	(186 678 063)
Operating taxes	(672 429)	(670 313)
Other cash payments	(125 740)	(76 312)
VAT paid	(2 182 232)	(1 485 904)
Income tax paid	(928 829)	(159 780)
Net cash from operating activities	**4 874 238**	**11 672 558**
Cash flows from investing activities		
Purchase of property, plant and equipment and lease rights (excluding VAT)	(3 112 061)	(5 880 420)
Purchase of other intangible assets (excluding VAT)	(439 980)	(450 701)
Proceeds from sales of property, plant and equipment and intangible assets (excluding VAT)	186 870	917 819
Net cash used in investing activities	**(3 365 171)**	**(5 413 302)**
Cash flows from financing activities		
Proceeds from loans and borrowings	7 685 500	24 498 000
Repayment of loans and borrowings	(7 663 017)	(23 480 067)
Interest paid	(3 655 488)	(3 939 956)
Dividends paid	(1 465 798)	(1 472 411)
Other financial payments	(88 340)	(134 577)
Net cash used in financing activities	**(5 187 143)**	**(4 529 011)**
Net (decrease)/increase in cash and cash equivalents	**(3 678 076)**	**1 730 245**
Cash and cash equivalents at beginning of the year	11 463 467	9 768 130
Effect of exchange rate fluctuations on cash and cash equivalents	(35 214)	(34 908)
Cash and cash equivalents at end of the year	**7 750 177**	**11 463 467**

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 8 to 64.

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 2017 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.

As at 31 December 2017 the Company considers as its major shareholders: Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2017 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 34.

The Company's registered address is: Luxembourg 46a, Avenue J.F. Kennedy, 3rd floor, L-1855.

The Group's principal business activity is the operation of a retail chain in Russia under the brand name "O'KEY". At 31 December 2017 the Group operated 149 stores including 67 discounter stores (31 December 2016: 164 stores including 54 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 26 March 2018.

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 2017 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 57.6002; EUR 1 = RUB 68.8668 (2016: USD 1 = RUB 60.6569; EUR 1 = RUB 63.8111).

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 33.

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 the 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 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 2017 refer to note 17.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax assets on tax losses. The Group performs analysis of future taxable profit to cover the accumulated tax losses. Refer to note 20.

Sale of O’key Supermarkets business. In December 2017 the Group signed a framework agreement with X5 Retail Group for sale of the major part of supermarkets business. Significant judgment is required in determination of amount and timing of recognition of proceeds under the agreement. For details refer to note 8.

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 the income approach 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 37.

The segment information for the year ended 31 December 2017 is as follows:

'000 RUB	**O'Key**		**Da!**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
External revenue	167 062 312	169 695 802	10 392 536	5 774 869	**177 454 848**	**175 470 671**
Inter-segment revenue	-	-	-	30 274	-	30 274
EBITDA	11 358 589	11 845 435	(2 023 596)	(2 592 229)	**9 334 993**	**9 253 206**

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

'000 RUB	Note	2017	2016
EBITDA		**9 334 993**	**9 253 206**
Revaluation of investment property	11	(200 000)	(27 055)
Gain/(loss) from disposal of non-current assets	11	3 905 402	(568 004)
Impairment of non-current assets	11	(279 174)	(434 370)
Loss from write-off of receivables	11	(436 256)	(279 015)
Impairment of receivables	11	(3 626)	(395)
Depreciation and amortisation	10	(4 613 172)	(4 549 933)
Finance income	13	114 239	281 631
Finance costs	13	(3 532 915)	(3 550 403)
Foreign exchange loss/(gain)	14	(376 375)	145 973
Other expenses		(117 726)	-
Profit before income tax		3 795 390	271 635
Income tax expense		(628 477)	(409 425)
Profit/(loss) for the year		**3 166 913**	**(137 790)**

7 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2017 and 31 December 2016 are as follows:

Subsidiary	Country of incorporation	Nature of operations	2017 Ownership/ voting	2016 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 Sale of supermarkets

In December 2017 the Group signed a framework agreement with X5 Retail Group for sale of the major part of supermarkets business comprising of 32 stores. The agreement comprises a series of transactions. Total expected proceeds according to the agreement are RUB 7 222 176 thousand. Having considered terms of the agreement, the Group concluded that in substance control over 28 of 32 stores was transferred to the buyer in December 2017 and recognized in 2017 respective proceeds in the amount of RUB 6 677 176 thousand. Assets attributable to disposed part of business mainly comprise land and buildings, equipment, lease rights and short-term receivables. Net book value of the assets attributable to the disposed part of business amounted to RUB 2 031 973 thousand.

The sale of remaining part of supermarket business which consists of 4 stores is expected within 12 months after the reporting date. As a result, trading equipment and lease rights of these stores are presented as non-current assets held for sale in the consolidated statement of financial position as at 31 December 2017 (see note 24).

9 Revenue

'000 RUB	**2017**	**2016**
Sales of trading stock	167 314 837	165 210 286
Sales of self-produced catering products	7 022 505	7 269 694
Revenue from sale of goods	**174 337 342**	**172 479 980**
Rental income	1 738 525	1 620 671
Revenue from advertising services	1 378 981	1 370 020
Total revenues	**177 454 848**	**175 470 671**

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.

10 General, selling and administrative expenses

’000 RUB	Note	2017	2016
Personnel costs	12	(15 619 123)	(16 185 073)
Operating leases	31	(5 757 744)	(5 343 910)
Depreciation and amortisation	17, 18, 19	(4 613 172)	(4 549 933)
Communication and utilities		(3 525 377)	(3 485 840)
Advertising and marketing		(2 115 888)	(1 795 089)
Repairs and maintenance costs		(1 253 737)	(1 182 822)
Security expenses		(869 282)	(825 314)
Insurance and bank commission		(818 668)	(737 305)
Operating taxes		(730 401)	(713 223)
Legal and professional expenses		(520 419)	(602 704)
Materials and supplies		(329 541)	(301 595)
Other costs		(35 959)	(41 398)
		(36 189 311)	**(35 764 206)**

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

’000 RUB	2017	2016
Auditors’ remuneration for annual and consolidated accounts	12 988	13 902
Auditors’ remuneration for other assurance services	4 259	4 721
Auditors’ remuneration for tax advisory services	2 458	115
	19 705	**18 738**

11 Other operating income and expenses, net

'000 RUB	Note	2017	2016
Gain/(loss) from disposal of non-current assets		3 905 402	(568 004)
Impairment of non-current assets	17, 18	(279 174)	(434 370)
Loss from write-off of receivables		(436 256)	(279 015)
Impairment of receivables		(3 625)	(395)
Loss from revaluation of investment property	16	(200 000)	(27 055)
Sundry income and expense, net		349 002	258 100
		3 335 349	**(1 050 739)**

Gain from disposal of non-current assets amounted RUB 3 905 402 thousand is mainly represented by gain on sale of supermarkets business in the amount of RUB 4 645 203 thousand, described in note 8.

In 2016 loss from disposal of other non-current assets amounted RUB 568 004 thousand relating to stores and land plots in Moscow and other regions which the Group closed or disposed of during the year.

12 Personnel costs

'000 RUB	2017	2016
Wages and salaries	(10 263 659)	(10 706 956)
Social security contributions	(3 236 031)	(3 352 398)
Employee benefits	(1 093 169)	(1 100 248)
Other personnel costs	(1 026 264)	(1 025 471)
Total personnel costs	**(15 619 123)**	**(16 185 073)**

During the year ended 31 December 2017 the Group employed 23 thousand employees on average (2016: 25 thousand employees on average). Approximately 94% of employees are store and warehouse employees and the remaining part is office employees.

13 Finance income and finance costs

'000 RUB	2017	2016
Recognised in profit or loss		
Interest income on loans, receivables and bank deposits	113 467	264 891
Other finance income	772	16 740
Finance income	**114 239**	**281 631**
Interest costs on loans and borrowings	(3 585 772)	(3 497 546)
Reclassification from hedging reserve	52 857	(52 857)
Finance costs	**(3 532 915)**	**(3 550 403)**
Net finance costs recognised in profit or loss	**(3 418 676)**	**(3 268 772)**
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	**114 239**	**281 631**
Total interest expense on financial liabilities	**(3 532 915)**	**(3 550 403)**

'000 RUB	2017	2016
Recognised in other comprehensive income		
Change in fair value of hedges	(30 665)	79 428
Income tax on income and expense recognised in other comprehensive income	6 133	(15 885)
Finance income/(costs) recognised in other comprehensive income, net of tax	**(24 532)**	**63 543**

During 2017 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 243 571 thousand (2016: RUB 492 704 thousand).

In 2017 a capitalisation rate of 10.11% was used to determine the amount of borrowing costs eligible for capitalisation (2016: 11.24 %).

14 Foreign exchange (loss)/gain

During 2017 the Russian Rouble significantly fluctuated against the USD. Net foreign exchange loss recognized in profit and loss in the amount of RUB 376 375 thousand for the year ended 31 December

2017 (2016: loss RUB 145 973 thousand) mainly relates to USD-denominated payables. In 2017 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 2017, the share of USD-denominated borrowings in Group's debt was not significant. The Group's exposure to currency risk is disclosed in note 30.

15 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2016: 20%).

'000 RUB	**2017**	**2016**
Current tax expense	(1 065 737)	(1 182 854)
Deferred tax benefit	437 260	773 429
Total income tax expense	**(628 477)**	**(409 425)**

Income tax recognised directly in other comprehensive income

'000 RUB	**2017**			**2016**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Foreign currency translation differences	(80 668)	-	(80 668)	(118 246)	-	(118 246)
Change in fair value of hedges and reclassification from hedging reserve	(30 665)	6 133	(24 532)	79 428	(15 885)	63 543
	(111 333)	**6 133**	**(105 200)**	**(38 818)**	**(15 885)**	**(54 703)**

Reconciliation of effective tax rate:

'000 RUB	2017	2016
Profit before income tax	**3 795 390**	**271 635**
Income tax at applicable tax rate (2017: 20%, 2016: 20%)	(759 083)	(54 327)
Effect of income taxed at different rates	649 935	(33 110)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(97 870)	(94 522)
- Other non-deductible expenses	(91 096)	(101 470)
Tax withheld on dividends received from subsidiaries	(150 966)	(143 415)
Adjustments to current income tax for previous periods	(197 370)	7 601
Other items	17 973	9 818
Income tax (expense)/benefit for the year	**(628 477)**	**(409 425)**

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.

16 Investment property

(a) Reconciliation of carrying amount

'000 RUB		Investment property
Investment properties at fair value as at 1 January 2016		**564 000**
Expenditure on subsequent improvements		35 597
Fair value loss (unrealized)	11	(27 055)
Investment properties at fair value as at 31 December 2016		**572 542**
Investment properties at fair value as at 1 January 2017		**572 542**
Transfer from Property, plant and equipment	17	702 468
Fair value loss (unrealized)		(200 000)
Investment properties at fair value as at 31 December 2017		**1 075 010**

During the year ended 31 December 2017 the Group transferred from property, plant and equipment to investment property two buildings that were previously own-used and now held to earn rental income. As at 31 December 2017 Group's investment property comprises three buildings.

(b) Measurement of fair value

For one building with carrying amount of RUB 181 850 thousand as at 31 December 2017 the Group determined fair value using market approach based on most recent quoted prices.

For two remaining buildings the carrying amount of RUB 893 160 thousand as at 31 December 2017 is the fair value 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 appraisers used income approach for determining the fair value. Under income approach an estimate of annual net operating income was made which is mainly based on annual net rent rate of RUB 5 387 – 8 467 per sq. m. (2016: RUB 7 000 per sq. m.) and expected occupancy of 30% - 95% (2016: 93%) during the first year and 95-98% during following years. Discount rate of 13.7-14.4% (2016: 13%) was applied to discount future cash flows.

The fair value measurement of investment property has been categorised as a Level 2 (market approach) and Level 3 (income approach) fair value based on the inputs to the valuation technique used (see note 5).

17 Property, plant and equipment

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
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**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2017	**5 021 476**	**38 602 235**	**7 707 573**	**15 545 367**	**3 485 879**	**70 362 530**
Additions	53 106	10 539	-	998 789	2 820 278	3 882 712
Transfers	-	2 113 770	633 431	204 107	(2 951 308)	-
Classified as asset held for sale	-	-	(144 151)	(312 305)	-	(456 456)
Transfer to Investment property	-	(1 114 282)	-	-	-	(1 114 282)
Disposals	(140 106)	(1 605 877)	(887 694)	(1 507 618)	(41 674)	(4 182 969)
Balance at 31 December 2017	**4 934 476**	**38 006 385**	**7 309 159**	**14 928 340**	**3 313 175**	**68 491 535**
Depreciation and impairment losses						
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)**

'000 RUB	**Land**	**Buildings**	**Leasehold improvements**	**Machinery and equipment, auxiliary facilities and other fixed assets**	**Construction in progress**	**Total**
Balance at 1 January 2017	**-**	**(6 265 941)**	**(2 365 988)**	**(10 002 854)**	**-**	**(18 634 783)**
Depreciation for the year	-	(1 316 609)	(647 413)	(2 156 386)	-	(4 120 408)
Impairment losses		(271 640)	(7 534)	-	-	(279 174)
Classified as assets held for sale	-	-	43 657	219 192	-	262 849
Transfer to Investment property	-	411 814	-	-	-	411 814
Disposals	-	420 398	411 590	1 313 489	-	2 145 477
Balance at 31 December 2017	**-**	**(7 021 978)**	**(2 565 688)**	**(10 626 559)**	**-**	**(20 214 225)**
Carrying amounts						
At 1 January 2016	**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**
At 31 December 2017	**4 934 476**	**30 984 407**	**4 743 471**	**4 301 781**	**3 313 175**	**48 277 310**

Depreciation expense of RUB 4 120 408 thousand has been charged to selling, general and administrative expenses (2016: RUB 4 132 752 thousand).

During the year ended 31 December 2017 the Group transferred two buildings from Property, plant and equipment to Investment property following change in use of these properties. Before transfer to investment property, the Group performed impairment test for these buildings are recognized impairment loss in the amount of RUB 149 877 thousand.

As at 31 December 2017 the Group performed impairment test for low-performing stores and recognized an impairment loss of RUB 129 297 thousand (2016: RUB 434 370 thousand).

As at 31 December 2017 the Group determined recoverable amount of the stores being their value in use. Recoverable amount of the stores amounted to RUB 200 800 thousand and impairment loss amounted to RUB 73 116 thousand. Discount rate of 13.9% was applied to discount future cash flows.

Security

At 31 December 2017, 4 stores have been pledged to third parties as collateral for bank borrowings (2016: 4 stores). Refer to notes 28 and 33.

18 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**	**2017**	**2016**
Cost			
Balance at 1 January		**6 024 760**	**6 287 181**
Additions		107 695	36 000
Transfers to land		-	(140 565)
Disposals		(259 698)	(157 856)
Balance at 31 December		**5 872 757**	**6 024 760**
Amortisation and impairment losses			
Balance at 1 January		**(1 446 225)**	**(1 439 644)**
Amortisation charge		(144 140)	(174 640)
Transfers to land		-	13 248
Disposals		155 464	154 811
Balance at 31 December		**(1 434 901)**	**(1 446 225)**
Net book value		**4 437 856**	**4 578 535**

Amortisation of RUB 144 140 thousand has been charged to selling, general and administrative expenses (2016: RUB 174 640 thousand).

19 Intangible assets

'000 RUB	Software	Other intangible assets	Total
Cost			
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	**1 409 198**	**148 409**	**1 557 607**
Balance at 1 January 2017	**1 409 198**	**148 409**	**1 557 607**
Additions	499 154	46 676	545 830
Disposals	(168 723)	(4 359)	(173 082)
Balance at 31 December 2017	**1 739 629**	**190 726**	**1 930 355**
Amortisation and impairment losses			
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	**(618 525)**	**(45 979)**	**(664 504)**
Balance at 1 January 2017	**(618 525)**	**(45 979)**	**(664 504)**
Amortisation for the year	(323 022)	(25 602)	(348 624)
Disposals	40 435	3 446	43 881
Balance at 31 December 2017	**(901 112)**	**(68 135)**	**(969 247)**
Carrying amounts			
At 1 January 2016	**534 929**	**100 129**	**635 058**
At 31 December 2016	**790 673**	**102 430**	**893 103**
At 31 December 2017	**838 517**	**123 591**	**961 108**

Amortisation and impairment losses

Amortisation of RUB 348 624 thousand has been charged to selling, general and administrative expenses (2016: RUB 242 541 thousand).

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 RUB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Investment property	69 975	994	-	-	69 975	994
Property, plant and equipment	268 721	173 210	(893 233)	(974 315)	(624 512)	(801 105)
Construction in progress	-	-	(261 521)	(267 198)	(261 521)	(267 198)
Intangible assets	-	-	(94 649)	(126 179)	(94 649)	(126 179)
Other non-current assets	-	-	(102 825)	(101 467)	(102 825)	(101 467)
Inventories	500 080	602 017	-	(1 510)	500 080	600 507
Trade and other receivables and payables	294 154	615 767	(575 124)	(577 189)	(280 970)	38 578
Long-term investments	6 613	6 613	-	-	6 613	6 613
Tax loss carry-forwards	1 816 384	1 234 439	-	-	1 816 384	1 234 439
Tax assets/(liabilities)	**2 955 927**	**2 633 040**	**(1 927 352)**	**(2 047 858)**	**1 028 575**	**585 182**
Set off of tax	(1 038 355)	(1 355 767)	1 038 355	1 355 767	-	-
Net tax assets/(liabilities)	**1 917 572**	**1 277 273**	**(888 997)**	**(692 091)**	**1 028 575**	**585 182**

(b) Unrecognised deferred tax liability

As at 31 December 2017 a temporary difference of RUB 23 909 664 thousand (2016: RUB 23 979 879 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 was reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

(c) Recognised deferred tax asset on tax loss carried forward

Deferred tax asset recognised in respect of tax loss carried forward relates to losses accumulated by Group's subsidiary LLC Fresh Market that develops a discounter chain and does not yet generate profit. Russian tax legislation does not limit the period into which a tax loss can be carried forward.

The Group determined that future taxable profits will be available in foreseeable future against which accumulated losses can be utilized. In making this assessment the Group considered that according to the discounter chain's long-term budget tax losses accumulated as at 31 December 2017 will be utilized within 6 years after reporting date.

(d) Movement in temporary differences during the year

'000 RUB	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Investment property	994	68 981	-	69 975
Property, plant and equipment	(801 105)	176 593	-	(624 512)
Construction in progress	(267 198)	5 677	-	(261 521)
Intangible assets	(126 179)	31 530	-	(94 649)
Other non-current assets	(101 467)	(1 358)	-	(102 825)
Inventories	600 507	(100 427)	-	500 080
Trade and other receivables and payables	38 578	(325 681)	6 133	(280 970)
Long-term investments	6 613	-	-	6 613
Tax loss carry-forwards	1 234 439	581 945	-	1 816 384
	585 182	**437 260**	**6 133**	**1 028 575**

'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**

21 Other non-current assets

’000 RUB	2017	2016
Long-term prepayments to entities under control of shareholder group	906 496	894 175
Prepayments for property plant and equipment	613 421	769 210
Long-term deposits to lessors	297 535	339 295
	1 817 452	**2 002 680**

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 34.

22 Inventories

’000 RUB	2017	2016
Goods for resale	13 261 136	13 370 212
Raw materials and consumables	671 255	700 673
Write-down to net realisable value	(408 155)	(364 017)
	13 524 236	**13 706 868**

The Group tested the stock for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of stock by RUB 408 155 thousand as at 31 December 2017 (2016: RUB 364 017 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.

23 Trade and other receivables

'000 RUB	**2017**	**2016**
Trade receivables	449 882	545 464
VAT receivable	376 414	1 562 138
Prepaid taxes other than income tax	179 532	132 565
Prepaid income tax	46 814	14 282
Bonuses receivable from suppliers	1 732 884	3 081 243
Other receivables	818 629	535 318
Receivable from sale of supermarkets	6 671 686	-
	10 275 841	**5 871 010**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

24 Non-current assets held for sale

'000 RUB	**Leasehold improvements**	**Equipment**	**Total**
Balance at 1 January 2017	**-**	**-**	**-**
Transfer to assets held for sale	100 493	93 114	193 607
Disposals	-	(64 018)	(64 018)
Balance at 31 December 2017	**100 493**	**29 096**	**129 589**

Non-current assets held for sale represent property, plant and equipment of 4 supermarkets that will be disposed in 2018 (see note 8). These assets are measured at net book value which is lower than their fair value less costs to sell. The fair value measurement for assets held for sale has been categorized as a Level 2 fair value measurement and is based on the prices in the agreement with the buyer.

25 Cash and cash equivalents

'000 RUB	**2017**	**2016**
Cash on hand	235 348	417 766
Bank current account	1 203 654	589 988
Term deposits	4 145 533	8 240 763
Cash in transit	2 165 642	2 214 950
Cash and cash equivalents	**7 750 177**	**11 463 467**

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 30.

26 Equity

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

	Ordinary shares	
Number of shares unless otherwise stated	**2017**	**2016**
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 2017 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 2017 (2016: nil).

In January 2017 the Group paid interim dividends to shareholders in the amount of RUB 1 465 798 thousand (2016: RUB 1 472 411 thousand). Interim dividends paid were recognised as distribution to owners in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2017 amounted to RUB 5.5 (2016: RUB 5.5).

27 Earnings/(loss) per share

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary shareholders of RUB 3 166 913 thousand (2016: loss RUB 137 790 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.

Number of shares	**2017**	**2016**
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**

28 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 30.

'000 RUB	**2017**	**2016**
Non-current liabilities		
Secured bank loans	-	2 500 000
Unsecured bank facilities	19 466 346	23 000 000
Unsecured bonds	5 213 006	5 243 118
Unsecured loans from related parties	-	929 960
	24 679 352	**31 673 078**
Current liabilities		
Secured bank loans	1 600 000	2 500 000
Unsecured bank facilities	3 913 823	1 000 000
Unsecured bonds	5 030 112	962 410
Unsecured loans from related parties	883 096	-
Unsecured loans from third parties	2 850	2 850
Loans and borrowings	**11 429 881**	**4 465 260**
Unsecured bonds interest	213 776	146 904
Interest accrued on loans	18 121	9 966
Interest accrued on loans and borrowings	**231 897**	**156 870**
	11 661 778	**4 622 130**

As at 31 December 2017 loans and borrowings with carrying value of RUB 1 600 000 thousand were secured by property, plant and equipment (2016: RUB 5 000 000 thousand). Refer to note 33.

As at 31 December 2017 the Group has RUB 13 800 000 thousand (2016: RUB 15 800 000 thousand) of undrawn, committed borrowing facilities available in respect of which all conditions present had been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2017		31 December 2016	
'000 RUB	**Currency**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	RUB	2020 - 2021	10 243 118	10 243 118	6 205 528	6 205 528
Secured bank facility	RUB	2018	1 600 000	1 600 000	5 000 000	5 000 000
Unsecured bank facility	RUB	2018 - 2021	23 380 169	23 380 169	24 000 000	24 000 000
Unsecured loans from related parties	USD	2021	883 096	883 096	929 960	929 960
Unsecured loans from other companies	RUB	2018	2 850	2 850	2 850	2 850
			36 109 233	**36 109 233**	**36 138 338**	**36 138 338**

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 2017 and during the year then ended the Group complied with all loan covenants.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 RUB	Note	Loans and borrowings	Interest rate swap liability	Dividends payable	Total
Balance at 1 January 2017		**36 295 208**	**147 019**	**-**	**36 442 227**
Changes from financing cash flows					
Proceeds from loans and borrowings		7 685 500	-	-	7 685 500
Repayment of loans and borrowings		(7 663 017)	-	-	(7 663 017)
Interest paid		(3 655 488)	-	-	(3 655 488)
Dividends paid	26	-	-	(1 465 798)	(1 465 798)
Other financial payments		(25 140)	(63 200)	-	(88 340)
Total changes from financing cash flows		**(3 658 145)**	**(63 200)**	**(1 465 798)**	**(5 187 143)**
Other changes					
Accrued interests		3 766 143	63 200	-	3 829 343
Dividends declared		-	-	1 465 798	1 465 798
Reclassification from hedging reserve		-	(52 857)	-	(52 857)
Changes in fair value of hedge recognized in other comprehensive income		-	30 665	-	30 665
Effect of changes in foreign exchange rates		(62 076)	-	-	(62 076)
Total other changes		**3 704 067**	**41 008**	**1 465 798**	**5 210 873**
Balance at 31 December 2017		**36 341 130**	**124 827**	**-**	**36 465 957**

29 Trade and other payables

'000 RUB	2017	2016
Trade payables	25 946 694	29 374 499
Advances received	322 048	350 816
Taxes payable (other than income tax)	990 862	1 085 381
Payables to staff	1 216 184	1 339 925
Deferred income	106 275	99 489
Interest rate swap liability	124 827	147 019
Other current payables	147 841	83 763
	28 854 731	**32 480 892**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

30 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:

	Note	**Carrying amount**	
'000 RUB		**2017**	**2016**
Trade and other receivables	23	9 673 081	4 162 025
Cash and cash equivalents	25	7 750 177	11 463 467
		17 423 258	**15 625 492**

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 2017	Impairment 2017	Gross 2016	Impairment 2016
Not overdue and past due less than 90 days	9 496 464	-	4 045 013	-
Past due 90-180 days	39 160	-	43 875	-
Past due 181-360 days	63 386	-	36 658	-
More than 360 days	107 974	(33 903)	67 736	(31 257)
	9 706 984	**(33 903)**	**4 193 282**	**(31 257)**

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

'000 RUB	2017	2016
Balance at beginning of the year	31 257	29 277
Impairment loss recognised	2 646	1 980
Impairment loss reversed	-	-
Balance at end of the year	**33 903**	**31 257**

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 7 750 177 thousand at 31 December 2017 (2016: RUB 11 463 467 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:

2017

'000 RUB	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-5 yrs**
Non-derivative financial liabilities					
Secured bank loan	1 600 732	(1 702 265)	(415 805)	(1 286 460)	-
Unsecured bonds	10 457 192	(12 556 532)	(753 080)	(5 447 923)	(6 355 529)
Unsecured bank facilities	23 397 231	(28 089 592)	(2 267 729)	(3 727 947)	(22 093 916)
Unsecured loans from related parties	883 096	(900 516)	(900 516)	-	-
Unsecured loans from other companies	2 879	(2 878)	(2 878)	-	-
Trade and other payables	27 435 546	(27 435 546)	(27 435 546)	-	-
	63 776 676	**(70 687 329)**	**(31 775 554)**	**(10 462 330)**	**(28 449 445)**

As at 31 December 2017 Group's current liabilities exceed current assets by RUB 8 545 090 thousand (2016: RUB 5 892 343 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.

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)**

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.

(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**
	2017	**2016**
Trade and other receivables	2 025	1 760
Cash and cash equivalents	7 853	3 582
Unsecured loans from related parties	(883 096)	(929 960)
Trade and other payables	(439 046)	(176 595)
Gross exposure	**(1 312 264)**	**(1 101 213)**
Net exposure	**(1 312 264)**	**(1 101 213)**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date rate**	
Russian Rouble equals	**2017**	**2016**	**2017**	**2016**
USD	58,3529	67.0349	57.6002	60.6569

Sensitivity analysis

A 20% weakening of the RUB against USD at 31 December 2017 would have decreased equity and profit and loss by RUB (262 453) thousand (2016: RUB 220 243 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 2016.

A strengthening of the RUB against USD at 31 December 2017 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 2017, 7% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2016: 6%).

The Group uses swap to hedge its exposure to variability of interest rates. As at 31 December 2017 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 2017 fair value of swap liability was RUB 124 827 thousand (31 December 2016: RUB 147 018 thousand).

Profile

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

	Carrying amount	
'000 RUB	**2017**	**2016**
Fixed rate instruments		
Financial assets	4 145 533	8 240 763
Financial liabilities	(28 637 411)	(36 295 208)
Variable rate instruments		
Financial liabilities	(7 703 719)	-

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 2016.

	Profit or loss		**Equity**	
'000 RUB	**500 bp increase**	**500 bp decrease**	**500 bp increase**	**500 bp decrease**
2017				
Variable rate instruments	(385 000)	385 000	-	-
Interest rate swap	75 000	(75 000)	90 205	(102 946)
Cash flow sensitivity (net)	(310 000)	310 000	90 205	(102 946)
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)

(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 2017		
Gross amounts	1 155 608	2 641 689
Amounts offset in accordance with IAS 32 offsetting criteria	(65 665)	(65 665)
Net amounts presented in the statement of financial position	1 089 943	2 576 025
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1 083 445)	(1 083 445)
Net amount	**6 498**	**1 492 580**

	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**

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.

31 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 2017 RUB 5 901 883 thousand was recognised as an expense (including amortisation of Lease rights amounting to RUB 144 139 thousand) in the profit and loss in respect of operating leases (2016: RUB 5 518 550 thousand). Contingent rent recognised as an expense for the year ended 31 December 2017 amounted to RUB 241 081 thousand (2016: RUB 467 947 thousand).

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

RUB 000'	**2017**	**2016**
Less than one year	2 831 840	3 771 246
Between one and five years	11 119 850	14 239 837
More than five years	25 419 104	30 089 728
	39 370 794	**48 100 811**

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2017 RUB 1 738 525 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2016: RUB 1 620 671 thousand). All leases where the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 100 828 thousand for the year ended 31 December 2017 (2016: RUB 79 877 thousand). Contingent rent is determined as an excess of 4%-20% of the tenant's revenue over the fixed rent rate.

32 Capital commitments

The Group has capital commitments to acquire property, plant and equipment and intangible assets amounting to RUB 867 441 thousand as at 31 December 2017 (2016: RUB 1 078 308 thousand). The capital commitments mostly consist of construction contracts for stores.

33 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 1 300 million as at 31 December 2017.

(c) Assets pledged or restricted

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

'000 RUB	Note	2017	2016
Property, plant and equipment (carrying value)	17	2 471 050	2 529 768
Total		**2 471 050**	**2 529 768**

34 Related party transactions

(a) Major shareholders

As at 31.12.2017 the Company considers as its major shareholders Mr. Troitskii (indirectly holds 33.048%) and Mr. Volchek (indirectly holds 29.52%); Mr. Korzhev indirectly holds 11.73% shares of the Company.

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 12)

'000 RUB	**2017**	**2016**
Salaries and bonuses	339 537	359 436
Social security contributions	14 490	10 718
Long-service bonus	163 120	98 358
Other payments	6 900	7 500
	524 047	**476 012**

In addition members of Board of Directors received remuneration in the amount of RUB 48 531 thousand for the year ended 31 December 2017 (2015: RUB 59 942 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 2017**	**Transaction value 2016**	**Trade receivable 2017**	**Trade receivable 2016**
Services provided:				
Other related parties	2 402	2 225	289	94
	2 402	**2 225**	**289**	**94**

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 2017	Transaction value 2016	Prepayments 2017	Prepayments 2016
Other related parties	(831 117)	(788 700)	1 082 999	921 195
Including:				
Rental fee	(702 645)	(653 097)	-	-
Reimbursement of utilities	(57 771)	(73 197)	-	-
Reimbursement of other expenses	(70 701)	(62 406)	-	-
Other services received:				
Other related parties	(1 618)	(2 756)	3 608	2 143
Finance costs:				
Other related parties	(71 483)	(81 347)	-	-
	(904 218)	**(872 803)**	**1 086 607**	**923 338**

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 1 082 999 thousand as at 31 December 2017 comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 1 107 623 thousand and current liabilities for rent of hypermarkets in the amount of RUB 24 624 thousand. Long-term part of prepayments amounting to RUB 906 496 thousand is disclosed in note 21. 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 71 483 thousand for the year ended 31 December 2017 (2016: RUB 81 347 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Amount loaned 2017	Amount loaned 2016	Outstanding balance 2017	Outstanding balance 2016
Loans paid back:				
Other related parties	-	-	(883 096)	(929 960)

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

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

35 Events subsequent to the reporting date

In January 2018 the Group paid interim dividends to shareholders in the amount of RUB 1 883 083 thousand.

36 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.

37 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.

(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 interpretation not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, 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 standard will not have a significant impact on the Group's consolidated financial statements.

- 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 standard will not have a significant impact on the Group's consolidated financial statements.

- 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.

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

  IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

- Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.