

O'KEY GROUP S.A.

**Consolidated Financial Statements
for the year ended 31 December 2018 and
Independent Auditor's Report**

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Audit report

To the Shareholders of
O'KEY GROUP S.A.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, 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.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 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 No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are 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. We have fulfilled our other ethical responsibilities under those ethical requirements. To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

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The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 10 to the consolidated financial statements.

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Recognition of bonuses from suppliers

Refer to Notes 4 and 23 to the consolidated financial statements of the Group.

The Group receives various types of bonuses from suppliers relating to purchase of goods for resale. The bonuses are provided in the form of volume discounts, slotting fees and other counter payments. Recognition of these bonuses leads to a significant reduction to the cost of goods sold and inventory value. While the major portion of the bonuses is recognised and settled within the year, a material amount remains outstanding within trade and other receivables as at the reporting date.

Recognition of bonuses from suppliers was a matter of most significance in our audit because their impact on the Group's cost of goods sold, inventory and trade and other receivable balances is material, the number of underlying contracts with suppliers is large and their terms can be complex.

Our audit procedures to address the key audit matter included the following:

- Understanding and evaluation of design of relevant control activities that the Group has established in relation to recognition of bonuses from suppliers.
- Understanding and evaluation of the accounting policy applied by the Group for accounting for bonuses from suppliers.
- Reading significant contracts with suppliers and understanding if the Group complies with the conditions that entitle the Group to bonuses from suppliers.
- Retrospective analysis of prior year bonuses receivable against subsequent settlements to assess accuracy of Group's estimates in the current year.
- Analytical procedures over the accuracy and completeness of the bonuses recognised in the current year based on historical data.
- Detailed testing, on a sample basis, of bonuses recognised and settled during the year by agreeing to respective primary documentation.
- Agreeing bonuses receivable as at the reporting date to external confirmations obtained from suppliers on a sample basis, or alternative procedures through tracing the amounts recognised against underlying agreements and other relevant documentation.
- Independently recalculating the effect of reduction in the cost of inventories due to allocation of bonuses to unsold goods and comparing the results to those of Group.

Further, recognition of amounts receivable from suppliers as at the reporting date and allocation of the bonuses to cost of goods sold and the inventory balance requires a certain level of judgement by the Group, including that in relation to timing of fulfilment of the performance conditions that entitle the Group to the bonuses and evidence thereof.

- Confirming that accounting policy for offsetting of bonuses receivable from suppliers against trade payables is in line with IFRS and that the factual offsetting is in line with the accounting policy.
- Considering adequacy of disclosures of information about the bonuses from suppliers in the consolidated financial statements of the Group.

Non-current assets impairment assessment

Refer to Notes 4, 17, 18 and 19 to the consolidated financial statements of the Group.

As at 31 December 2018, the carrying value of the Group's non-current assets that are subject to impairment assessment under IAS 36 amounts to 54,537,169 thousand RUB, representing 64% of total assets. These non-current assets are primarily attributable to the Group's stores.

As at the reporting date, the Group assessed whether there is any indication that the carrying value of the non-current assets may not be recoverable and carried out an impairment testing for those individual assets or cash-generating units (CGUs) represented by individual stores where such indication was noted.

Impairment loss was identified in the impairment testing performed.

Our audit procedures to address the key audit matter included the following:

- We obtained understanding and evaluated the design of Group's relevant control activities around the impairment review.
- We also assessed whether the Group's approach to determination of CGUs and identification and use of the indicators that the Group's stores and other non-current assets may be impaired is reasonable.

For those significant CGUs where impairment indicators were identified, we assessed whether the value in use approach applied by the Group to determine recoverable amount is appropriate in the circumstances. We further obtained and analysed value in use calculations prepared by the Group for impairment testing.

Our audit procedures were carried out with the involvement of valuation experts and included:

- Reviewing the adequacy and consistency of methods applied to calculations, and the calculations' mathematical accuracy.
- Evaluating the reasonableness of the Group's key assumptions and forecasts in the prior period, in order to assess the accuracy of Group's forecasts for future periods.

This is one of key audit matters due to the magnitude of the carrying value of these non-current assets, judgement exercised by the Group in determining whether or not there are specific indicators of impairment and judgements made for the calculation of the value in use of these assets.

In addition, the observed volatility in the Russian retail market, increasing competition and changes in consumer behaviour heighten the uncertainty of accounting estimates and the risk of significant adjustments in future periods to the carrying value of the Group's non-current assets recognised in the consolidated financial statements.

- Verifying the appropriateness of budgets of the CGUs for projected periods used in the calculations through inquiries of management, corroborating management's explanations, examining supporting documentation and comparing inputs against available external industry data.
- Analysing and assessing in detail the key assumptions that significantly affect future cash flows of the CGUs and the discount rate applied by the Group to calculate the recoverable amount, by comparing it to the weighted-average cost of capital determined for the Group with due regard to its inherent risks.
- Performing sensitivity analyses of the results of Group's assessment to reasonably possible changes to key assumptions.
- Testing the presentation and disclosure of information about the impairment test as carried out by the Group in the consolidated financial statements of the Group for its consistency with requirements of IAS 36 and its adequacy in the context of the consolidated financial statements as a whole.

Recoverability of deferred tax assets recognised for the carryforward of unused tax losses

Refer to Notes 4 and 15 to the consolidated financial statements of the Group.

As at 31 December 2018, the carrying value of the Group's deferred tax assets amounts to 2,438,928 thousand RUB, including 2,357,531 thousand RUB arising on the accumulated tax losses carried forward by LLC Fresh Market that develops the Group's chain of discounter stores under the DA! brand starting from 2015.

The audit procedures we have performed to address the key audit matter with involvement of internal tax specialists consisted of the following:

- Understanding and evaluation of design of relevant control activities that the Group has in place in relation to recognition of current and deferred income taxes and long-term budget preparation.
- Comparing the Group's forecasts in the long-term budget prepared in prior year to actual performance to assess adequacy of Group's estimates in the current year.
- Assessing accuracy of the deferred tax calculations.
- Considering any limitations to the amount and timing of utilisation of the unused tax losses as established by the Russian tax legislation.



A deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Group performed the assessment of and concluded on the recoverability of the deferred tax assets. This analysis was based on the long-term financial projections for LLC Fresh Market, which includes estimates of future profits.

This area was significant to our audit because of the history of tax losses generated by LLC Fresh Market, the complexity and subjectivity of the assessment process, which is based on assumptions that are inherently uncertain and affected by the expected pace of new openings of the discounters. In addition, we considered increased uncertainty in the Russian retail market and other relevant factors.

- Obtaining the long-term budget prepared by the Group for LLC Fresh Market and challenging the expected future profits and assumptions regarding future earnings as reflected therein, including by comparing to actual results to date and industry trends.
- Analysing the treatment of differences between accounting and tax books in the planning of future taxable profit.
- Considering adequacy of disclosures on the deferred tax positions and assumptions used in assessing recoverability of the deferred tax assets from tax losses carryforward in the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information.

The other information comprises the information stated in the Annual report including the consolidated directors' report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report 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 identified above 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 that 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 an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 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 No 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 scepticism 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 the 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 audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the 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 audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

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

The Corporate Governance Statement is included in the consolidated directors' report. 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 have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the General Meeting of the Shareholders on 24 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.



Other matter

The Corporate Governance Statement includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 25 March 2019

A handwritten signature in black ink, appearing to be 'Gilles Vanderweyden', written over a horizontal line.

Gilles Vanderweyden

Consolidated Statement of Financial Position as at 31 December 2018

'000 RUB	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Investment property	16	1,047,000	1,075,010
Property, plant and equipment	17	43,770,640	44,964,135
Construction in progress	17	3,754,546	3,313,175
Lease rights	18	4,312,159	4,437,856
Intangible assets	19	1,294,214	961,108
Deferred tax assets	15	2,438,928	1,917,572
Other non-current assets	21	1,405,610	1,817,452
Total non-current assets		58,023,097	58,486,308
Current assets			
Inventories	22	13,684,473	13,524,236
Trade and other receivables	23	3,402,946	10,275,841
Prepayments	20	1,389,038	1,280,658
Other current assets		25,466	10,290
Cash and cash equivalents	25	8,712,253	7,750,177
Non-current assets held for sale	24	-	129,589
Total current assets		27,214,176	32,970,791
Total assets		85,237,273	91,457,099

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

Consolidated Statement of Financial Position as at 31 December 2018

'000 RUB	Note	31 December 2018	31 December 2017
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)
Retained earnings		12,200,119	15,025,513
Translation reserve		1,595,368	639,633
Total equity		22,481,181	24,250,979
Non-current liabilities			
Loans and borrowings	28	31,964,302	24,679,352
Deferred tax liabilities	15	679,921	888,997
Other non-current liabilities		112,047	121,890
Total non-current liabilities		32,756,270	25,690,239
Current liabilities			
Loans and borrowings	28	2,461,437	11,429,881
Interest accrued on loans and borrowings	28	97,364	231,897
Trade and other payables	29	26,861,848	28,854,731
Current income tax payable		579,173	999,372
Total current liabilities		29,999,822	41,515,881
Total liabilities		62,756,092	67,206,120
Total equity and liabilities		85,237,273	91,457,099

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

'000 RUB	Note	2018	2017
	5		Restated
Revenue	9	161,303,411	176,075,867
Cost of goods sold		(123,921,850)	(135,631,464)
Gross profit		37,381,561	40,444,403
General, selling and administrative expenses	10	(33,914,624)	(36,189,311)
Other operating income and expenses, net	11	95,045	3,335,349
Operating profit		3,561,982	7,590,441
Finance income	13	76,286	114,239
Finance costs	13	(3,192,959)	(3,532,915)
Foreign exchange (loss)	14	(1,141,353)	(376,375)
(Loss)/profit before income tax		(696,044)	3,795,390
Income tax benefit/(expense)	15	96,289	(628,477)
(Loss)/profit for the year		(599,755)	3,166,913
Other comprehensive income/(loss)			
<i>Items that will never be reclassified to profit or loss:</i>			
Exchange differences on translation to presentation currency		609,117	(80,668)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Change in fair value of hedges and reclassification from hedging reserve	13	124,826	(30,665)
Income tax on items within other comprehensive income	15	(24,965)	6,133
Other comprehensive income/(loss) for the year, net of income tax		708,978	(105,200)
Total comprehensive income for the year		109,223	3,061,713
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share (in RUB per share)	27	(2.2)	11.8

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

'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
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		-	-	-	(30,665)	-	-	(30,665)
Income tax on items within other comprehensive income		-	-	-	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 declared	26	-	-	-	-	(1,465,798)	-	(1,465,798)
Total transactions with owners recorded directly in equity		-	-	-	-	(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

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2018		119,440	10,597	8,555,657	(99,861)	15,025,513	639,633	24,250,979
Comprehensive income for the year								
Loss for the year		-	-	-	-	(599,755)	-	(599,755)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	609,117	609,117
Change in fair value of hedges and reclassification from hedging reserve	13	-	-	-	124,826	-	-	124,826
Income tax on items within other comprehensive income		-	-	-	(24,965)	-	-	(24,965)
Reclassification within equity		-	-	-	-	(346,618)	346,618	-
Total other comprehensive income		-	-	-	99,861	(346,618)	955,735	708,978
Total comprehensive income for the year		-	-	-	99,861	(946,373)	955,735	109,223
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Dividends declared	26	-	-	-	-	(1,879,021)	-	(1,879,021)
Total transactions with owners recorded directly in equity		-	-	-	-	(1,879,021)	-	(1,879,021)
Balance at 31 December 2018		119,440	10,597	8,555,657	-	12,200,119	1,595,368	22,481,181

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

Consolidated Statement of Cash Flows for the year ended 31 December 2018

'000 RUB	Note	2018	2017
Cash flows from operating activities			
Cash receipts from customers		185,385,687	202,566,776
Other cash receipts		1,021,735	497,880
Interest received		54,545	104,391
Cash paid to suppliers and employees		(177,167,778)	(194,385,579)
Taxes other than on income		(859,009)	(672,429)
Other cash payments		(80,216)	(125,740)
VAT paid		(2,513,869)	(2,182,232)
Income tax paid		(1,079,307)	(928,829)
Net cash from operating activities		4,761,788	4,874,238
Cash flows from investing activities			
Purchase of property, plant and equipment and lease rights (excluding VAT)		(3,150,785)	(3,112,061)
Purchase of other intangible assets (excluding VAT)		(470,989)	(439,980)
Proceeds from sale of supermarkets (excluding VAT)	8	7,069,951	-
Proceeds from sale of property, plant and equipment and intangible assets (excluding VAT)		31,084	186,870
Net cash from/(used in) investing activities		3,479,261	(3,365,171)
Cash flows from financing activities			
Proceeds from loans and borrowings	28	15,006,000	7,685,500
Repayment of loans and borrowings	28	(16,896,776)	(7,663,017)
Interest paid	28	(3,337,810)	(3,655,488)
Dividends paid	26	(1,879,021)	(1,465,798)
Other financial payments		(140,850)	(88,340)
Net cash used in financing activities		(7,248,457)	(5,187,143)
Net increase/(decrease) in cash and cash equivalents		992,592	(3,678,076)
Cash and cash equivalents at beginning of the year	25	7,750,177	11,463,467
Effect of exchange rate fluctuations on cash and cash equivalents		(30,516)	(35,214)
Cash and cash equivalents at end of the year	25	8,712,253	7,750,177

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 15 to 71.

1 Background

(a) The Group and its operations

These consolidated financial statements for the year ended 31 December 2018 have been prepared for O'KEY GROUP S.A. (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company is a public limited company (société anonyme) and was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Company does not have an immediate parent or an ultimate controlling party.

As at 31 December 2018 and 2017, the Company's major indirect shareholders are Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2018 and 2017, as well as throughout the years then ended, 38.172% of the Company's shares were admitted to trading on the London Stock Exchange in the form of global depositary receipts ("GDRs").

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

The Group's principal business activity is operation of retail chains in Russia under the brand names "O'KEY" (hypermarkets) and "Da!" (discounter stores). At 31 December 2018 the Group operated 160 stores including 82 discounter stores (31 December 2017: 149 stores including 67 discounter stores) in major Russian cities, including but not limited to Moscow and Moscow region, 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 which displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and 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 economy continued to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Refer to Note 30.

2 Basis of preparation

(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 under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through profit or loss (“FVTPL”).

These consolidated financial statements were authorised for issue by the Board of Directors on 25 March 2019.

Any changes to these consolidated financial statements after issue require approval of the Board of Directors.

3 Functional and presentation currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the US Dollar (“USD”) and the functional currency of the Group’s Russian subsidiaries is the Russian Rouble (“RUB”). The consolidated financial statements are presented in RUB, which is the Group’s presentation currency. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at the date of transaction;
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2018 the principal rates of exchange used for translating foreign currency balances were USD 1 = RUB 69.4706; EUR 1 = RUB 79.4605 (31 December 2017: USD 1 = RUB 57.6002; EUR 1 = RUB 68.8668).

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:

4 Use of estimates and judgments (Continued)

Tax legislation. The Group is subject to taxation in several jurisdictions. The major part of the tax burden refers to the Russian tax legislation, which is subject to varying interpretations when being applied to the transactions and activities of the Group. Significant judgement is required in determining whether the tax positions and interpretations the Group has taken can be sustained. Refer to Note 33.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of goods sold 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 calculation and allocation of the bonuses to inventory cost has some element of judgement.

Determination of recoverable amount of non-current assets. For those non-current assets 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 assessment performed as at 31 December 2018 refer to Notes 17, 18 and 19.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax asset on tax losses of LLC Fresh Market, the Group's entity that develops a discounter chain and does not yet generate profit. The Group performs analysis of future taxable profit to cover the accumulated tax losses on the basis of the long-term budget for the entity. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the long-term budget. Refer to Note 15.

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 New and amended standards and interpretations adopted by the Group

A number of new standards, amendments to standards and interpretations became effective from 1 January 2018, including the following:

IFRS 9 "Financial Instruments". The Group adopted IFRS 9 from 1 January 2018. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group elected not to restate comparative figures and to recognise any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, "Financial Instruments: Disclosures", have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year. The significant new accounting policies applied in the current period and those applied prior to 1 January 2018 as applicable to the comparative information are described in Note 36.

The adoption of the new standard from 1 January 2018 resulted in changes in the Group's accounting policies but did not have a significant impact on the amounts recognised in the consolidated financial statements, so no adjustments in the opening retained earnings were recorded.

5 New and amended standards and interpretations adopted by the Group (Continued)

On 1 January 2018, the date of initial application of IFRS 9, the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. Based on the analysis performed, the financial assets previously classified into 'loans and receivables' ("L&R") measurement category under IAS 39, as represented by all classes of cash and cash equivalents disclosed in Note 25 and all financial assets within trade and other receivables disclosed in Note 23, were reclassified into those measured at amortised cost ("AC") under IFRS 9 at the adoption of the standard, with no impact on their measurement. The changes in classification categories did not result in changes of presentation in the consolidated statement of financial position. At 31 December 2017, all of the Group's non-derivative financial liabilities were carried at AC. There were no changes to the classification and measurement of financial liabilities. No retrospective adjustments were required in relation to the Group's loans and borrowings, as none of the loans and borrowings outstanding on 1 January 2018 had been refinanced in prior periods. The expected credit losses ("ECL") for cash and cash equivalents balances were insignificant. The provision for impairment of receivables as of 31 December 2017 measured under IAS 39 in the amount of RUB 33,903 thousand (Note 30) approximates the credit loss allowance at 1 January 2018 measured under IFRS 9.

IFRS 15 "Revenue from Contracts with Customers". The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies outlined in Note 36 and adjustments to the amounts recognised in the consolidated statement of profit or loss and other comprehensive income. In accordance with the transition provisions in IFRS 15, the Group has elected full retrospective method of transition without using the practical expedient for completed contracts and contract modifications and restated comparatives for 2017. Since there is no effect of the retrospective application of IFRS 15 on the information presented in the consolidated statement of financial position as of 1 January 2018 and 1 January 2017, the third statement of financial position as of 1 January 2017 is not presented.

Outlined in the following table are effects from the adoption of IFRS 15 on the consolidated profit or loss amounts for the year ended 31 December 2017 presented as comparatives in these consolidated financial statements:

'000 RUB	Year ended 31 December 2017 – as originally presented	Reclassifications	Year ended 31 December 2017 – as restated
Revenue	177,454,848	(1,378,981)	176,075,867
Cost of goods sold	(137,010,445)	1,378,981	(135,631,464)

The above impact resulted from the Group's analysis of its revenue streams with reference to the detailed guidance on application of the revenue recognition principles outlined in IFRS 15. In a view of more precise definition of revenue recognition criteria, in particular in respect of counter services to counterparties, the Group reconsidered its approach for accounting treatment of advertising income and now accounts for such income consistently with treatment of bonuses from suppliers and records them as a reduction to cost of goods purchased. The Group believes that the new approach also closely aligns to the industry practice and will aid comparability. Prior to this change in the policy, the Group presented income from advertising services within revenue.

The following amended standards and interpretations also became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment";
- Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts";

5 New and amended standards and interpretations adopted by the Group (Continued)

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28;
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”;
- Amendments to IAS 40 – “Transfers of Investment Property”.

6 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The CODM has been determined as the CEO of the Group and the Board of Directors of the Company.

The Group is engaged in management of retail stores located in the Russian Federation. Although the Group is not exposed to concentration of sales to individual customers, all of the Group's sales are made 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 CODM to analyse performance and allocate resources within the Group.

The Group has two operating segments that also represent 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 the Russian Federation, prior to its sale in December 2017 – April 2018, as disclosed in Note 8);
- Da! – chain of discounter stores in Moscow and Central region.

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

All business components within each reportable segment 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 centralised;
- the components' activities are mainly limited to Russia which has a uniform regulatory environment.

The CODM assesses the performance of the operating segments based on revenue and earnings before interest, tax, depreciation and amortisation adjusted for certain one-off items outlined below (“EBITDA”). The “EBITDA” term is not defined in IFRS. Other information provided to the CODM 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 the accounting policies applied for the consolidated financial statements (Note 36).

Basis of segmentation used in these consolidated financial statements is consistent with that used in the prior year.

6 Segment information (Continued)

The segment information for the years ended 31 December 2018 and 31 December 2017 is as follows:

'000 RUB	Note	O'Key		Da!		Total	
		2018	2017	2018	2017	2018	2017
External revenue							
- Sales of trading stock		139,793,834	157,032,677	13,558,958	10,282,160	153,352,792	167,314,837
- Sales of self-produced catering products		6,027,584	7,022,505	-	-	6,027,584	7,022,505
Revenue from contracts with customers		145,821,418	164,055,182	13,558,958	10,282,160	159,380,376	174,337,342
Rental income		1,866,148	1,688,373	56,887	50,152	1,923,035	1,738,525
Total revenue	9	147,687,566	165,743,555	13,615,845	10,332,312	161,303,411	176,075,867
EBITDA		10,415,634	11,358,589	(1,771,626)	(2,023,596)	8,644,008	9,334,993

6 Segment information (Continued)

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

'000 RUB	Note	2018	2017
EBITDA		8,644,008	9,334,993
Revaluation of investment property	11, 16	(50,142)	(200,000)
Gain from disposal of non-current assets	11	127,209	3,905,402
Impairment of non-current assets	11	(368,585)	(279,174)
Loss from write-off of receivables	11	(22,883)	(436,256)
Impairment of receivables	11	(28,048)	(3,625)
Depreciation and amortisation	10	(4,367,254)	(4,613,172)
Finance income	13	76,286	114,239
Finance costs	13	(3,192,959)	(3,532,915)
Foreign exchange loss	14	(1,141,353)	(376,375)
Net loss generated by sold supermarkets until cessation of their operations		(159,298)	-
Other expenses		(213,025)	(117,726)
(Loss)/profit before income tax		(696,044)	3,795,390
Income tax benefit/(expense)	15	96,289	(628,477)
(Loss)/profit for the year		(599,755)	3,166,913

7 Principal subsidiaries

Details of the Company's significant subsidiaries at 31 December 2018 and 31 December 2017, all wholly owned and registered in the Russian Federation, are as follows:

Subsidiary	Nature of operations
LLC O'KEY	Retail
LLC Fresh Market	Retail and real estate
JSC Dorinda	Real estate
LLC O'KEY group	Managing company
LLC O'KEY Logistics	Import operations

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 comprised a series of transactions. Total consideration according to the agreement was 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 recognised in 2017 respective income 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.

8 Sale of supermarkets (Continued)

The remaining 4 stores were transferred to the buyer in April 2018 and respective income in the amount of RUB 545,000 thousand was recognised in 2018. 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 208,985 thousand.

RUB 7,069,951 thousand of the total consideration net of VAT were settled by the buyer in cash in 2018, and the remaining balance of RUB 120,686 thousand outstanding as at 31 December 2018 is due in 2019 in accordance with the agreement terms and is included in trade and other receivables (Note 23).

9 Revenue

'000 RUB	Note	2018	2017
	5		Restated
Sales of goods for resale		153,352,792	167,314,837
Sales of self-produced catering products		6,027,584	7,022,505
Revenue from contracts with customers		159,380,376	174,337,342
Rental income		1,923,035	1,738,525
Total revenue		161,303,411	176,075,867

Disaggregated information about revenue from contracts with customers by operating segment is presented in Note 6.

10 General, selling and administrative expenses

'000 RUB	Note	2018	2017
Personnel costs	12	14,067,602	15,619,123
Operating leases	31	5,425,712	5,757,744
Depreciation and amortisation	17, 18, 19	4,367,254	4,613,172
Communication and utilities		3,503,234	3,525,377
Advertising and marketing		2,011,700	2,115,888
Repairs and maintenance costs		1,230,022	1,253,737
Insurance and bank commission		816,606	818,668
Operating taxes		802,929	730,401
Security expenses		736,473	869,282
Legal and professional expenses		629,781	520,419
Materials and supplies		294,030	329,541
Other costs		29,281	35,959
Total general, selling and administrative expenses		33,914,624	36,189,311

10 General, selling and administrative expenses (Continued)

Fees billed to the Group by PricewaterhouseCoopers, Société coopérative, the Company's incumbent independent auditors, and affiliated companies thereof during the year ended 31 December 2018, and the fees billed to the Group by KPMG Luxembourg Societe coopérative, the Company's predecessor independent auditors, and other member firms of the KPMG network during the year ended 31 December 2017 are as follows:

'000 RUB	2018	2017
Fees for statutory audit of annual and consolidated accounts	14,517	12,988
Fees charged for other assurance services	4,027	4,259
Fees charged for tax advisory services	9,090	2,458
Fees charged for other non-audit services	3,700	-
Total auditors' remuneration	31,334	19,705

11 Other operating income and expenses, net

'000 RUB	Note	2018	2017
Net gain from disposal of non-current assets		127,209	3,905,402
Impairment of non-current assets	17, 18	(368,585)	(279,174)
Loss from write-off of receivables		(22,883)	(436,256)
Impairment of receivables		(28,048)	(3,625)
Loss from revaluation of investment property	16	(50,142)	(200,000)
Sundry income and expense, net		437,494	349,002
Total other operating income and expenses, net		95,045	3,335,349

Net gain from disposal of non-current assets for the year ended 31 December 2018 includes gain on sale of the supermarkets business in the amount of RUB 336,015 thousand (2017: gain of RUB 4,645,203 thousand) described in Note 8, and loss on disposal of other non-current assets in the amount of RUB 208,806 thousand (2017: loss of RUB 739,801 thousand).

12 Personnel costs

'000 RUB	2018	2017
Wages and salaries	8,959,215	9,701,832
Social security contributions	2,872,502	3,236,031
Bonuses to personnel	1,259,695	1,654,997
Other employee benefits	976,190	1,026,263
Total personnel costs	14,067,602	15,619,123

During the year ended 31 December 2018 the Group employed ca. 20 thousand employees on average (2017: ca. 23 thousand employees on average). Approximately 95% of the employees (2017: 94% of the employees) are store and warehouse employees and the remaining part is office employees.

13 Finance income and finance costs

'000 RUB	2018	2017
Recognised in profit or loss		
Interest income on bank deposits	69,313	113,467
Other finance income	6,973	772
Total finance income	76,286	114,239
Interest expense on loans and borrowings	(3,166,730)	(3,585,772)
Finance costs on interest rate swap contracts	(26,229)	52,857
Total finance costs	(3,192,959)	(3,532,915)
Net finance costs recognised in profit or loss	(3,116,673)	(3,418,676)

The above finance income and costs are entirely attributable to financial assets and liabilities not at fair value through profit or loss, except for those arising on interest rate swap contracts.

In 2018, the Group discontinued hedge accounting and recycled the cumulative loss of RUB 124,826 thousand from other comprehensive income to profit or loss.

During 2018 the Group has capitalised borrowing costs in the amount of RUB 208,013 thousand (2017: RUB 243,571 thousand) arising on financing directly attributable to the construction of the Group's new stores. The capitalisation rate was 9.97% (2017: 10.11%).

14 Foreign exchange loss

The Group's risk management policy is to receive loans and borrowings in the same currency in which revenues are generated (RUB). As at 31 December 2018, the share of the Group's USD-denominated loans and borrowings did not exceed 5% of total loans and borrowings. Major amount of foreign exchange differences is caused by intragroup USD-denominated loans. The Group's exposure to currency risk is disclosed in Note 30.

In 2018 the Group did not use hedging instruments to hedge foreign exchange risks.

15 Income tax**Income tax recognised in profit or loss**

'000 RUB	2018	2017
Current tax expense	(659,108)	(1,065,737)
Deferred tax benefit	755,397	437,260
Total income tax benefit/(expense)	96,289	(628,477)

15 Income tax (Continued)

Reconciliation between the tax benefit/(expense) and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2018 and 2017 income is 20%, the income tax rate established by the Russian tax legislation. A reconciliation between the expected and the actual taxation benefit/charge is provided below.

'000 RUB	2018	2017
(Loss)/profit before income tax	(696,044)	3,795,390
Theoretical income tax at applicable tax rate of 20%	139,209	(759,083)
Effect of income taxed at different rates	82,337	649,935
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(85,927)	(97,870)
- Other non-deductible expenses	(12,421)	(91,096)
Tax withheld on dividends received from subsidiaries	-	(150,966)
Adjustments to current income tax for previous periods	(19,428)	(197,370)
Other items	(7,481)	17,973
Income tax benefit/(expense) for the year	96,289	(628,477)

Adjustments to current income tax for previous periods for 2018 and 2017 primarily relate to additional charges following completed tax inspections covering previous years.

Deferred tax assets and liabilities

(a) Deferred taxes in respect of subsidiaries

The Group has not recorded a deferred tax liability in respect of temporary differences of RUB 25,453,488 thousand (31 December 2017: RUB 23,909,664 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. If the temporary difference reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

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

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

Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The 10-year expiry period for tax loss carry-forwards that was in effect prior to 2017 no longer applies, and the accumulated tax losses can now be carried forward for utilisation in future periods without any time limitation, with exception of limitation on utilisation of tax loss carry forwards that applies during the period from 2017 to 2020. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit.

15 Income tax (Continued)

(b) Recognised deferred tax asset on tax loss carried forward (Continued)

The Group determined that future taxable profits will be available in the foreseeable future against which the accumulated losses can be utilised. In making this assessment the Group considered that according to the discounter chain's long-term budget the tax losses accumulated as at 31 December 2018 will be utilised in full by 2025. Key assumptions in the discounter chain's long-term budget covering 2019-2025 are annual expansion of up to 30 new discounters per year, double digit annual growth in revenue and gradual decrease of share of expenses due to economies of scale. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to these key assumptions in the long-term budget.

(c) Movement in temporary differences during the year

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

'000 RUB	1 January 2018	Recognised in profit or loss	Recycled from other comprehensive income	31 December 2018
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
Investment property	69,975	10,028	-	80,003
Property, plant and equipment	(624,512)	(287,020)	-	(911,532)
Construction in progress	(261,521)	263	-	(261,258)
Intangible assets	(94,649)	(20,456)	-	(115,105)
Other non-current assets	(102,825)	27,494	-	(75,331)
Inventories	500,080	(102,086)	-	397,994
Trade and other receivables and payables	(280,970)	586,027	(24,965)	280,092
Long-term investments	6,613	-	-	6,613
Tax loss carry-forwards	1,816,384	541,147	-	2,357,531
Net deferred tax assets	1,028,575	755,397	(24,965)	1,759,007
Recognised deferred tax assets	1,917,572			2,438,928
Recognised deferred tax liabilities	(888,997)			(679,921)

15 Income tax (Continued)

(c) Movement in temporary differences during the year (Continued)

'000 RUB	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
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
Net deferred tax assets	585,182	437,260	6,133	1,028,575
Recognised deferred tax assets	1,277,273			1,917,572
Recognised deferred tax liabilities	(692,091)			(888,997)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

16 Investment property

(a) Reconciliation of carrying amount

'000 RUB	Note	
Investment properties at fair value as at 1 January 2017		572,542
Transfer from owner occupied premises	17	702,468
Fair value gains less losses	11	(200,000)
Investment properties at fair value as at 31 December 2017		1,075,010
Investment properties at fair value as at 1 January 2018		1,075,010
Expenditure on subsequent improvements		22,132
Fair value gains less losses	11	(50,142)
Investment properties at fair value as at 31 December 2018		1,047,000

16 Investment property (Continued)

(a) Reconciliation of carrying amount (Continued)

As at 31 December 2018 the Group's investment property comprises three buildings (31 December 2017: three buildings).

During the year ended 31 December 2017 the Group transferred two buildings that were previously owned and are now held to earn rental income from property, plant and equipment to investment property.

(b) Measurement of fair value

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuator who has recent experience in valuing similar properties in the Russian Federation.

The carrying values of investment properties at 31 December 2018 and 31 December 2017 agree to the valuations reported by the external valutors with the use of a combination of the market approach with reference to comparable prices for orderly transactions with similar properties and the income approach with reference to estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value with reference to the income approach are those relating to: the annual net rent rate of RUB 2,511 – 16,281 per sq. m. (31 December 2017: RUB 5,387 – 8,467 per sq. m.); expected occupancy of 15% – 95% during the first year (31 December 2017: 30% – 95%) and 92.9 – 95% in the following years (31 December 2017: 95% – 98%); and appropriate discount rate of 11.4% – 14.5% (31 December 2017: 13.7% – 14.4%).

These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

The fair value measurement of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

17 Property, plant and equipment and construction in progress

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
<i>Cost</i>							
Balance at 1 January 2017	5,021,476	38,602,235	7,707,573	15,545,367	66,876,651	3,485,879	70,362,530
Additions	53,106	10,539	-	998,789	1,062,434	2,820,278	3,882,712
Transfers	-	2,113,770	633,431	204,107	2,951,308	(2,951,308)	-
Reclassification to assets held for sale (Note 24)	-	-	(144,151)	(312,305)	(456,456)	-	(456,456)
Transfer to investment property (Note 16)	-	(1,114,282)	-	-	(1,114,282)	-	(1,114,282)
Disposals	(140,106)	(1,605,877)	(887,694)	(1,507,618)	(4,141,295)	(41,674)	(4,182,969)
Balance at 31 December 2017	4,934,476	38,006,385	7,309,159	14,928,340	65,178,360	3,313,175	68,491,535

17 Property, plant and equipment and construction in progress (Continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Balance at 1 January 2018	4,934,476	38,006,385	7,309,159	14,928,340	65,178,360	3,313,175	68,491,535
Additions	15,487	18,131	-	1,148,013	1,181,631	2,686,878	3,868,509
Transfers	39,568	940,242	719,511	372,890	2,072,211	(2,072,211)	-
Disposals	(14,472)	(81,720)	(117,748)	(791,250)	(1,005,190)	(173,296)	(1,178,486)
Balance at 31 December 2018	4,975,059	38,883,038	7,910,922	15,657,993	67,427,012	3,754,546	71,181,558
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2017	-	(6,265,941)	(2,365,988)	(10,002,854)	(18,634,783)	-	(18,634,783)
Depreciation for the year	-	(1,316,609)	(647,413)	(2,156,386)	(4,120,408)	-	(4,120,408)
Impairment losses	-	(271,640)	(7,534)	-	(279,174)	-	(279,174)
Reclassification to assets held for sale (Note 24)	-	-	43,657	219,192	262,849	-	262,849
Transfer to investment property (Note 16)	-	411,814	-	-	411,814	-	411,814
Disposals	-	420,398	411,590	1,313,489	2,145,477	-	2,145,477
Balance at 31 December 2017	-	(7,021,978)	(2,565,688)	(10,626,559)	(20,214,225)	-	(20,214,225)

17 Property, plant and equipment and construction in progress (Continued)

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Balance at 1 January 2018	-	(7,021,978)	(2,565,688)	(10,626,559)	(20,214,225)	-	(20,214,225)
Depreciation for the year	-	(1,282,196)	(609,582)	(1,970,791)	(3,862,569)	-	(3,862,569)
Impairment losses	-	(351,195)	(17,390)	-	(368,585)	-	(368,585)
Disposals	-	63,423	57,321	668,263	789,007	-	789,007
Balance at 31 December 2018	-	(8,591,946)	(3,135,339)	(11,929,087)	(23,656,372)	-	(23,656,372)
<i>Net book value</i>							
At 1 January 2017	5,021,476	32,336,294	5,341,585	5,542,513	48,241,868	3,485,879	51,727,747
At 31 December 2017	4,934,476	30,984,407	4,743,471	4,301,781	44,964,135	3,313,175	48,277,310
At 31 December 2018	4,975,059	30,291,092	4,775,583	3,728,906	43,770,640	3,754,546	47,525,186

Depreciation expense of RUB 3,862,569 thousand has been charged to selling, general and administrative expenses (2017: RUB 4,120,408 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. At the date of transfer, the Group determined fair value of these buildings and recognised related fair value loss in the amount of RUB 149,877 thousand.

17 Property, plant and equipment and construction in progress (Continued)

Impairment assessment

At the end of each reporting period, the Group assesses whether there is any indication that its non-current assets including property, plant and equipment, lease rights and other non-current assets may be impaired. Where the non-current assets relate to the Group's stores, these stores are treated as separate CGUs, and impairment assessment is performed in respect of the aggregate carrying value of the non-current assets attributable to these CGUs.

For the CGUs subject to impairment testing, recoverable amount was determined based on value-in-use calculations using cash flow projections based on financial budgets and forecasts approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an expected growth rate for each particular CGU which depends on its maturity and other relevant factors. The discount rates are pre-tax and reflect management's estimate of the risks specific to the Group.

As the result of the impairment test performed as at 31 December 2018, the Group recognised an impairment loss in the amount of RUB 368,585 thousand, primarily in respect of mature low-performing CGUs, including RUB 314,000 thousand in O'Key segment and RUB 54,585 thousand in Da! segment. The impairment loss was entirely attributable to property, plant and equipment. The total recoverable amount of the impaired CGUs determined based on value in use amounted to RUB 1,722,306 thousand.

The post-tax discount rate used in the assessment was 14,1%. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the CGUs had been 1% higher than management's estimates, the Group would need to recognise additional impairment of property, plant and equipment of RUB 120,375 thousand.

Pledged assets

At 31 December 2018, 4 stores with carrying value of RUB 2,338,054 thousand have been pledged to third parties as collateral for bank borrowings (31 December 2017: 4 stores were pledged with carrying value of RUB 2,471,050 thousand).

18 Lease rights

Lease rights include rights for favourable operating leases of land and premises acquired in business combinations, key money paid to incumbent tenants and other costs directly attributable to obtaining the leases.

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

18 Lease rights (Continued)

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

'000 RUB	Land lease	Lease of premises	Total
<i>Cost</i>			
Balance at 1 January 2017	5,120,643	904,117	6,024,760
Additions	107,695	-	107,695
Disposals	(153,720)	(105,978)	(259,698)
Balance at 31 December 2017	5,074,618	798,139	5,872,757
Balance at 1 January 2018	5,074,618	798,139	5,872,757
Additions	49,103	-	49,103
Transfer	(43,695)	-	(43,695)
Balance at 31 December 2018	5,080,026	798,139	5,878,165
<i>Amortisation and impairment losses</i>			
Balance at 1 January 2017	(1,140,670)	(305,555)	(1,446,225)
Amortisation for the year	(110,275)	(33,865)	(144,140)
Disposals	49,487	105,977	155,464
Balance at 31 December 2017	(1,201,458)	(233,443)	(1,434,901)
Balance at 1 January 2018	(1,201,458)	(233,443)	(1 434 901)
Amortisation for the year	(73,508)	(32,895)	(106,403)
Transfer to property, plant and equipment upon purchase of assets previously leased	4,553	-	4,553
Other	(29,255)	-	(29,255)
Balance at 31 December 2018	(1,299,668)	(266,338)	(1,566,006)
<i>Carrying amounts</i>			
At 1 January 2017	3,979,973	598,562	4,578,535
At 31 December 2017	3,873,160	564,696	4,437,856
At 31 December 2018	3,780,358	531,801	4,312,159

Amortisation of RUB 106,403 thousand has been charged to selling, general and administrative expenses (2017: RUB 144,140 thousand).

Lease rights are assessed for indication of potential impairment as at each reporting date. For those assets, where impairment indicators exist, the Group estimates recoverable amount being higher of its value in use and fair value less cost of disposal, on either individual asset or CGU level. No indicators of impairment were identified for the Group's lease rights that represent individual assets and do not relate to stores in operation as at 31 December 2018 and 2017. For those lease rights that relate to the Group's stores and are therefore assessed for impairment on the store level together with the other non-current assets attributable to the stores, impairment assessment has been performed as disclosed in Note 17. No impairment attributable to the lease rights was identified as at 31 December 2018 and 2017.

19 Intangible assets

'000 RUB	Software	Other intangible assets	Total
<i>Cost</i>			
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
Balance at 1 January 2018	1,739,629	190,726	1,930,355
Additions	729,922	13,948	743,870
Disposals	(723,886)	(23,427)	(747,313)
Balance at 31 December 2018	1,745,665	181,247	1,926,912
<i>Amortisation and impairment losses</i>			
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)
Balance at 1 January 2018	(901,112)	(68,135)	(969,247)
Amortisation for the year	(367,045)	(31,237)	(398,282)
Disposals	711,643	23,188	734,831
Balance at 31 December 2018	(556,514)	(76,184)	(632,698)
<i>Carrying amounts</i>			
At 1 January 2017	790,673	102,430	893,103
At 31 December 2017	838,517	122,591	961,108
At 31 December 2018	1,189,151	105,063	1,294,214

Amortisation of RUB 398,282 thousand has been charged to selling, general and administrative expenses (2017: RUB 348,624 thousand).

No indicators of impairment were identified for the Group's intangible assets as at 31 December 2018 and 2017.

20 Prepayments

'000 RUB	Note	31 December 2018	31 December 2017
Prepayments for lease to entities under control of shareholder group	34	353,232	201,127
Prepayments for goods		369,365	251,540
Prepayments for services		312,440	292,206
Prepayments for lease – third parties		249,496	394,050
Other prepayments		104,505	141,735
Total prepayments		1,389,038	1,280,658

21 Other non-current assets

'000 RUB	Note	31 December 2018	31 December 2017
Prepayments for lease to entities under control of shareholder group	34	733,254	906,496
Prepayments for non-current assets		280,711	613,421
Long-term deposits to lessors		391,645	297,535
Total other non-current assets		1,405,610	1,817,452

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	31 December 2018	31 December 2017
Goods for resale	13,415,173	13,261,136
Raw materials and consumables	777,487	671,255
Write-down to net realisable value	(508,187)	(408,155)
Total inventories	13,684,473	13,524,236

The Group tested the inventories for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of inventories by RUB 508,187 thousand as at 31 December 2018 (31 December 2017: RUB 408,155 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.

23 Trade and other receivables

'000 RUB	31 December 2018	31 December 2017
Financial assets within trade and other receivables		
Trade receivables	416,038	449,882
Bonuses receivable from suppliers	1,818,948	1,732,884
Other financial receivables	348,931	818,629
Receivables from sale of supermarkets (Note 8)	120,686	6,671,686
Total financial assets within trade and other receivables	2,704,603	9,673,081
Other trade and other receivables		
VAT receivable	528,326	376,414
Prepaid taxes other than income tax	125,542	179,532
Prepaid income tax	44,475	46,814
Total trade and other receivables	3,402,946	10,275,841

The Group's exposure to credit and currency risks and credit loss allowance as at 31 December 2018 / impairment loss allowance as at 31 December 2017 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
Disposals	(100,493)	(29,096)	(129,589)
Balance at 31 December 2018	-	-	-

Non-current assets held for sale as at 31 December 2017 represented property, plant and equipment of 4 supermarkets that were disposed in 2018 (see Note 8). These assets were measured at net book value which was lower than their fair value less costs of disposal. The fair value measurement for assets held for sale has been categorised 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	31 December 2018	31 December 2017
Cash on hand	236,175	235,348
Bank current accounts	4,172,848	1,203,654
Term deposits	2,570,420	4,145,533
Cash in transit	1,732,810	2,165,642
Total cash and cash equivalents	8,712,253	7,750,177

Term deposits had original maturities of less than three months.

The Group's exposure to currency risk related to cash and cash equivalents is disclosed in Note 30.

26 Equity

As at 31 December 2018 and 31 December 2017, the Group's authorised, issued and fully paid share capital of RUB 119,440 thousand, the RUB equivalent of EUR 2,691 thousand, is represented by 269,074,000 ordinary shares with a par value of 0.01 EUR each. Each share is entitled to one vote, except as may be otherwise provided by the Articles of incorporation or by applicable law.

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. As at 31 December 2018 and 2017, the legal reserve was formed in full.

Additional paid-in capital represents the excess of contributions received over par value of shares issued. There were no movements in additional paid-in capital during the years ended 31 December 2018 and 31 December 2017.

In January 2018 the Company declared and paid interim dividends to shareholders in the amount of RUB 1,879,021 thousand (USD 33,276 thousand) (2017: RUB 1,465,798 thousand (USD 24 666 thousand)). Dividends declared were recognised as distribution to owners in the consolidated statement of changes in equity. Dividends per share for the year ended 31 December 2018 amounted to RUB 7.0 (USD 0.1) (2017: RUB 5.5 (USD 0.1)).

27 (Loss)/earnings per share

Basic (loss)/earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted (loss)/earnings per share equals the basic (loss)/earnings per share.

(Loss)/earnings per share is calculated as follows:

'000 RUB	2018	2017
(Loss)/profit for the year	(599,755)	3,166,913
Weighted average number of ordinary shares in issue (thousands)	269,074	269,074
Basic and diluted (loss)/earnings per ordinary share (in RUB per share)	(2.2)	11.8

28 Loans and borrowings

'000 RUB	Currency	31 December 2018		31 December 2017	
		Maturity	Carrying value	Maturity	Carrying value
Non-current loans and borrowings					
Secured bank loans	RUB	2025	4,500,000	-	-
Unsecured bank facilities	RUB	2020-2023	22,200,000	2019-2021	19,466,346
Unsecured bonds	RUB	2020-2021	5,264,302	2020-2021	5,213,006
Total non-current loans and borrowings			31,964,302		24,679,352
Current loans and borrowings					
Secured bank loans	RUB		-	2018	1,600,000
Unsecured bank facilities	RUB	2019	1,393,500	2018	3,913,823
Unsecured bonds	RUB		-	2018	5,030,112
Unsecured loans from related parties (Note 34)	USD	On demand	1,065,087	On demand	883,096
Unsecured loans from third parties	RUB	2019	2,850	2018	2,850
Total current loans and borrowings			2,461,437		11,429,881
Unsecured bonds interest	RUB		83,844		213,776
Interest accrued on loans	RUB		13,520		18,121
Interest accrued on loans and borrowings			97,364		231,897
Total current loans and borrowings, including interest accrued			2,558,801		11,661,778
Total loans and borrowings			34,523,103		36,341,130

Information about property, plant and equipment pledged as collateral for the Group's loans and borrowings is disclosed in Note 17.

As at 31 December 2018 the Group had RUB 12,206,500 thousand (31 December 2017: RUB 13,800,000 thousand) of undrawn committed borrowing facilities available in RUB on fixed and floating rate basis until March 2019-November 2022 in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

During 2013 – 2017 the Group placed unsecured bonds on Moscow exchange bearing coupon rates of 8.9% – 11.7% p.a. Total amount of the bonds outstanding as at 31 December 2018 is RUB 5,264,302 thousand (31 December 2017: RUB 10,243,118 thousand). Holders of the bonds in the amount of RUB 5,000,000 thousand issued in April 2016 and maturing in April 2021 had an option to claim early repayment in October 2018, which was fully exercised.

28 Loans and borrowings (Continued)

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 waive their rights to demand early redemption.

At 31 December 2018 and 31 December 2017 and during the years then ended the Group complied with all its loan covenants.

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

The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

'000 RUB	Note	Loans and borrowings	Interest rate swap liability (Note 29)	Dividends payable	Total
Balance at 1 January 2018		36,341,130	124,827	-	36,465,957
Cash flows from financing activities					
Proceeds from loans and borrowings		15,006,000	-	-	15,006,000
Repayment of loans and borrowings		(16,896,776)	-	-	(16,896,776)
Interest paid		(3,337,810)	-	-	(3,337,810)
Dividends paid	26	-	-	(1,879,021)	(1,879,021)
Other financial payments		(140,850)	-	-	(140,850)
Total cash flows from financing activities		(5,369,436)	-	(1,879,021)	(7,248,457)
Non-cash changes					
Accrued interest		3,374,743	-	-	3,374,743
Dividends declared	26	-	-	1,879,021	1,879,021
Changes in fair value of interest rate swap	29	-	(98,598)	-	(98,598)
Effect of changes in foreign exchange rates		176,666	-	-	176,666
Total non-cash changes		3,551,409	(98,598)	1,879,021	5,331,832
Balance at 31 December 2018		34,523,103	26,229	-	34,549,332

28 Loans and borrowings (Continued)**(a) Reconciliation of movements of liabilities to cash flows arising from financing activities (Continued)**

'000 RUB	Note	Loans and borrowings	Interest rate swap liability (Note 29)	Dividends payable	Total
Balance at 1 January 2017		36,295,208	147,019	-	36,442,227
Cash flows from financing activities					
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 cash flows from financing activities		(3,658,145)	(63,200)	(1,465,798)	(5,187,143)
Non-cash changes					
Accrued interests		3,766,143	63,200	-	3,829,343
Dividends declared	26	-	-	1,465,798	1,465,798
Reclassification from hedging reserve		-	(52,857)	-	(52,857)
Changes in fair value of hedge recognised in other comprehensive income		-	30,665	-	30,665
Effect of changes in foreign exchange rates		(62,076)	-	-	(62,076)
Total non-cash 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	31 December 2018	31 December 2017
Financial liabilities at AC		
Trade payables	24,238,896	25,946,694
Other financial payables	271,175	147,841
Total financial liabilities at AC	24,510,071	26,094,535
Financial liabilities at FVTPL		
Interest rate swap liability	26,229	124,827
Total financial liabilities at FVTPL	26,229	124,827
Payables to staff	1,171,213	1,216,184
Taxes payable other than income tax	690,035	990,862
Advances received from lessors	373,395	322,048
Contract liability related to gift cards	90,905	106,275
Total trade and other payables	26,861,848	28,854,731

All of the Group's contract liabilities relate to contracts with customers for periods of less than one year. RUB 106,275 thousand of revenue was recognised in the current reporting period related to the contract liabilities as at 1 January 2018, all of which related to gift cards.

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

30 Financial risk management

(a) Overview

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

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.

30 Financial risk management (Continued)

(a) Overview (Continued)

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 cash and cash equivalents, trade receivables and bonuses receivable.

(i) Exposure to credit risk

The carrying amounts of financial assets in the consolidated statement of financial position represent the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		31 December 2018	31 December 2017
Trade and other receivables	23	2,704,603	9,673,081
Cash and cash equivalents	25	8,476,078	7,514,829
Total		11,180,681	17,187,910

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 creditworthiness.

(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 services. Usually the Group provides advertising services to suppliers of goods sold in the Group's stores. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants. Other receivables are primarily represented by bonuses receivable from suppliers.

Credit loss allowance

The Group adopted IFRS 9 "Financial Instruments" that introduces the expected credit loss (ECL) measurement from 1 January 2018. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

30 Financial risk management (Continued)

(b) Credit risk (Continued)

(ii) Trade and other receivables (Continued)

To measure the expected credit losses for trade and other receivables, those have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The ECL for bonuses receivable from suppliers is determined on portfolio level based on historical default percentages applied to the total amount of bonuses receivable from suppliers, adjusted to reflect relevant current and forward-looking information.

The credit loss allowance as at 31 December 2018 determined with the use of provision matrix is summarised in the table below.

'000 RUB	<u>Gross amount</u>	<u>Lifetime ECL</u>	<u>Carrying amount</u>
Trade receivables	431,619	(15,581)	416,038
Bonuses receivable from suppliers	1,873,767	(54,819)	1,818,948
Other financial receivables	355,191	(6,260)	348,931
Total	2,660,577	(76,660)	2,583,917

Impairment loss allowance as at 31 December 2017

Prior to adoption of IFRS 9, the Group was establishing an allowance for impairment under IAS 32 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.

The ageing of trade and other receivables as at 31 December 2017 was:

'000 RUB	<u>Gross amount</u>	<u>Impairment loss allowance</u>
Not overdue and less than 90 days overdue	9,496,464	-
90-180 days overdue	39,160	-
181-360 days overdue	63,386	-
More than 360 days overdue	107,974	(33,903)
Total financial assets within trade and other receivables	9,706,984	(33,903)

30 Financial risk management (Continued)

(b) Credit risk (Continued)

(ii) Trade and other receivables (Continued)

The movement in the allowance for impairment in respect of trade and other receivables during 2017 was as follows:

'000 RUB	2017
Balance at 1 January	31,257
Allowance for impairment during the year	2,646
Balance at 31 December	33,903

(iii) Cash and cash equivalents

The Group assesses credit risk for cash and cash equivalents based on external ratings that are available publicly. 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 Net Debt / EBITDA ratio should not exceed 4.0, where Net Debt is the total of long-term and short-term loans and borrowings less cash and cash equivalents as presented in the consolidated financial statements;
- 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 table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows may differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

30 Financial risk management (Continued)**(c) Liquidity risk (Continued)****(i) Exposure to liquidity risk (Continued)**

31 December 2018

'000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years
Financial liabilities at AC					
Secured bank loans	4,502,160	6,338,722	197,640	198,720	5,942,362
Unsecured bonds	5,348,146	6,485,121	331,926	254,482	5,898,713
Unsecured bank facilities	23,604,828	28,377,991	2,390,294	975,150	25,012,547
Unsecured loans from related parties	1,065,087	1,107,340	1,107,340	-	-
Unsecured loans from third parties	2,882	2,882	32	2,850	-
Trade and other payables	24,510,071	24,510,071	24,510,071	-	-
Financial liabilities at FVTPL					
Interest rate swap	26,229	26,229	26,229	-	-
Total	59,059,403	66,848,356	28,563,532	1,431,202	36,853,622

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RUB 2,785,646 thousand (31 December 2017: RUB 8,545,090 thousand). An excess of current liabilities over current assets is usual for the retail industry. The Group uses excess of trade and other payables over inventory to finance its investing activities. The Group has reviewed its cash flow forecasts in the context of current and projected market conditions, as well as available undrawn credit facilities disclosed in Note 28, and is confident that it will be able to meet its obligations as they fall due.

31 December 2017

'000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years
Non-derivative financial liabilities					
Secured bank loans	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	2,879	2,879	-	-
Trade and other payables	26,094,535	26,094,535	26,094,535	-	-
Derivative financial instruments					
Interest rate swap	124,827	124,827	41,143	57,455	26,229
Total	62,560,492	69,471,146	30,475,687	10,519,785	28,475,674

30 Financial risk management (Continued)

(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. Management sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(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.

Exposure to currency risk

The Group's exposure to currency risk in relation to the USD, the major foreign currency for the Group's Russian subsidiaries, was as follows based on notional amounts:

'000 RUB	31 December 2018	31 December 2017
Trade and other receivables	11,064	2,025
Cash and cash equivalents	26,108	7,853
Unsecured loans from related parties	(1,065,087)	(883,096)
Trade and other payables	(387,766)	(439,046)
Total	(1,415,681)	(1,312,264)

Sensitivity analysis

A 20% weakening/strengthening of the RUB against the USD at 31 December 2018 would have decreased/increased equity and profit or loss by RUB 283,136 thousand (2017: decrease/increase would comprise RUB 262,453 thousand). This analysis was performed only for USD denominated monetary balances of the Group's entities whose functional currency is the RUB and 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 2017.

30 Financial risk management (Continued)

(d) Market risk (Continued)

(ii) Interest rate risk

The Group has material exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Profile

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

'000 RUB	31 December 2018	31 December 2017
Fixed rate instruments		
Cash and cash equivalents	6,743,268	5,349,187
Loans and borrowings	(29,519,373)	(28,637,411)
Variable rate instruments		
Loans and borrowings	(5,003,730)	(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 2017.

'000 RUB	Profit or loss		Equity	
	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
31 December 2018				
Variable rate instruments	(250,186)	250,186	-	-
Cash flow sensitivity (net)	(250,186)	250,186	-	-
31 December 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)

30 Financial risk management (Continued)

(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 consolidated statement of financial position. This is because, while generally there is an intention to settle on net basis, 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, unless otherwise stated in the agreement.

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 2018		
Gross amounts before offsetting	5,755,557	27,561,025
Amounts offset	(3,050,954)	(3,050,954)
Net amounts presented in the consolidated statement of financial position	2,704,603	24,510,071
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,597,344)	(1,597,344)
Net amount	1,107,259	22,912,727
'000 RUB	Trade and other receivables	Trade and other payables
31 December 2017		
Gross amounts before offsetting	11,701,014	28,122,468
Amounts offset	(2,027,933)	(2,027,933)
Net amounts presented in the consolidated statement of financial position	9,673,081	26,094,535
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,604,183)	(1,604,183)
Net amount	8,068,898	24,490,352

The net amounts presented in the consolidated 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 comprise mainly trade payables for goods and bonuses receivable from suppliers.

30 Financial risk management (Continued)

(f) 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 capitalised as initial cost of land lease and are amortised over the period of the lease (typically 49 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 for 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 2018 RUB 5,532,115 thousand was recognised as an expense (including amortisation of lease rights amounting to RUB 106,403 thousand) in profit or loss in respect of operating leases (2017: RUB 5,901,884 thousand, including amortisation of lease rights amounting to RUB 144,140 thousand). Contingent rent recognised as an expense for the year ended 31 December 2018 amounted to RUB 178,385 thousand (2017: RUB 241,081 thousand).

The future minimum lease payments under non-cancellable operating leases were as follows:

RUB 000'	31 December 2018	31 December 2017
Less than one year	3,078,471	2,831,840
Between one and five years	10,962,334	11,119,850
More than five years	22,927,867	25,419,104
Total operating lease commitments	36,968,672	39,370,794

31 Operating leases (Continued)

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2018 RUB 1,923,035 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2017: RUB 1,738,525 thousand). All leases where the Group is the lessor are cancellable.

The Group has contingent rent arrangements. The contingent rent recognised as income amounted to RUB 105,196 thousand for the year ended 31 December 2018 (2017: RUB 100,828 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, mostly relating to construction of stores, and intangible assets amounting to RUB 659,616 thousand as at 31 December 2018 (31 December 2017: RUB 867,441 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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, the management is of the opinion that no material losses will be incurred in respect of claims outstanding.

(b) Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis. Management has implemented internal controls to comply with this transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged.

33 Contingencies (Continued)

(b) Tax contingencies (Continued)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group applies its judgement in interpretations of such uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities.

Impact of any of the challenges mentioned above cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, management estimates that as at 31 December 2018, the Group has other possible obligations of approximately RUB 1,900,000 thousand (31 December 2017: RUB 1,300,000 thousand) from exposure to other than remote tax risks arising from certain transactions. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

34 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties of the Group fall into the following categories:

1. The Company's major indirect shareholders (see Note 1);
2. Other related parties under control of the major indirect shareholders;
3. Members of the Board of Directors of the Company and other key management personnel.

34 Related party transactions (Continued)

(a) Transactions with key management personnel

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

'000 RUB	2018	2017
<i>Short-term employee benefits:</i>		
Salaries and short-term bonuses	396,575	339,537
Social security contributions	13,767	14,490
Other short-term payments	3,600	6,900
<i>Long-term employee benefits:</i>		
Long-term service bonus	38,000	163,120
Total	451,942	524,047

In addition, members of the Company's Board of Directors received remuneration in the amount of RUB 59,341 thousand for the year ended 31 December 2018 (2017: RUB 48,531 thousand) which is included in legal and professional expenses.

There are no commitments and contingent obligations towards key management personnel.

(b) Transactions with other related parties

(i) Revenue

'000 RUB	Income		Receivables	
	2018	2017	31 December 2018	31 December 2017
Sale of services	2,910	2,402	579	289
Total revenue	2,910	2,402	579	289

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

34 Related party transactions (Continued)**(b) Transactions with other related parties (Continued)****(ii) Expenses**

'000 RUB	Expense		Prepayments	
	2018	2017	31 December 2018	31 December 2017
Lease of premises, including:	(833,368)	(831,117)	1,094,483	1,082,999
- Rental fee	(713,458)	(702,645)		
- Reimbursement of utilities	(62,464)	(57,771)		
- Reimbursement of other expenses	(57,446)	(70,701)		
Other services received	(40,273)	(1,618)	7,484	3,608
Finance costs	(77,287)	(71,483)	-	-
Total expenses	(950,928)	(904,218)	1,101,967	1,086,607

The outstanding balances above, 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 or impaired.

The outstanding balance of RUB 1,094,483 thousand as at 31 December 2018 (31 December 2017: RUB 1,082,999 thousand) comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 1,086,486 thousand (31 December 2017: RUB 1,107,623 thousand) and current assets for rent of hypermarkets in the amount of RUB 7,997 thousand (31 December 2017: RUB 26,624 thousand). Long-term part of the prepayments amounting to RUB 733,254 thousand as at 31 December 2018 (31 December 2017: 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.

(iii) Loans received

'000 RUB	31 December 2018	31 December 2017
Loans received	1,065,087	883,096

The loans from other related parties are denominated in USD, bear interest at 8% per annum and are payable on demand but not later than 2021. There were no movements in the loans received from related parties, except for the foreign exchange gain in the amount of RUB 181,991 thousand in 2018 (2017: foreign exchange loss amounted to RUB 46,864 thousand).

35 Fair value disclosures

Fair value measurements are analysed and categorised by level in the fair value hierarchy as follows:

- (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Financial instruments carried at fair value. Interest swaps are carried in the consolidated statement of financial position at their fair value. Fair value of the swaps 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).

(b) Non-recurring fair value measurements

Fair value of the investment property is updated by the Group annually on 31 December applying the income approach and market approach. Refer to Note 16.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value was determined by the Group for initial recognition of financial assets and liabilities which are subsequently measured at amortised cost.

Fair value of the Group's financial assets and liabilities measured at amortised cost approximates their carrying amounts. Fair value of the Group's bonds listed on Moscow Exchange was determined for disclosure purposes based on active market quotations (Level 1 fair value). Fair value of the Group's other financial assets and liabilities at amortised cost belongs to level 2 measurements in the fair value hierarchy.

36 Significant accounting policies

Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, the principal accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

36 Significant accounting policies (Continued)

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. 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 gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the cost cannot be recovered.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

(b) Foreign currency

(i) *Foreign currency transactions and balances*

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as a separate line item.

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain 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.

36 Significant accounting policies (Continued)

(b) Foreign currency (Continued)

(ii) Foreign operations (Continued)

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 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.

(c) Financial instruments – accounting policies since 1 January 2018

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

Non-derivative financial instruments represented by cash and cash equivalents and trade and other receivables are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

(ii) Non-derivative financial assets – classification and subsequent measurement

All of the Group's non-derivative financial assets belong to the AC measurement category. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (“SPPI”).

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

36 Significant accounting policies (Continued)

(c) Financial instruments – accounting policies since 1 January 2018 (Continued)

(ii) *Non-derivative financial assets – classification and subsequent measurement (Continued)*

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(iii) *Financial assets impairment – credit loss allowance for ECL*

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

(iv) *Financial assets – write-off*

Non-derivative financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(v) *Financial assets – derecognition*

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(vi) *Financial liabilities – measurement categories*

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments, if any.

36 Significant accounting policies (Continued)

(c) Financial instruments – accounting policies since 1 January 2018 (Continued)

(vii) *Financial liabilities – derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(viii) *Non-derivative financial assets – measurement*

The Group's non-derivative financial assets are represented by trade and other receivables and cash and cash equivalents and are classified as measured subsequently at amortised cost. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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 consolidated statement of cash flows.

(ix) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

36 Significant accounting policies (Continued)

(c) Financial instruments – accounting policies since 1 January 2018 (Continued)

(x) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

(xi) Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

(xii) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

(xiii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

(xiv) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

(d) Financial instruments – accounting policies before 1 January 2018

(i) Financial instruments

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

36 Significant accounting policies (Continued)

(d) Financial instruments – accounting policies before 1 January 2018 (Continued)

(ii) *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.

(iii) *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.

(iv) *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.

(v) *Derivative financial instruments*

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.

36 Significant accounting policies (Continued)**(d) Financial instruments – accounting policies before 1 January 2018 (Continued)****(v) Derivative financial instruments (Continued)**

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 consolidated 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.

(e) Financial assets impairment – impairment loss allowance

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.

36 Significant accounting policies (Continued)

(f) Transactions with owners

(i) *Ordinary shares/share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital in equity.

(ii) *Distributions to owners/contributions from owners*

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

(g) Property, plant and equipment and construction in progress

(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 operating income and expense" 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*

Land and construction in progress are not depreciated. Other 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.

36 Significant accounting policies (Continued)**(g) Property, plant and equipment and construction in progress (Continued)****(iii) Depreciation (Continued)**

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.

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; |
| • 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.

(h) 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. Properties that are mainly occupied by the Group and insignificant portion of which is leased out to third parties mainly for offering additional customer service are presented within property, plant and equipment.

Investment property, including assets under construction for future use as investment property, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss within other operating income and expenses. 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 the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same 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 deemed cost for subsequent accounting.

Earned rental income is recorded in profit or loss for the year within revenue.

36 Significant accounting policies (Continued)

(i) 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 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.

(j) 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 lease term.

(ii) *Lease rights*

Where the Group incurs initial direct costs to negotiate and enter into new leases, such as key money payments to incumbent tenants, or where rights for favourable operating leases are acquired in business combinations, such costs are capitalised as lease rights and amortised using straight-line method over the lease term being up to 49 years for lease of land and up to 8-19 years for lease of premises. If the Group subsequently acquires the asset previously leased, the carrying amount of the related lease rights is reclassified into property, plant and equipment and included in the cost of the asset acquired.

36 Significant accounting policies (Continued)

(j) Leased assets (Continued)

(iii) 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.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving weighted 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.

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, 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 of disposal. 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.

36 Significant accounting policies (Continued)

(m) Employee benefits

(i) Short-term employee benefits

Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are measured on an undiscounted basis and accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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.

(ii) Long-term employee benefits

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

(n) 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 a finance cost.

(o) Revenue

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of VAT, returns and discounts.

(i) Revenue from contracts with customers

Revenue from contracts with customers is represented by retail sales of goods for resale and self-produced catering products.

Revenue from sale of goods and self-catering products is recognised when control of the goods and products has transferred to the customer, normally for the retail customers it is occurred in the store at the point of sale. No element of financing is deemed present, as payment of the transaction price is due immediately.

In accordance with the Russian consumer protection legislation, the customers have the right of return of goods in a range of categories within 14 days after the purchase. Such estimated returns are assessed at each reporting date. Based on historical data about returns, it is probable that a significant reversal in the cumulative revenue recognised will not occur.

36 Significant accounting policies (Continued)

(o) Revenue (Continued)

(i) Revenue from contracts with customers (Continued)

Gift cards issued by the Group are recorded as a contract liability within trade and other payables upon sale when prepaid by customers until they are redeemed or expire.

The Group does not operate any loyalty program where customers accumulate award points for purchases made which entitle them to discount on future purchases.

From time to time, the Group holds promotional campaigns where the Group provides discount coupons to the customers that purchase goods with total value above a pre-determined amount. The discount coupons entitle the customers to a free purchase or a discount on selected goods immediately after the campaign ends. Such coupons represent a material right to the customers and give rise to a separate performance obligation to deliver the customers additional goods. The total transaction price is allocated on the portfolio basis to the initial and the additional performance obligations on a relative stand-alone selling price basis. Revenue attributable to the performance obligation not yet satisfied at the reporting date is recognised as a contract liability within trade and other payables until the right of the customers to obtain additional goods is realised or expires.

(ii) Rental income

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 recognised 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.

(p) Cost of goods sold

Cost of goods sold 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, slotting fees and counter services to suppliers directly related to the purchases made. These bonuses decrease the cost of inventory and are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of goods sold.

(q) 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, if any. 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.

36 Significant accounting policies (Continued)

(r) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with the respective legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they are recognised in other comprehensive income or directly in equity because they relate to transactions that are also recognised, in the same accounting period, in other comprehensive income or directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Taxes other than on income are recorded within general, selling and administrative expenses.

Deferred tax is recognised in respect of tax loss carried forward and 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 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, therefore deferred tax assets and liabilities are offset only within the individual companies of the Group.

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.

36 Significant accounting policies (Continued)

(s) Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of participating shares outstanding during the year.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Operating segments whose revenue, results or assets are ten percent or more of all the segments are reported separately.

(u) 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 has not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

(v) Presentation of the consolidated 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" within cash flows from operating activities.

(w) New accounting pronouncements

Certain new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board (IASB) and adopted by the European Union that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 "Leases". The Group will adopt the standard from 1 January 2019 with modified retrospective application and the practical expedients detailed below. IFRS 16 introduces a single lease accounting model, requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Thus, most leases classified as operating leases with lease payments recorded in the consolidated statement of profit or loss and other comprehensive income under the existing policy will be included in the consolidated statement of financial position.

The new treatment of leases will result in an increase in non-current assets and financial liabilities as these leases are capitalised as well as a decrease in lease expenses, offset by an increase in amortisation and an increase in finance charges. This will result in a higher operating profit. The amortisation charge is constant over the lease term, but finance charges decrease as the remaining lease liability decreases, resulting in a smaller increase of net profit in the early part of a lease arrangement and a larger positive profit impact towards the end of the contract.

36 Significant accounting policies (Continued)

(w) New accounting pronouncements (Continued)

Cash generated from operations is expected to increase due to certain lease expenses no longer being recognised as operating cash outflows, but this will be offset by a corresponding increase in cash used in financing activities due to repayments of the principal on lease liabilities. Net cash flow will remain unchanged.

Some lease agreements of the Group are short-term in nature and not individually material in value. The Group has elected to apply a practical expedient which excludes lease agreements which are short-term in nature and not individually material in value from being classified as leases in terms of IFRS 16.

The Group has also elected to adopt the transitional practical expedient such that the IFRS 16 definition of a lease would only be applied to assess whether contracts entered into after the date of initial application (1 January 2019) are, or contain leases. All contracts previously assessed not to contain leases are not revisited.

Lease rights currently presented as a separate item in the consolidated statement of financial position are in substance payments made to take over the Group's leases, and as such meet the definition of initial direct costs. The Group elected not to apply the practical expedient available in IFRS 16 for the modified retrospective approach that allows to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and therefore the carrying value of lease rights as at 1 January 2019 will be derecognised and adjust the carrying amount of the right-of-use asset by a corresponding amount.

The Group's assessment of the impact of adopting this standard is in the process of being finalised, but the estimated range of potential impact on the Group's total assets and liabilities is to increase them by approximately RUB 34 billion +/-5%.

The following new amendments to standards and interpretations issued by the IASB and adopted by the European Union that are mandatory for the annual periods beginning on or after 1 January 2019 or later, are not expected to affect significantly the Group's consolidated financial statements:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

A number of new standards and amendments to standards have also been issued by the IASB that have not yet been endorsed by the European Union:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued by the IASB on 11 September 2014);
- IFRS 17 "Insurance Contracts" (issued by the IASB on 18 May 2017);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued by the IASB on 12 October 2017);
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued by the IASB on 12 December 2017);

36 Significant accounting policies (Continued)

(w) New accounting pronouncements (Continued)

- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued by the IASB on 7 February 2018);
- Amendments to the Conceptual Framework for Financial Reporting (issued by the IASB on 29 March 2018);
- Definition of a business – Amendments to IFRS 3 (issued by the IASB on 22 October 2018);
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued by the IASB on 31 October 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements when adopted by the European Union and become effective for the Group.

