Consolidated financial statements

PJSC Dixy Group and its subsidiaries

for 2016

with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
PJSC Dixy Group

Opinion

We have audited the consolidated financial statements of PJSC Dixy Group and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill

Goodwill represents 18% of total assets or 61% of total equity and is allocated to groups of cash generating units: Dixy and Victoria. Management performs an annual impairment test as required by IAS 36 *Impairment of Assets*.

We consider impairment of goodwill to be a key audit matter as the goodwill amount is significant, the test is complex and imposes significant judgements and estimates. In addition, the combination of the recent drop in oil prices, devaluation of the Russian rouble, increased inflation and the cost of debt and uncertainty about future economic growth affects the Group's business prospects and could thus potentially impair the goodwill.

In performing the impairment test, management used various assumptions in respect of developments in revenue, EBITDA margins and weighted average cost of capital (WACC) which are disclosed in note 7 to the consolidated financial statements.

Our audit procedures included, amongst others, the involvement of valuation experts to assist us in evaluating the assumptions and methodologies used by management, in particular those relating to revenue growth, EBITDA margin, growth rate beyond five years and WACC. We compared the projected cash flows to budgets and long term plans approved by senior management and assessed the historical accuracy of management's estimates. We verified the mathematical accuracy of the calculations. In addition, we performed model sensitivity analysis for changes in main assumptions and analyzed sufficiency of the Group's disclosure of information on assumptions that have significant influence over the results of the impairment test.

Impairment of stores and favorable operating lease agreements

The Group operates more than 2,800 retail stores in Russia. The matter is important to our audit due to the size of the store assets carrying value of RUB 27,510 million as well as the judgment involved in the assessment of the recoverability of the amounts. Twice a year management assesses whether there are triggering events indicating potential impairment.

According to the Group policies management determines the value in use for each store and compares this to the carrying value of related property, plant and equipment and favorable operating lease agreements, where the carrying value is higher than the value in use, the fair value less cost to sell is determined. As per the policies recently opened stores are not subject to impairment assessment because it takes from one and a half to two years for a store to mature in terms of reaching its longer term revenue and profitability capabilities.

The key assumptions applied by management in their store impairment assessment include: WACC and future store performance which is mostly dependent on expected revenue growth.

In 2016 the Group recognised impairment Property, Plant and Equipment and Other intangible assets of RUB 793 million.

The Group's principal accounting policy on property, plant and equipment is in note 2.5 and the critical accounting estimates and judgements on impairment are in note 2.4 of the consolidated financial statements.

Our audit procedures included, amongst others, an evaluation of the Group's policies and procedures to identify triggering events for potential impairment of assets related to underperforming stores.

We evaluated management's main cash flow assumptions and compared them to budgets and long term plans approved by senior management. We analyzed the level of past store performance to critically assess whether assumptions applied in the model were appropriate. We involved valuation experts to assist us in evaluating methodologies and the assumptions used by management, in particular those relating revenue growth and WACC. We checked mathematical accuracy of the impairment models.

Recognition of vendor allowances

As described in note 2.4 to the consolidated financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. These allowances are recognized as a reduction in cost of sales and inventory cost value.

We considered this to be a key audit matter because recognition of the vendor allowances can be complex and require both a detailed understanding of the contractual arrangements in addition to complete and accurate source data on purchase volumes and fulfilment of promotional programmes.

Our procedures included understanding, evaluating and testing internal controls in respect of completeness and accuracy of the contractual arrangements recognized in the accounting records.

We tested that allowances recognised were accurate and recorded in the correct period based on the contractual arrangements by reviewing contracts with vendors to assess the conditions required for allowances to be recognized and verified whether or not these had been met.

We performed margin analysis and completed detailed testing of transactions through verification of documentation from suppliers that the timing of recognition was appropriate. We additionally performed cut-off procedures to provide further evidence to support the timing of the recognition of vendor allowances. We checked subsequent collections on prior period vendor allowance receivables and subsequent collections of the vendor allowances receivable in the current year.

Other information included in the Group's 2016 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives 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 auditor's 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's 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 auditor's 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 auditor's 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 or 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Alexander Khorovitch.

A.B. Khorovitch
Partner
Ernst & Young LLC

15 March 2017

Details of the audited entity

Name: PJSC Dixy Group
Record made in the State Register of Legal Entities on 5 January 2003, State Registration Number 1037704000510.
Address: Russia 119361, Moscow, Ochakovskaya B., 47A, building 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC Dixy Group

Consolidated statement of financial position

As at 31 December 2016

(in thousands Russian roubles, unless otherwise indicated)

	Note	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	2.2, 5	39,228,393	37,599,781
Investment property	2.2, 6	2,387,483	2,415,780
Capital advances		144,535	1,887,592
Goodwill	7	17,665,526	17,665,526
Other intangible assets	8	3,775,635	3,607,919
Operating lease deposits		1,401,187	1,475,257
Initial lease costs		90,438	90,883
Deferred tax asset	22	853,331	535,595
		65,546,528	65,278,333
Current assets			
Inventories	10	19,821,638	22,299,229
Trade and other receivables	11	4,548,356	6,423,871
Taxes recoverable and prepayments	9	2,390,387	2,923,716
Income tax prepayments		2,226,556	1,668,814
Initial lease costs		26,832	38,404
Cash and cash equivalents	12	4,104,326	2,920,831
		33,118,095	36,274,865
Total assets		98,664,623	101,553,198
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	13	1,248	1,248
Additional paid-in capital		20,443,341	20,443,341
Treasury shares	13	(790,531)	(554)
Retained earnings		9,377,142	12,163,581
Total equity		29,031,200	32,607,616
Non-current liabilities			
Borrowings	14	28,838,759	25,767,841
Finance leases	15	750,986	1,077,548
Unfavourable operating lease agreements		12,636	24,192
Deferred tax liability	22	487,306	532,698
		30,089,687	27,402,279
Current liabilities			
Trade and other payables	16	34,886,008	32,129,441
Borrowings	14	2,966,689	7,692,260
Finance leases	15	325,737	275,644
Advances from customers		209,940	227,585
Tax liability, other than income taxes	17	1,143,511	1,195,794
Income taxes payable		344	9,590
Unfavourable operating lease agreements		11,507	12,989
		39,543,736	41,543,303
		69,633,423	68,945,582
Total equity and liabilities		98,664,623	101,553,198

Signed and authorized for release by the General Director and the Head of IFRS Reporting of PJSC Dixy Group on 15 March 2017.

Sergey Belyakov, General Director

Irina Kobyakina, Head of IFRS Reporting

The accompanying notes are an integral part of these consolidated financial statements.

PJSC Dixy Group

Consolidated statement of comprehensive income

For the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2016	2015
Revenue	18	311,237,488	272,344,946
Cost of sales	19	(228,063,374)	(192,636,332)
Gross profit		**83,174,114**	**79,708,614**
Selling, general and administrative expenses	20	(82,336,726)	(73,899,515)
Operating profit		**837,388**	**5,809,099**
Finance income		80,933	170,638
Finance costs		(4,229,954)	(4,830,191)
Foreign exchange gain/(loss), net		233,071	(424,037)
Share of loss of an associate	21	-	(135,883)
Profit from disposal of an associate	21	-	153,265
(Loss)/profit before income tax		**(3,078,562)**	**742,891**
Income tax credit/(expense)	22	292,123	(154,305)
(Loss)/profit for the year		**(2,786,439)**	**588,586**
Total comprehensive (loss)/income for the year		**(2,786,439)**	**588,586**
Attributable to:			
Equity holders of the parent		(2,786,439)	588,843
Non-controlling interest		-	(257)
		(2,786,439)	**588,586**
(Loss)/profit per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	23	(22.48)	4.72

The accompanying notes are an integral part of these consolidated financial statements.

PJSC Dixy Group

Consolidated statement of cash flows

For the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2016	2015
Cash flows from operating activities			
Profit before income tax		(3,078,562)	742,891
Adjustments for:			
Depreciation and impairment of property, plant and equipment and investment property	5, 6	8,172,702	7,128,928
Amortisation of intangible assets	8	555,119	429,786
Amortisation of initial lease costs	20	49,144	141,182
Amortisation of unfavourable lease agreements	20	(13,038)	(39,175)
Loss on disposals of property, plant and equipment and intangible assets	20	276,435	145,387
Increase in provision for impairment of prepayments and capital advances	20	61,294	34,000
Increase in provision for impairment of trade and other receivables	11, 20	143,697	72,881
(Reversal)/write down of inventory to net realisable value	10	(179,331)	281,282
Share of loss of an associate	21	-	135,883
Loss on disposal of non-controlling interest		-	132
Finance costs		4,229,954	4,830,191
Finance income		(80,933)	(170,638)
Foreign exchange (gain)/loss, net		(233,071)	424,037
Gain from disposal of an associate	21	-	(153,265)
Operating cash flows before working capital changes		**9,903,410**	**14,003,502**
Decrease in trade and other receivables		1,731,818	360,154
Decrease/(increase) in inventories		2,656,922	(7,713,431)
Decrease/(increase) in operating lease deposits		74,070	(271,074)
Decrease in taxes recoverable and prepayments		475,241	150,593
Increase in trade and other payables (*)		2,675,330	5,287,720
(Decrease)/increase in tax liability other than income tax		(52,283)	151,997
(Decrease)/increase in advances from customers		(17,645)	2,695
Cash generated from operations		**17,446,863**	**11,972,156**
Income tax paid		(637,993)	(1,184,448)
Interest paid		(4,492,284)	(4,833,710)
Net cash from operating activities		**12,316,586**	**5,953,998**
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,112,458)	(10,514,188)
Proceeds from sale of property, plant and equipment		112,687	81,525
Proceeds from sale of an associate	21	-	1,831,000
Initial lease costs paid		(37,127)	(6,898)
Disbursement of loans		(280,378)	(1,591,140)
Loans repaid (*)		-	1,708,111
Interest received (*)		75,615	283,985
Purchases of intangible assets		(769,017)	(1,159,549)
Purchase of an associate	21	-	(1,776,088)
Net cash used in investing activities		**(9,010,678)**	**(11,143,242)**
Cash flows from financing activities:			
Proceeds from loans and borrowings		38,704,556	18,382,500
Repayment of loans and borrowings		(40,360,527)	(12,827,184)
Buy-out of shares (*)		(189,973)	-
Finance lease payments		(276,469)	(195,230)
Net cash (used in) / from financing activities		**(2,122,413)**	**5,360,086**
Net increase in cash and cash equivalents		**1,183,495**	**170,842**
Cash and cash equivalents at the beginning of the year	12	**2,920,831**	**2,749,989**
Cash and cash equivalents at the end of the year	12	**4,104,326**	**2,920,831**

(*) The amounts are shown net of non-cash items mainly related to buying out of shares and loan given and interest accrued netting with the payable for buying out of shares in 2016.

The accompanying notes are an integral part of these consolidated financial statements.

PJSC Dixy Group

Consolidated statement of changes in equity

For the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise indicated)

		Attributable to equity holders of the Parent						
	Note	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
At 31 December 2014		1,248	20,443,341	(554)	11,574,738	32,018,773	125	32,018,898
Total comprehensive income for the year		-	-	-	588,843	588,843	(257)	588,586
Disposal of non-controlling interest		-	-	-	-	-	132	132
At 31 December 2015		1,248	20,443,341	(554)	12,163,581	32,607,616	-	32,607,616
Total comprehensive loss for the year		-	-	-	(2,786,439)	(2,786,439)	-	(2,786,439)
Buy-out of shares	13	-	-	(789,977)	-	(789,977)	-	(789,977)
At 31 December 2016		1,248	20,443,341	(790,531)	9,377,142	29,031,200	-	29,031,200

The accompanying notes are an integral part of these consolidated financial statements.

1 Corporate information

CJSC "Company Uniland Holding" was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. In March 2007 CJSC "Company Uniland Holding" was reorganized into an Open Joint Stock Company and renamed to DIXY GROUP (the "Company", "Dixy Group"). In 2015, according to requirements of Russian legislation, DIXY GROUP changed its legal form to Public Joint Stock Company. The address of the Company's registered office is Russia, Moscow, Ochakovskaya B., 47A, building 1.

The PJSC DIXY GROUP and its subsidiaries (the "Group") operate in the retail sales business. The Group's principal activities include trading of consumer goods through stores within the Russian Federation.

Since 24 May 2007 shares of PJSC DIXY GROUP are listed on the Russian Stock Exchange.

As of 31 December 2016 Dixy Holding Limited (Cyprus), owned 51.29% (2015: 54.42%) of the ordinary shares in PJSC DIXY GROUP. The Group is ultimately controlled by Mr. Igor Kesaev.

These consolidated financial statements of the Group were signed and authorized for release by the General Director and the Head of IFRS Reporting of PJSC DIXY GROUP on 15 March 2017.

2.1 Basis of preparation

The Group's companies maintain their accounting records and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular Group company is resident. The consolidated financial statements are based on the statutory accounting records with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The functional currency of the Group's companies was determined on an entity by entity basis. In 2016 and 2015 the functional currency of all of the Group's operating companies was determined to be Russian roubles.

The consolidated financial statements are presented in Russian roubles and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.1 Basis of preparation (continued)

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016 and for the year then ended.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

As at 31 December 2016 and 31 December 2015 the principal operating and holding consolidated subsidiaries of PJSC Dixy Group were:

Company	Country	Nature of operations	Ownership (%) 2016	Ownership (%) 2015
JSC DIXY Yug	Russia	Retailing	100%	100%
LLC Victoria Baltiya	Russia	Retailing	100%	100%
Timefield Trading & Investments Ltd	Cyprus	Financial company	–*	100%

* The subsidiary was liquidated in 2016.

2.2 Changes in classification of comparative information

In the preparation of the consolidated financial statements for 2016, the Group revised its approach to the presentation of property, plant and equipment. In the consolidated financial statements for 2015, investment property in the amount of 2,415,780 was accounted for as part of property, plant and equipment. In 2016, in order to improve the quality of presentation of information in the consolidated financial statements, the Group decided to split investment property and property, plant and equipment in the consolidated statement of financial position.

The comparative information has been adjusted accordingly, and the effect of the adjustments to the amounts indicated in the consolidated statement of financial position for 2015 is presented below:

	Before change	Change of presentation	After change
Property, plant and equipment	40,015,561	(2,415,780)	37,599,781
Investment property	–	2,415,780	2,415,780

2.3 Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2016 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new Standards and Interpretations.

Adoption of new standards

The nature and the impact of each new standard and amendment are described below:

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

These amendments require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue-based methods cannot be used to reflect the consumption of the future economic benefits enclosed in the asset.

The amendments do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

2.3 Changes in accounting policy and disclosures (continued)

Adoption of new standards (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

a. The materiality requirements in IAS 1;
b. That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
c. That entities have flexibility as to the order in which they present the notes to financial statements;
d. That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group plans to adopt the new standard on the required effective date. The Group does not expect a significant impact as a result of applying IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

2.3 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

2.3 Changes in accounting policy and disclosures (continued)

Standards issued but not yet effective (continued)

IAS 40 Investment property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. The amendments are effective for annual periods beginning on or after 1 January 2018. These amendments are not expected to have any impact on the Group.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.
In determining fair value less costs to sell recent market transactions are taken into account.
If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Impairment losses are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing.

- *Goodwill*

Goodwill is tested for impairment annually as at 30 September and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

- *Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 September either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Useful lives of items of property, plant and equipment and intangible assets

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Allowance for trade and other receivables

The Group maintains an allowance for trade and other receivables to account for estimated losses resulting from the inability of counterparties to make required payments. When evaluating the adequacy of an allowance for trade and other receivables, management bases its estimates on the ageing of trade and other receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2016 allowances for trade and other receivables have been created in the amount of 420,542 (2015: 276,845).

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Volume-related allowances, promotional and marketing allowances

The Group regularly enters into agreements with suppliers that entitle the Group to discounts on the purchases subject to meeting certain purchase volumes and marketing activities specified in these agreements. The Group creates allowances based on assessment of fulfilment of purchase volumes and actually rendered by the Group services related to promotional and marketing activities.

Inventory valuation

The Group determines the amounts to be written-down for obsolete or slow moving items of inventories based on their expected future use and realisable value. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Selling prices and costs to sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods (refer to Note 24).

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Deferred tax assets

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss (refer to Note 22).

2.5 Summary of significant accounting policies

Current versus non-current classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment

The Group's property, plant and equipment, except for assets acquired prior to 1 January 2003, are stated at historical cost less accumulated depreciation and any impairment in value. Property, plant and equipment acquired before 1 January 2003 is stated at cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2002, less accumulated depreciation and any impairment in value.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management of the Group companies estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised for an asset in previous years is reversed if there is any indication that impairment loss may no longer exist or may have decreased.

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

After initial recognition property, plant and equipment is measured at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria is met.

Depreciation is calculated using the straight-line basis over the useful life of the asset as follows:

	Useful lives in years
Buildings	30
Renovation of stores	5
Equipment	3-8

Land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is derecognised.

Renovations and permanent improvements to leased premises are capitalised and depreciated over the expected lease term but not exceeding their useful lives. Management expects that all short term lease agreements can be prolonged. This group of assets is depreciated from the month of store opening.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less provisions for depreciation and impairment.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

2.5 Summary of significant accounting policies (continued)

Investment properties (continued)

Transfers are made to (or from) investment property only when there is a change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment for method of depreciation and useful lives.

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 initial lease costs) are charged to profit or loss on a straight-line basis over the period 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.

Finance lease liabilities

Where the Group is a lessee in a lease, which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between settlement of outstanding liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The interest cost is charged to the profit or loss over the lease term so as to produce constant periodic rate of interest on remaining balance of the liability. The assets acquired under finance leases are depreciated over the shorter of their useful life or lease term.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually. These calculations require the use of estimates as further detailed in Note 7. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

2.5 Summary of significant accounting policies (continued)

Other intangible assets

All Group's other intangible assets except "Kvartal" trademark have definite useful lives and primarily include capitalised computer software, trademarks and favourable operating lease agreements.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licenses	5-10
Favourable lease agreements – over the lease term	5-10

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least annually at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Capital advances

Capital advances include amounts prepaid for property, plant and equipment and are measured at cost. Payments for purchases of property, plant and equipment are presented net of VAT in the cash flow statement.

Initial lease costs

Initial lease costs include lump sum amounts paid to the lessors under operating leases of stores and warehouses either for the right to conclude the lease or to finance construction and repair works on the leased assets. Initial lease costs are capitalised and charged to profit or loss on a straight-line basis over the period of lease.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

2.5 Summary of significant accounting policies (continued)

Income taxes (continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. A liability is also recorded for any uncertain tax positions for which tax obligation is considered to be probable. This liability is released to profit or loss after three years. A provision for taxes, other than on income, is set up and recorded within selling, general and administrative expenses.

Deferred income tax is provided using the balance sheet method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reconsiders this designation at each financial year-end. Currently Group has only trade and other receivables.

Trade and other accounts receivable

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. Trade and other receivables mainly comprise receivables from vendors for volume bonuses and marketing services.

2.5 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Impairment of financial assets carried at amortised cost

The Group assesses at each reporting date whether a financial asset or group of financial assets are impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Cash and cash equivalents

Cash and cash equivalents includes 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 transferred from stores to bank but not yet credited to bank accounts as of the reporting date is recorded as cash in transit.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2.5 Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown in equity as a deduction from the proceeds.

Additional paid-in capital

Additional paid-in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions. Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded at the fair value of the contributions received.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in additional paid-in capital.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the reporting date, is deducted from the amount of VAT payable upon collection of documents required for tax deduction. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings

Borrowings are recognised initially at fair value (which is the present value of the proceeds received determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred.
In subsequent periods borrowings are stated at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. The borrowing costs incurred on qualifying assets are capitalised and amortised over useful life of qualifying asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.5 Summary of significant accounting policies (continued)

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Foreign currency translation

The consolidated financial statements are presented in Russian roubles, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recognised in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All resulting differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At 31 December 2016 the principal rates of exchange used for translating foreign currency balances were US$ 1 = RR 60.6569 (2015: US$ 1 = RR 72.8827) and EUR 1 = RR 63.8111 (2015: EUR = RR 79.6972).

Employee benefits

Employee benefits for the services provided during a reporting period are recognised as an expense in that reporting period. All employee benefit plans represent defined contribution plans.

State pension plan

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognised in the profit and loss as incurred.

2.5 Summary of significant accounting policies (continued)

Employee benefits (continued)

Bonuses

For each year the Group's management establishes bonus programs for middle and senior management. Bonuses are generally dependent on the achievement of certain financial performance criteria of individual business units and the Group as a whole and are calculated and accrued in the period in which the related services are rendered.

Other costs

The Group incurs employee costs related to the provision of benefits such as health insurance costs. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to selling, general and administrative expenses.

Revenue recognition

Revenue is recognised when risks and rewards of ownership related to goods are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised net of value added tax and discounts.

Rental income is recognised on a straight-line basis over the lease term.

3 Segment information

Segments have similar format of their stores which is described below:

- Dixy – representing retail sales through a chain of neighbourhood stores, which are present in Central, North-West and Ural region.
- Megamart – representing retail sales through chains of compact hypermarkets and economy supermarkets (Minimart), which are present in Ural region.
- Victoria – representing retail sales through a chain of compact hypermarkets and neighbourhood stores in Kaliningrad and Moscow region.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The Group corporate expenses are managed on a group basis and are not allocated to operating segments.

Corporate expenses include payroll of head office employees, amortisation and depreciation of corporate assets and other expenses related to general management of the Group. Corporate non-current assets include trademarks, software and other non-current assets used for general management of the Group.

3 Segment information (continued)

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. During the years ended 31 December 2016 and 2015 there were no material transfers between reportable operating segments.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2016 and 2015 is set out below:

2016	Dixy	Megamart	Victoria	Adjustments	Group
Total segment revenue	253,266,749	19,698,028	38,272,711	-	311,237,488
Segment results	3,818,840	2,176,001	1,782,466	(10,855,869)[(A)]	(3,078,562)
Depreciation and amortisation	6,829,174	290,748	1,047,198	560,701[(B)]	8,727,821
Other non-cash expenses					
Amortisation of initial lease costs and unfavourable lease rights	18,982	-	17,124	-	36,106

(A) Total results of three segments differ from Group's profit before tax as they do not include corporate expenses of 6,706,976, finance costs of 4,229,954, finance income of 80,933 and net foreign exchange gain of 128.

(B) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

2015	Dixy	Megamart	Victoria	Adjustments	Group
Total segment revenue	220,028,014	18,441,512	33,875,420	-	272,344,946
Segment results	7,572,204	2,113,901	1,354,371	(10,297,585)[(C)]	742,891
Depreciation and amortisation	6,024,596	246,901	974,081	313,136[(D)]	7,558,714
Other non-cash expenses					
Amortisation of initial lease costs and unfavourable lease rights	(3,911)	-	105,918	-	102,007

(C) Total results of three segments differ from Group's profit before tax as they do not include corporate expenses of 5,611,893, finance costs of 4,830,191, finance income of 170,638 and net foreign exchange loss of 26,139.

(D) Segment depreciation and amortisation do not include depreciation and amortisation of corporate assets.

4 Balances and transactions with related parties

Transactions between related parties may not be executed on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify, account and properly disclose transactions with related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2016 and 31 December 2015 are detailed below:

	Entities under common control	
	2016	2015
Trade receivables	5,950	2,325
Prepayments	771	459
Other receivables	201	4,077
Trade and other payables	1,875,585	778,765

4 Balances and transactions with related parties (continued)

	Key management personnel	
	2016	2015
Prepayments	205,993	–

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016 and 31 December 2015 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The income and expense items with related parties for 2016 and 2015 were as follows:

	Entities under common control	
	2016	2015
Interest income	–	166,400
Profit from disposal of fixed assets	82,541	50,672
Transportation expenses	(235,974)	(109,474)
Maintainance of software	(30,257)	(39,875)
Other expenses	(32,273)	(5,634)
Profit from disposal of an associate (refer to Note 21)	–	153,265

	Key management personnel	
	2016	2015
Interest income	5,114	–

There were no transferes under finance arrangements in 2016 and 2015.

Compensation to key management personnel

Short-term employee benefits

During 2016 compensation paid to twenty one (2015: twelve) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*.

Total compensation to key management personnel included in selling, general and administrative expenses in the consolidated statement of comprehensive income as of 31 December 2016 and 31 December 2015 amounted to 1,302,635 and 552,371, respectively.

Loans issued to key management personnel

The Group granted Russian rouble 12.52% interest bearing loans of 280,582 to key management personnel mainly to finance acquisition of Company's shares under the share based program. The loans were settled in November 2016.

4 Balances and transactions with related parties (continued)

Purchase of goods

During 2016 and 2015 the Group purchased goods for resale in the normal course of business in the amount of 9,714,756 (2015: 7,667,274) from entities under common control of the Group's ultimate shareholder.

Purchase of property, plant and equipment

During 2016 the Group purchased trucks in the normal course of business in the amount of 1,147,444 (2015: nil), from entities under common control of the ultimate controlling shareholder.

Purchase of shares

During 2016 the Group purchased its shares from its ultimate shareholder Dixy Holding Limited (Cyprus) in the amount of 166,862.

5 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment in 2016 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2015	**913,678**	**21,138,036**	**13,834,252**	**26,079,906**	**324,913**	**62,290,785**
Additions	415,205	-	-	-	9,700,752	**10,115,957**
Transfers	-	5,926,772	1,034,213	2,908,127	(9,869,112)	-
Transfers to investment property	-	(85,038)	(5,813)	-	-	**(90,851)**
Disposals	(5,004)	-	(252,383)	(1,145,629)	-	**(1,403,016)**
At 31 December 2016	**1,323,879**	**26,979,770**	**14,610,269**	**27,842,404**	**156,553**	**70,912,875**
Accumulated depreciation and impairment						
At 31 December 2015	-	**3,568,159**	**7,988,563**	**13,134,282**	-	**24,691,004**
Disposals	-	-	(123,269)	(936,807)	-	**(1,060,076)**
Depreciation charge	-	718,204	1,993,912	4,580,979	-	**7,293,095**
Impairment	-	-	778,976	-	-	**778,976**
Transfers to investment property	-	(13,949)	(4,568)	-	-	**(18,517)**
At 31 December 2016	-	**4,272,414**	**10,633,614**	**16,778,454**	-	**31,684,482**
Net book value						
At 31 December 2016	**1,323,879**	**22,707,356**	**3,976,655**	**11,063,950**	**156,553**	**39,228,393**
At 31 December 2015	**913,678**	**17,569,877**	**5,845,689**	**12,945,624**	**324,913**	**37,599,781**

5 Property, plant and equipment (continued)

Movements in the carrying amount of property, plant and equipment in 2015 were as follows:

	Land	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost						
At 31 December 2014	**896,564**	**23,034,655**	**11,392,457**	**20,178,357**	**208,656**	**55,710,689**
Additions	17,114	1,553	-	-	10,523,665	**10,542,332**
Transfers	-	989,863	2,828,122	6,562,760	(10,380,745)	**-**
Disposals	-	(630)	(270,273)	(661,211)	(26,663)	**(958,777)**
At 31 December 2015	**913,678**	**24,025,441**	**13,950,306**	**26,079,906**	**324,913**	**65,294,244**
Transfers to investment property	-	(2,887,405)	(116,054)	-	-	**(3,003,459)**
At 31 December 2015 after change	**913,678**	**21,138,036**	**13,834,252**	**26,079,906**	**324,913**	**62,290,785**
Accumulated depreciation and impairment						
At 31 December 2014	**-**	**3,303,287**	**5,764,829**	**9,819,184**	**-**	**18,887,300**
Disposals	-	(370)	(171,149)	(566,026)	-	**(737,545)**
Depreciation charge	-	759,310	2,017,295	3,881,124	-	**6,657,729**
Impairment	-	-	471,199	-	-	**471,199**
At 31 December 2015	**-**	**4,062,227**	**8,082,174**	**13,134,282**	**-**	**25,278,683**
Transfers to investment property	-	(494,068)	(93,611)	-	-	**(587,679)**
At 31 December 2015 after change	**-**	**3,568,159**	**7,988,563**	**13,134,282**	**-**	**24,691,004**
Net book value						
At 31 December 2015	**913,678**	**17,569,877**	**5,845,689**	**12,945,624**	**324,913**	**37,599,781**
At 31 December 2014	**896,564**	**19,731,368**	**5,627,628**	**10,359,173**	**208,656**	**36,823,389**

The carrying value of equipment held under finance lease contracts at 31 December 2016 was 1,203,839 (2015: 1,513,235). Additions during the year amounted to nil (2015: 1,546,977). The leased assets are pledged as security for the related finance lease liabilities (refer to Note 15).

The Group completed construction of a distribution center in December 2016. The amount of borrowing costs capitalised during the year ended 31 December 2016 was 263,648 (2015: 106,569). The rate used to determine the amount of borrowing costs eligible for capitalisation was 13.03% (2015: 14.48%).

6 Investment property

The separation of Investment property from Property, Plant and Equipment at the beginning and the end of the year was made in order to improve the presentation.

In 2016 Rental income derived from investment properties was 888,499. Direct operating expenses (including repairs and maintenance) generating rental income was 129,014. Direct operating expenses (including repairs and maintenance) that did not generate rental income 5,635. Profit arising from investment properties carried at fair value was 753,850.

6 Investment property (continued)

Additions, including transfers from fixed assets, amounted to 90,851 in 2016. Depreciation charge amounted to 100,631 for 2016.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

As at 31 December 2016 the fair values of the investment properties amounted to 3,572,813.

7 Goodwill

Management of the Group performes goodwill monitoring for internal management purposes by the groups of cash-generating units which are equivalent to the operating segments Dixy and Victoria.

Movements in the carrying amount of goodwill in 2016 were as follows:

	Dixy	Victoria	Total
Cost			
At 31 December 2014	13,688,146	4,023,505	**17,711,651**
At 31 December 2015	13,688,146	4,023,505	**17,711,651**
At 31 December 2016	**13,688,146**	**4,023,505**	**17,711,651**
Accumulated impairment losses			
At 31 December 2014	46,125	-	**46,125**
At 31 December 2015	46,125	-	**46,125**
At 31 December 2016	**46,125**	**-**	**46,125**
Net book value			
At 31 December 2014	**13,642,021**	**4,023,505**	**17,665,526**
At 31 December 2015	**13,642,021**	**4,023,505**	**17,665,526**
At 31 December 2016	**13,642,021**	**4,023,505**	**17,665,526**

The recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which CGUs operates.

Assumptions for each CGU used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2016	
	Dixy	Victoria
Like-for-like growth within five years	4.9%	4.9%
EBITDA margin	3.7%(A)	6.3%
Growth rate beyond five years	4.1%	4.1%
Pre-tax discount rate	15.7%	15.7%

(A) EBITDA margin of Dixy applied to the cash flow projections increase from 3.7% for 2017 to 5.5% for 2021.

7 Goodwill (continued)

	2015	
	Dixy	Victoria
Like-for-like growth within five years	5.5%	5.5%
EBITDA margin	5.3%	7.9%
Growth rate beyond five years	3.7%	3.7%
Pre-tax discount rate [B]	19.2%	19.2%

(B) Pre-tax discount rates applied to the cash flow projections decline on a straight line basis from 19.2% for 2016 to 15.3% for 2020 over the period .

Management determined budgeted EBITDA margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports prepared by reputable analysts. The discount rates used are pre-tax and reflect specific risks relating to the relevant groups of CGUs.

With regard to the assessment of value in use of all of the reportable segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

8 Other intangible assets

Movements in the carrying amount of intangible assets in 2016 were as follows:

	Trademarks	Licenses	Favourable operating lease agreements	Total
Cost				
At 31 December 2015	**1,326,508**	**2,171,039**	**1,602,532**	**5,100,079**
Additions	-	769,017	-	**769,017**
Disposals	-	(378,184)	(8,824)	**(387,008)**
At 31 December 2016	**1,326,508**	**2,561,872**	**1,593,708**	**5,482,088**
Amortisation				
At 31 December 2015	**142,517**	**680,186**	**669,457**	**1,492,160**
Amortisation charge	-	484,824	70,295	**555,119**
Disposals	-	(332,002)	(8,824)	**(340,826)**
At 31 December 2016	**142,517**	**833,008**	**730,928**	**1,706,453**
Carrying amount				
At 31 December 2016	**1,183,991**	**1,728,864**	**862,780**	**3,775,635**
At 31 December 2015	**1,183,991**	**1,490,853**	**933,075**	**3,607,919**

8 Other intangible assets (continued)

Movements in the carrying amount of intangible assets in 2015 were as follows:

	Trademarks	Licenses	Favourable operating lease agreements	Total
Cost				
At 31 December 2014	**1,326,508**	**1,039,294**	**1,768,760**	**4,134,562**
Additions	-	1,159,549	-	**1,159,549**
Disposals	-	(27,804)	(166,228)	**(194,032)**
At 31 December 2015	**1,326,508**	**2,171,039**	**1,602,532**	**5,100,079**
Amortisation				
At 31 December 2014	**142,517**	**406,441**	**697,674**	**1,246,632**
Amortisation charge	-	291,775	138,011	**429,786**
Disposals	-	(18,030)	(166,228)	**(184,258)**
At 31 December 2015	**142,517**	**680,186**	**669,457**	**1,492,160**
Carrying amount				
At 31 December 2015	**1,183,991**	**1,490,853**	**933,075**	**3,607,919**
At 31 December 2014	**1,183,991**	**632,853**	**1,071,086**	**2,887,930**

Trademarks represent trademark "Kvartal" acquired through acquisition of OJSC GK Victoria in 2011 and used by the Group for convenience store format in Kaliningrad region. Useful life of "Kvartal" trademark was assessed as indefinite because the Group concluded after analysis of its current market position in Kaliningrad region that it is impossible to determine the period this trademark would benefit the Group. For impairment testing "Kvartal" trademark was allocated to the CGUs Kvartal-Kaliningrad, which is a part of the operating and reportable segment Victoria.

The recoverable amounts of Kvartal-Kaliningrad CGU was determined based on value-in-use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period. In 2016 the pre-tax discount rates applied to cash flow projections were 15.7% (2015: 15.3%-19.2%), EBITDA margin was 7.6% (2015: 8.8%), like-for-like growth within five years was 4.9% (2015: 5.5%) and cash flows beyond the five-year period were extrapolated using a 4.1% growth rate (2015: 3.7%) that is the same as the long-term average growth rate for the food retail industry. As a result of the impairment analysis, management did not identify any impairment for the CGU Kvartal-Kaliningrad to which trademark was allocated. Management determined that key assumptions to which the recoverable amounts are most sensitive were growth rate beyond five years and pre-tax discount rate. However, with regard to the assessment of value in use of Kvartal-Kaliningrad CGU, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

9 Taxes recoverable and prepayments

	2016	2015
Prepayments (net of allowance for impairment of 189,120 (2015: 131,032))	1,013,476	2,139,306
VAT recoverable	900,953	677,049
Prepaid expenses	402,632	91,092
Taxes prepaid	73,326	16,269
Total taxes recoverable and prepayments	**2,390,387**	**2,923,716**

10 Inventories

	2016	2015
Goods for resale (net of write-down to net realisable value of 601,187 (2015: 780,518))	19,773,317	22,259,805
Raw materials and operating supplies (at cost)	48,321	39,424
Total inventories at the lower of cost or net realisable value	**19,821,638**	**22,299,229**

Inventory write-down due to shrinkages identified during the physical inventory counting in 2016 comprised 8,490,018 (2015: 8,931,726). No inventory is pledged as of 31 December 2016 and 2015.

11 Trade and other receivables

	2016	2015
Trade receivables (net of allowance for impairment of trade receivables of 315,584 (2015: 164,610))	4,117,072	6,225,818
Other receivables (net of allowance for impairment of other receivables of 104,958 (2015: 112,235))	431,284	198,053
Total trade and other receivables	**4,548,356**	**6,423,871**

Trade and other receivables as of 31 December 2016 and 2015 are denominated mainly in Russian roubles.

As at 31 December 2016 trade receivables at nominal value of 315,584 (2015: 164,610) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

At 1 January 2015	**90,414**
Reversed	(22,661)
Accrued	96,857
At 31 December 2015	**164,610**
Reversed	(10,867)
Accrued	161,841
At 31 December 2016	**315,584**

At 31 December the ageing analysis of trade receivables was as follows:

			Of which: not impaired on the reporting date and past due in the following periods			
	Carrying amount	**Of which neither impaired nor past due on the reporting date**	**Between 31 and 90 days**	**Between 91 and 180 days**	**Between 181 and 360 days**	**More than 360 days**
2016	4,117,072	2,858,124	682,345	449,713	107,063	19,827
2015	6,225,818	4,730,879	1,031,814	165,857	216,977	80,291

11 Trade and other receivables (continued)

Trade receivables as of 31 December 2016 and 2015 had different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2016 and 2015 other receivables at nominal value of 104,958 (2015: 112,235) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

At 1 January 2015	**113,550**
Reversed	(31,279)
Accrued	29,964
At 31 December 2015	**112,235**
Reversed	(29,656)
Accrued	22,379
At 31 December 2016	**104,958**

At 31 December the ageing analysis of other receivables was as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Between 31 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
2016	431,284	295,259	60,913	28,529	29,265	17,318
2015	198,053	71,292	73,790	29,157	19,015	4,799

12 Cash and cash equivalents

	2016	2015
Cash on hand – Russian roubles	732,208	898,990
Russian rouble denominated bank balances due on demand	375,838	216,900
US dollars denominated bank balances due on demand	2,590	18,354
Cash in transit – Russian roubles	2,993,690	1,786,587
	4,104,326	**2,920,831**

13 Share capital and equity

Share and additional paid-in capital

As at 31 December 2016 the Group had 124,750,000 (2015: 124,750,000) authorized ordinary shares of which 2,569,579 (2015: 1,500) ordinary shares were held as treasury stock. All shares are fully paid. Ordinary shares have par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

During 2016 the Group bought-out 2,568,079 shares for 789,978.

13 Share capital and equity (continued)

Dividends

No dividends were paid by PJSC Dixy Group in 2016 and 2015. No dividends were declared or paid subsequent to 31 December 2016 up to the date of authorisation of these consolidated financial statements for issue.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. As of 31 December 2016 and 2015 the Company had 27,570,618 and 27,438,112 of accumulated earnings, respectively.

Non-controlling interest

In April 2015 one of subsidiaries of the Company with holding interest of 90% was liquidated. The subsidiary was dormant in last two years.

14 Borrowings

The Group's borrowings mature as follows:

	2016	2015
Borrowings due:		
- within 1 year	2,966,689	7,692,260
- between 1 and 5 years	28,838,759	25,767,841
Total borrowings	**31,805,448**	**33,460,101**

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date 2016	Maturity date 2015	Currency	Interest rate 2016	Interest rate 2015	Carrying amount of collateral 2016	Carrying amount of collateral 2015	2016	2015
Long term bank loans	2018-2020	2017-2018	RR	10.10%-12.65%	11.45%-19.65%	-	-	28,838,759	25,767,841
Short term bank loans	2017	2016	RR	10.10%-12.65%	12.20%-13.00%	-	-	2,962,939	6,970,194
Bank overdrafts	2017	2016	RR	11.89%-12.02%	12.50%-13.99%	-	-	3,750	722,066
								31,805,448	33,460,101

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its interest rate exposures.

In accordance with terms and conditions of certain borrowing agreements the Group has to maintain certain ratios – maximum level of Total Financial Debt (Net Debt) / EBITDA, minimum level of EBITDA/Net interest expense. As of 31 December 2016 and 2015 the Group was in compliance with externally imposed capital requirements.

As at 31 December 2016 and 2015 carrying amount of borrowings approximates their fair value.

15 Finance lease

Minimum lease payments under finance leases and their present values were as follows:

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2016	**462,607**	**864,030**	**1,326,637**
Less future finance charges	(136,870)	(113,044)	**(249,914)**
Present value of minimum lease payments at 31 December 2016	**325,737**	**750,986**	**1,076,723**
Minimum lease payments at 31 December 2015	**470,333**	**1,348,520**	**1,818,853**
Less future finance charges	(194,689)	(270,972)	**(465,661)**
Present value of minimum lease payments at 31 December 2015	**275,644**	**1,077,548**	**1,353,192**

The Group entered into finance leases for various items of equipment (refer to Note 5).

The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Finance lease payables are stated in Russian roubles.

16 Trade and other payables

	2016	2015
Trade payables	25,216,367	25,653,213
Payables to factoring banks	1,737,057	274,431
Payables to employees	1,563,646	1,560,767
Other liabilities and accruals	6,368,938	4,641,030
Trade and other payables	**34,886,008**	**32,129,441**

As of 31 December 2016 and 2015 trade and other payables are denominated in Russian roubles, except for trade and other payables in the amount of 297,220 (2015: 348,158) denominated in euro and trade and other payables in the amount of 776,360 (2015: 600,503) denominated in US dollars.

Trade and other payables are normally settled on 5-30 days term.

17 Tax liability, other than income taxes

	2016	2015
VAT payable	65,617	47,399
Payroll taxes payable	942,875	963,791
Other taxes	135,019	184,604
Tax liability, other than income taxes	**1,143,511**	**1,195,794**

VAT payable and payroll taxes payable are settled normally within 15-90 days after reporting date.

18 Revenue

	2016	2015
Sales of goods	309,307,946	270,492,513
Sublease income	1,929,542	1,852,433
Total revenue	**311,237,488**	**272,344,946**

19 Cost of sales

	Note	2016	2015
Cost of goods sold		216,522,552	181,429,634
Shrinkage of inventories	10	8,490,018	8,931,726
Transportation costs		3,050,804	2,274,972
Total cost of sales		**228,063,374**	**192,636,332**

20 Selling, general and administrative expenses

	Note	2016	2015
Staff costs		36,184,722	33,055,195
Operating lease expenses		21,738,863	18,667,000
Depreciation and impairment of property, plant and equipment, investment property and amortisation of intangible assets	5, 6, 7	8,727,821	7,558,714
Utilities		4,020,464	3,568,042
Repair and maintenance costs		3,713,869	4,000,843
Advertising costs		2,148,511	1,213,836
Bank charges		1,713,354	1,472,773
Supplies and materials		1,181,253	1,557,325
Information, consulting and other services		877,896	810,907
Taxes other than income tax		618,680	653,028
Security services		313,458	351,901
Loss on disposals of property, plant and equipment and intangible assets		276,435	145,387
Telecommunication expenses		252,730	331,133
Transportation and handling costs		212,197	234,271
Insurance		196,806	123,941
Increase in provision for impairment of trade and other receivables	11	143,697	72,881
Increase in provision for impairment of prepayments	9	58,088	5,481
Amortisation of initial lease costs		49,144	141,182
Impairment of capital advances		3,206	28,519
Net profit from realization of recyclable materials		(416,930)	(282,165)
Other operating expenses		322,462	189,321
Total selling, general and administrative expenses		**82,336,726**	**73,899,515**

Included in staff costs are statutory social security and pension contributions of 7,429,934 (2015: 6,993,623).

20 Selling, general and administrative expenses (continued)

Operating lease expenses relate to cancellable and non-cancellable operating leases with terms from 1 to 15 years. Amortisation of unfavourable operating lease agreements is included in other operating expenses in the amount of 13,038 (2015: 39,175).

21 Investment in an associate

As of 1 January 2015 the Group owned 1.2% share in the charter capital of LLC Albion-2002 (also known as Bristol).

On 23 April 2015, the Group acquired additional 31.8% share in the charter capital for the cash consideration of 1,776,088, increasing its ownership interest to 33.0%.

On 10 December 2015 the Group sold out its share for the cash consideration of 1,831,000, receiving profit of 153,265. The Group's share of the associate's loss for the reporting period amounted to 135,883.

22 Income taxes

Income tax expense comprises the following:

	2016	2015
Current tax	385,247	1,050,943
Adjustment in respect of current income tax of previous years	(314,242)	(417,261)
Deferred income tax charge – origination and reversal of temporary differences	(363,128)	(479,377)
Income tax (credit)/expense for the year	**(292,123)**	**154,305**

In 2013 due to changes in current tax practice in respect of tax deductibility related to certain types of shortages and application of tax credits the Group resubmitted amended tax returns to tax authorities which resulted in adjustment to the previous years' current income tax.

In 2015 and 2016 the part of claimed tax credits (according to submitted amended tax returns) has been confirmed by tax authorities which resulted in adjustments of current tax.

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2016	2015
(Loss)/profit before income tax	**(3,078,562)**	**742,891**
Theoretical tax (credit)/charge at statutory rate of 20%	**(615,712)**	**148,578**
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible shrinkage of inventories	622,046	378,811
Adjustment of current income tax of previous years, inclusive:	(314,242)	(417,259)
▸ *Reimbursement of income tax on shrinkage of inventories*	*(497,178)*	*(417,259)*
▸ *Reimbursement of income tax on tax disputes*	*(56,938)*	–
▸ *Adjustment of income tax on previous periods*	*239,874*	–
Non-deductible expenses	15,785	44,175
Income tax (credit)/expense for the year	**(292,123)**	**154,305**

22 Income taxes (continued)

Deferred tax balances are computed by applying the statutory tax rate enacted at the reporting date to the differences between the tax base of assets and liabilities and the amounts reported in the consolidated financial statements and are comprised of the following as of 31 December:

	2016	2015
Deferred tax assets	**1,464,012**	**1,305,049**
Accounts payable and receivable	1,106,952	898,479
Tax losses carried forward	57,610	-
Inventories	299,450	406,570
Deferred tax liabilities	**(1,097,987)**	**(1,302,152)**
Property, plant and equipment	(335,859)	(822,921)
Other intangible assets	(762,128)	(479,231)
Net deferred tax asset	**366,025**	**2,897**

Reflected in the consolidated statement of financial position as follows:

	2016	2015
Total deferred tax assets	853,331	535,595
Total deferred tax liabilities	(487,306)	(532,698)
Net deferred tax asset	**366,025**	**2,897**

Applicable tax rate is set at 20%; it is based on the income tax rates at the Group companies' jurisdictions. In 2016 and 2015 there were no significant income or loss generated in the companies outside Russian Federation.

Deferred tax assets and liabilities are calculated for all temporary differences under the balance sheet method using the principal tax rate of 20%. Deferred tax assets and liabilities at 31 December 2016 and 2015 were attributable to the following:

	31 December 2015	Credited/ (charged) to profit or loss	31 December 2016
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward			
Accounts payable and receivable	898,479	208,473	1,106,952
Tax losses carried forward	-	57,610	57,610
Property, plant and equipment	(822,921)	487,062	(335,859)
Other intangible assets	(479,231)	(282,897)	(762,128)
Inventories	406,570	(107,120)	299,450
Net deferred tax asset	**2,897**	**363,128**	**366,025**

	31 December 2014	Credited/ (charged) to profit or loss	31 December 2015
Tax effect of deductible/(taxable) temporary differences and tax losses carried forward			
Accounts payable and receivable	758,475	140,004	898,479
Tax losses carried forward	10,533	(10,533)	-
Property, plant and equipment	(978,506)	155,585	(822,921)
Other intangible assets	(546,107)	66,876	(479,231)
Inventories	279,125	127,445	406,570
Net deferred tax (liability)/asset	**(476,480)**	**479,377**	**2,897**

22 Income taxes (continued)

Temporary differences in property, plant and equipment represent timing differences due to different useful lives and fair value adjustments on business combinations. Temporary differences in inventories represent timing differences of recognition of cost of goods sold. Temporary differences in accounts payable and receivable represent timing differences of recognition of certain expenses and vendors rebates. Temporary differences in other intangible assets represents different recognition approach of trademarks, licenses and favourable operating lease agreements.

The Group does not expect to sell its investments in subsidiaries in foreseeable future. Starting from 2010 all intragroup dividend payments are tax free in Russia and portion of retained earnings in jurisdictions other than Russian Federation is immaterial. Therefore, the Group did not recognise deferred tax liability in respect of undistributed retained earnings in subsidiaries amounted to 31,953,248 (2015: 7,603,950).

23 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

	Note	2016	2015
(Loss)/profit for the year attributable to ordinary shareholders		(2,786,439)	588,843
Weighted average number of ordinary shares in issue	13	123,945,619	124,750,000
Basic and diluted (loss)/earnings per ordinary share (expressed in Russian rouble per share)		**(22.48)**	**4.72**

24 Contingencies, commitments and operating risks

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

24 Contingencies, commitments and operating risks (continued)

Litigation

There are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Capital expenditure commitments

At 31 December 2016 the Group had contractual capital expenditure commitments in respect of property, plant and equipment amounting to 660,424 (2015: 2,162,395).

Operating lease commitments

The Group leases premises for operation of its stores. Some of these leases are non-cancellable. These leases have remaining terms of between 1 and 15 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rental payments under non-cancellable operating leases as at 31 December were as follows:

	2016	2015
Committed to pay		
– within 1 year	4,231,743	4,207,282
– between 1 and 5 years	2,120,716	2,302,683
– more than 5 years	2,546,775	1,790,050
Total non-cancellable operating lease commitments	**8,899,234**	**8,300,015**

Tax legislation

The Group's subsidiaries, from which the Group's income is derived, operate in Russia. Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group's subsidiary may be challenged by the relevant regional and federal authorities.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2016 and 2015. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of the Russian Federation rate for each day of delay for late payment of such amount. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2016 and 2015 the Group did not have any tax provisions.

24 Contingencies, commitments and operating risks (continued)

Tax legislation (continued)

Although historically there have been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 31 December 2016 of potential liabilities that have not been provided for because management believes they are less than probable amounts to nil (31 December 2015: 323,443).

25 Financial risk management

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables and cash and cash equivalents that arrive directly from its operations. The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade and other receivables and cash and cash equivalents. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that credit sales are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

To manage credit risk related to cash, the Group maintains its available cash in reputable major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Offseting of financial assets and liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of offsetting is the following:

	Gross amount			Net amount	
	Trade and other receivables	Trade and other payables	Amount of offset	Trade and other receivables	Trade and other payables
2016	10,201,217	(40,538,869)	5,652,861	4,548,356	(34,886,008)
2015	12,516,321	(38,221,891)	6,092,450	6,423,871	(32,129,441)

25 Financial risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise for the Group two types of risk – foreign exchange risk and interest rates risk. Financial instruments affected by market risk include loans, borrowings, cash and cash equivalents and trade and other payables.

The sensitivity analysis in the following sections relates to the position as at 31 December 2016 and 31 December 2015.

The sensitivity analysis has been prepared on the basis that the amount of the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant at 31 December 2016 and 31 December 2015.

Foreign exchange risk

Foreign currency denominated liabilities (refer to Note 16) give rise to foreign exchange exposure. As of 31 December 2016 the Group does not have significant exposure to foreign exchange risk currently as since 2010 Group borrows the funds in the local currency and is considering to proceed with such strategy further.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars and euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(decrease) in exchange rate	Effect on profit before tax
2016		
US$	(20.00)%	144,295
EUR	(20.00)%	58,178
US$	20.00%	(144,295)
EUR	20.00%	(58,178)
2015		
US$	(13.00)%	73,825
EUR	(15.00)%	50,181
US$	40.00%	(227,153)
EUR	43.00%	(143,851)

Interest rate risk

As at 31 December 2016 and 2015 the Group did not have loans with floating interest rate.

Liquidity risk

As at 31 December 2016 the Group's current liabilities exceeded the Group's current assets by 6,425,641 (2015: 5,268,438). Typically the reason for this excess is that the Group uses 1.5-2 times excess of trade and other accounts payable turnover over the inventory turnover for financing of its investing activities.

25 Financial risk management (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments.

Year ended 31 December 2016	On demand or less than 1 year	1 to 5 years	Total
Borrowings	6,489,428	34,438,821	**40,928,249**
Finance lease liability	325,737	750,986	**1,076,723**
Trade and other payables	34,886,008	–	**34,886,008**
	41,701,173	**35,189,807**	**76,890,980**

Year ended 31 December 2015	On demand or less than 1 year	1 to 5 years	Total
Borrowings	12,143,765	28,567,848	**40,711,613**
Finance lease liability	470,333	1,348,520	**1,818,853**
Trade and other payables	32,129,441	–	**32,129,441**
	44,743,539	**29,916,368**	**74,659,907**

Capital management

The primary objective of the Group's capital management is to ensure that it continues efforts to reduce cost of capital and maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group's policy is to keep the Total Financial Debt/EBITDA ratio less than 4. The Group includes within total financial debt interest bearing loans and borrowings and finance lease liabilities, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortisation of intangible assets, amortisation of initial lease costs, amortisation of unfavourable operating lease agreements, provisions for impairment of non-current assets and impairment of goodwill.

In 2016 the Group's Financial Debt/EBITDA ratio amounted to 3.4 (2015: 2.6). The Group is in compliance with externally imposed capital requirements.

Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated financial statements.

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings	(31,805,448)	(31,805,448)	(33,460,101)	(33,460,101)
Finance leases	(1,076,723)	(1,076,723)	(1,353,192)	(1,353,192)

25 Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity. Fair values of the Group's borrowings and finance lease are determined by using DCF method using discount rates that reflects the issuer's borrowing rate as at the end of the reporting period (Level 3 fair value measurement hierarchy – significant unobservable inputs).

26 Events after the reporting date

There were no significant events after the reporting date.