Public Joint Stock Company "M.video"

Consolidated Financial Statements
For the Year Ended 31 December 2017

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

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PUBLIC JOINT STOCK COMPANY "M.VIDEO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company "M.video" (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved on 21 March 2018.

B. Uzhakhov	**E. Sokolova**
Chief Executive Officer	Chief Financial Officer

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Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders of Public Joint Stock Company "M.video"

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "M.video" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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* (the "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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses The Group receives significant amounts of supplier incentives, discounts, and bonuses. These incentives largely comprise volume-based bonuses based on percentage levels agreed as well as other arrangements requiring greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support. We consider this to be a key audit matter because determination of the period over which the reduction in cost of sales should be recognized is judgmental and requires thorough understanding of the contractual arrangements and complete and accurate source data. The Group's principal accounting policy on supplier bonuses is disclosed in Note 3 on page 22.	We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the recognition of supplier bonuses in the consolidated financial statements is in line with the Group's accounting policies. We circularized a sample of suppliers to get assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as receipt of individual supplier bonus agreements, tracing the amounts recorded to primary documents signed by suppliers confirming the Group's right for a particular bonus. In addition, for a sample of volume-based agreements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms and audited management's calculation of rebates allocated to year-end inventory. We also performed a retrospective analysis of bonuses recognized in the prior period to check that accuracy of estimates made by management.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2017 the value of inventories held by the Group was RUB 52 283 million (31 December 2016: RUB 45 170 million). The valuation of inventories was identified as a key audit matter because it involves significant judgement, including estimated selling price of items held, and assessing items which may be slow-moving, obsolete or damaged. The assessment process includes studying the historical performance of the inventories, current operational plans as well as industry and customer specific trends. The Group's inventory provision is disclosed in Note 10 on page 31.	We tested the effectiveness of key inventory controls through attending inventory counts at 5 distribution centers and 10 stores. We assessed the appropriateness of management's assumptions applied in calculating the carrying value of inventories by: • Verifying the value of a sample of inventories to confirm it is held at the lower of cost and net realizable value, based on the sales prices; • Reviewing and recalculating of inventory provisions, including critical assessment of its reasonableness based inventory ageing, historical and post year-end performance and consistency of the amount of provision as a percentage of gross inventory balance year to year; • Discussing with management changes in industry and customer specific trends and the Group's operational plans that can impact the representativeness of historical performance of inventory sales below cost, and assessing the reasonableness of methodology applied by management in determining the inventory provision in light of such circumstances; • Reperforming management's calculations of

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	provisions to ensure they are accurate and free from error.
Revenue recognition – customer loyalty programs The Group's customer loyalty program and co-branded loyalty program were identified as a key audit matter because a significant degree of judgment is required in determining the amount of deferred revenue allocated to customer loyalty programs and the pattern of its subsequent amortization to revenue. The Group's principal accounting policy on revenue from customer loyalty programs is disclosed in Note 3 on page 21. The movement of the Group's deferred revenue in respect of customer loyalty programs is disclosed in Note 19 on page 35.	Our audit focused on challenging the Group's assumptions applied in determining the redemption rates and included: • Obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty programs, as well as key controls over deferring and recognizing the respective revenue; • Assessing expected redemption rates used by the Group against historical data on factual redemptions; • Using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs; • Reperforming management's calculations of revenues deferred and recognized to ensure they are accurate and free from errors.
Non-routine transactions During the year ended 31 December 2017 the Group entered into a number of significant non-routine transactions, including: • Issuance of loan to a parent company in amount of RUB 1 631 million as disclosed in Note 8; • Issuance of a financial guarantee with a fair value of RUB 803 million to a related party as disclosed in Notes 8, 20; • Acquisition of leasehold rights for a consideration of RUB 701 million as disclosed in Note 7. We consider the recognition, measurement and disclosure of non-routine transactions to be a key audit matter since the accounting for such transactions may be complex and involves significant judgment as to whether the legal form of the transactions reflects their commercial	Our audit procedures focused on determining whether non-routine transactions were accounted for in accordance with their commercial substance and appropriately disclosed in the consolidated financial statements and included: • Understanding the Group's approval process for significant non-routine transactions and/or transactions with related parties; • Obtaining a detailed understanding of the Group management's process of identifying non-routine transactions and transactions with related parties which already occurred; • Reviewing the minutes of the shareholders and Board of Directors meetings, and staying alert of non-routine transactions when performing other audit procedures; • Inspecting agreements and other documents, and inquiring Group management and those charged with governance, in order to assess the commercial substance of non-routine transactions and transactions with related parties; • Assessing the accounting for non-routine transactions and transactions with related parties (including measurement of recognised assets and liabilities) and

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
substance.	related disclosures for compliance with the requirements of International Financial Reporting Standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor's report thereon. The Annual and Quarterly reports are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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 and Quarterly reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("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.

Those charged with governance are 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Sedov A.V.
Team leader

Deloitte Touche

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

21 March 2018

The Entity: Public Joint Stock Company "M.video"

Certificate of state registration № 77 №008748648 of 25.09.2006, issued by Interdistrict Inspectorate of the Russian Ministry of Taxation № 46.

Address: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	31 December 2017	31 December 2016
NON-CURRENT ASSETS:			
Property, plant and equipment	6	7 936	8 127
Intangible assets	7	7 999	6 145
Deferred tax assets, net	15	4 264	3 995
Non-current financial assets	8	2 471	-
Other non-current assets	9	993	692
Total non-current assets		**23 663**	**18 959**
CURRENT ASSETS:			
Inventories	10	52 283	45 170
Accounts receivable and prepaid expenses	11	21 611	13 162
Income tax receivable		16	22
Other taxes receivable	12	6 154	4 218
Cash and cash equivalents	13	17 791	18 763
Other current assets		7	7
Total current assets		**97 862**	**81 342**
TOTAL ASSETS		**121 525**	**100 301**
EQUITY:			
Share capital	14	1 798	1 798
Additional paid-in capital	14	4 576	4 576
Treasury shares	14	(52)	(52)
Retained earnings		16 602	9 628
Equity attributable to owners of the Company		22 924	15 950
Non-controlling interests	14	230	1
Total equity		**23 154**	**15 951**
NON-CURRENT LIABILITIES:			
Provisions		4	7
Other liabilities	27	-	68
Total non-current liabilities		**4**	**75**
CURRENT LIABILITIES:			
Trade accounts payable		77 698	66 285
Other payables and accrued expenses	16	8 708	8 480
Advances received	17	2 656	2 372
Income tax payable		531	1 104
Other taxes payable	18	1 627	694
Deferred revenue	19	5 923	4 944
Financial guarantees	20	780	-
Provisions		444	396
Total current liabilities		**98 367**	**84 275**
Total liabilities		**98 371**	**84 350**
TOTAL EQUITY AND LIABILITIES		**121 525**	**100 301**

The Notes on pages 12-46 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 6.

Signed on 21 March 2018 by:

B. Uzhakhov
Chief Executive Officer

E. Sokolova
Chief Financial Officer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of Russian Rubles, except earnings per share)

	Notes	2017	2016
REVENUE	21	198 197	183 219
COST OF SALES		(151 670)	(140 284)
GROSS PROFIT		46 527	42 935
Selling, general and administrative expenses	22	(40 754)	(37 351)
Other operating income	23	2 623	1 253
Other operating expenses	24	(216)	(153)
OPERATING PROFIT		8 180	6 684
Finance income	25	659	567
Finance expenses	25	-	(56)
PROFIT BEFORE INCOME TAX EXPENSE		8 839	7 195
Income tax expense	15	(1 885)	(1 649)
TOTAL NET PROFIT and TOTAL COMPREHENSIVE INCOME for the year		**6 954**	**5 546**
Total net profit and total comprehensive income for the year attributable to:			
Owners of the Company		6 974	5 546
Non-controlling interests		(20)	-
BASIC EARNINGS PER SHARE (in Russian Rubles)	26	38,73	30,89
DILUTED EARNINGS PER SHARE (in Russian Rubles)	26	38,73	30,89

The Notes on pages 12-46 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 6.

Signed on 21 March 2018 by:

B. Uzhakhov
Chief Executive Officer

E. Sokolova
Chief Financial Officer

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance as at 31 December 2015		**1 798**	**4 576**	**(52)**	**7 673**	**13 995**	**-**	**13 995**
Increase in non-controlling interests in LLC "MARKETPLACE"	14	-	-	-	-	-	1	1
Dividends declared	14	-	-	-	(3 591)	(3 591)	-	(3 591)
Total comprehensive income for the year		-	-	-	5 546	5 546	-	5 546
Balance as at 31 December 2016		**1 798**	**4 576**	**(52)**	**9 628**	**15 950**	**1**	**15 951**
Increase in non-controlling interests in LLC "MARKETPLACE"	14	-	-	-	-	-	249	249
Total comprehensive income for the year		-	-	-	6 974	6 974	(20)	6 954
Balance as at 31 December 2017		**1 798**	**4 576**	**(52)**	**16 602**	**22 924**	**230**	**23 154**

The Notes on pages 12-46 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 6.

Signed on 21 March 2018 by:

B. Uzhakhov
Chief Executive Officer

E. Sokolova
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	2017	2016
OPERATING ACTIVITIES:			
Net profit for the year		6 954	5 546
Adjustments for:			
Income tax expense	15	1 885	1 649
Depreciation and amortization	22	3 614	3 660
Change in allowance for doubtful advances paid for rent, accounts receivable and prepaid expenses	9,11	(12)	(35)
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses		98	(221)
Interest income on bank deposits	25	(657)	(567)
Other non-cash reconciling items, net		(66)	206
Operating cash flows before movements in working capital		**11 816**	**10 238**
Increase in inventories		(7 118)	(1 044)
Increase in accounts receivable and prepaid expenses		(8 465)	(2 927)
Increase in other taxes receivable		(1 897)	(1 355)
Increase in trade accounts payable		11 413	8 123
(Decrease)/increase in other payables and accrued expenses		(131)	1 944
Increase in deferred revenue		979	143
(Decrease)/increase in other liabilities		(68)	1
Increase in advances received		284	303
Increase/(decrease) in other taxes payable		933	(140)
Other changes in working capital, net		(24)	35
Cash generated by operations		**7 722**	**15 321**
Income tax paid		(2 704)	(1 831)
Interest paid		-	(56)
Net cash generated by operating activities		**5 018**	**13 434**

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

	Notes	2017	2016
INVESTING ACTIVITIES:			
Loans issued		(1 631)	-
Payments for property, plant and equipment		(2 091)	(1 816)
Proceeds from disposal of property, plant and equipment		3	-
Withdrawal of deposits with original maturity of more than 90 days		-	800
Purchase of intangible assets		(3 168)	(2 368)
Interest received		661	527
Other investments		(15)	-
Net cash used in investing activities		**(6 241)**	**(2 857)**
FINANCING ACTIVITIES:			
Dividends paid		-	(3 591)
Non-controlling interests		249	-
Proceeds from short-term loans and borrowings		21	2 753
Repayment of short-term loans and borrowings		(21)	(2 753)
Net cash generated by/(used in) financing activities		**249**	**(3 591)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(974)**	**6 986**
CASH AND CASH EQUIVALENTS, at the beginning of the year		**18 763**	**11 779**
Impact of foreign exchange on cash and cash equivalents		2	(2)
CASH AND CASH EQUIVALENTS, at the end of the year		**17 791**	**18 763**

The Notes on pages 12-46 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 6.

Signed on 21 March 2018 by:

B. Uzhakhov
Chief Executive Officer

E. Sokolova
Chief Financial Officer

(in millions of Russian Rubles)

1. GENERAL INFORMATION

The consolidated financial statements of Public Joint Stock Company "M.video" (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 21 March 2018.

The Company and its subsidiaries (see the table below) are incorporated in the Russian Federation.

Following the initial public offering in November 2007, the Company's ordinary shares were admitted to trading on MICEX stock exchange (Moscow Exchange) in the Russian Federation.

The Group is the operator of a chain of consumer electronic outlets and online internet stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (424 stores as at 31 December 2017; 398 stores as at 31 December 2016) and online internet stores in Moscow and 93 other cities (75 cities as at 31 December 2016).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiaries as at 31 December 2017 and 2016 (the below subsidiaries operate in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 31 December 2017	Proportion of ownership interest and voting power held, % 31 December 2016
LLC "M.video Management"	Retailing	100	100
LLC "MARKETPLACE"	Marketplace project development	80	99,9

On 8 December 2017 non-controlling owner made an additional contribution to Share Capital LLC "MARKETPLACE" of 249.

Shareholders

As at 31 December 2017 and 2016 the registered shareholders of the Company and their respective ownership and voting interests were as follows:

	2017	2016
"Mianello Limited"	57,6755%	-
"SVECE Limited"	-	57,6755%
Various shareholders	42,3245%	42,3245%
Total	**100%**	**100%**

Ultimate Shareholders

"Mianello Limited" owns 57,6755% of the voting ordinary shares of the Company. "Mianello Limited" is incorporated in Cyprus. "Grenodar Holdings Limited" is the ultimate parent entity of the Company. At 31 December 2017 the ultimate beneficial owner of the Company is Gutseriev Mikail Safarbekovitch.

At 31 December 2016 "SVECE Limited" controlled 57,6755% of the voting ordinary shares of the Company and was the ultimate parent entity of the Company. The Company did not have a single ultimate beneficial owner, however the most significant shareholders Mr. Alexander Tynkovan, Mr. Pavel Breev, citizens of the Russian Federation, and Mr. Michael Tynkovan, citizen of the Slovak Republic, could exercise control over "SVECE Limited" were they to act in concert.

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Accounting

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and International Financial Reporting Standard 13 "Fair value measurement" ("IFRS 13") and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS on 1 January 2006.

All companies within the Group maintain their accounting records in accordance with Russian Accounting Standards ("RAS"). RAS differ substantially from those standards generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared based on the Russian statutory accounting records, reflect those adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Functional and presentation currency – The consolidated financial statements are presented in Russian Rubles ("RUB"), which is the functional and presentation currency of each company of the Group. Functional currency for each company of the Group has been determined as the currency of the primary economic environment in which the company operates.

Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations discussed below.

The Group has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in these annual consolidated financial statements:

- Amendments to IAS 7 Disclosure Initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

The adoption of these standards and interpretations has not had a significant impact on consolidated financial statements of the Group for the year ended 31 December 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group transactions, balances, income and expenses or profits and losses resulting from intra-group transactions are eliminated in full on consolidation.

Operating segments – Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure the Group has identified one operating segment – the sale of consumer electronics through its retail and internet stores.

Going concern – These consolidated financial statements are prepared on the going concern basis.

Foreign currencies – The individual financial statements of each Group's entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rate prevailing on the date when the most recent fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Exchange differences arising on loans and borrowings are reported as part of finance cost, while exchange differences related to operating items are included into other operating income or expenses.

Property, plant and equipment – Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Deemed cost of the items of property, plant and equipment existing as at 1 January 2006, the date of transition to IFRS, was determined on the basis of fair values estimated by independent appraisers as allowed by the provisions of IFRS 1. Fair value of properties was determined with reference to market prices, while fair value of the other items, including the Group's trade equipment, was predominantly based on the estimates of depreciated replacement costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Major replacements or modernizations of property, plant and equipment are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income during the financial period in which it is incurred.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	20-30 years
Leasehold improvements	7 years
Trade equipment	3-5 years
Security equipment	3 years
Other fixed assets	3-5 years

Leasehold improvements are depreciated over the shorter of useful life or the related lease term.

Trade equipment is depreciated over the estimated useful life specified above unless there is a plan to fully renovate the store prior to reaching the predetermined estimated useful life. In this situation, the net book value of trade equipment will be depreciated over the remaining estimated useful life being the period of time up to the planned renovation works.

The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where there are indicators that an asset's or cash generating unit's carrying amount is greater than its estimated recoverable amount, it is written down to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss and other comprehensive income.

Construction in progress comprises the cost of equipment in the process of installation and other costs directly relating to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over estimated useful lives of these intangible assets. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives per class of intangible assets are as follows:

Software licenses, development and web site	1-10 years
Trademarks	5-10 years
Leasehold	7-15 years

Internally-generated intangible assets – An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of non-current assets – At each balance sheet date the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. 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 risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiplies, quoted share price if available or other fair value indicators.

For non-current assets the CGU is deemed to be each group of stores located in one city. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Impairment test is performed by the Group annually for those intangible assets that are not yet available for use at the year-end by comparing their carrying amount with the recoverable amount calculated as discussed above. If the carrying amount of such assets does not yet include all the cash outflows to be incurred before they are ready for use, the estimate of future cash outflow includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use.

Income tax – Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

<u>Deferred tax</u>

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries as the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax for the period

Current and deferred income tax are recognized as an expense or income in the consolidated statement of profit or loss and other comprehensive income, except when they relate to items credited or debited directly to equity (in which case the tax is also recognized directly in equity) or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Fair value of financial instruments – The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets – Investments are recognized and derecognized on a trade date, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that the Group holds on its consolidated statement of financial position at 31 December 2017 are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets as at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets as at FVTPL are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income. The net gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described above.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment losses and bad debts.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those as at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other accounts receivable where the carrying amount is reduced through the use of an allowance account. When trade and other accounts receivable are uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of profit or loss and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities as at FVTPL or other financial liabilities.

Financial liabilities as at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities as at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described above in Note 3.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Value added tax – Value added tax ("VAT") related to sales is payable to tax authorities on the earliest of (a) cash received from customers in advance or (b) transfer of the goods or rendering services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

VAT is generally allowed to be settled on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

At each reporting date the Group reviews outstanding balance of input VAT for recoverability and creates impairment provision for the amounts which recoverability is doubtful.

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the suppliers incurred to deliver inventories to the Group's central distribution warehouse are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier's products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories from the central distribution warehouse to the retail stores are expensed as incurred and included either in "Cost of sales" (costs of transporting merchandise from central distribution warehouses to the retail stores) or in "Selling, general and administrative expenses" (all other costs).

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Cash and cash equivalents – Cash and cash equivalents comprise cash at banks, in transit and on hand in stores and short-term deposits with an original maturity of three months or less, and credit card payments received within 24 hours of the next working day.

Borrowing costs – The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset. The Group defines qualifying assets as leasehold improvements and other assets acquired in connection with the new store openings which generally take three months or longer to become operational. Other borrowing costs are expensed as incurred.

Provisions – Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and VAT. Inter-company revenue is eliminated. The following specific recognition criteria must also be met before revenue is recognized:

<u>Sale of goods</u>

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of goods is recognized at the point of sale or, where later, upon delivery to the customer.

Loyalty programs

The Group operates customer loyalty programs "M.video Bonus" and "Co-brand", which allow customers to accumulate points when they purchase goods in the Group's retail stores. The points can then be redeemed as a payment for merchandise, subject to a minimum number of points being obtained. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points.

Revenue from services

Revenue from services is recognized in the period in which the services have been rendered and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The stage of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Additional service agreements

The Group sells additional service agreements ("ASA") and has an obligation to the buyer to perform services throughout the period of the contract. Revenue from the ASA is deferred and recognized on a straight-line basis over the term of the service contract. Related costs, such as cost of services performed under the contract, general and administrative expenses and advertising expenses are charged to expense as incurred.

Agent fees

The Group recognizes as revenue any sales performed as an agent at net amounts (i.e. at the amount of commission, owed to the Group). Such fees include sales of goods, telephone and television service contracts and other services fees.

Gift cards

The Group sells gift cards to its customers in its retail stores and through its website. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards at the earlier date when: (i) the gift card is redeemed by the customer; or (ii) when the gift cards expire.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in the finance cost in the consolidated statement of profit or loss and other comprehensive income.

Cost of sales – Cost of sales include the cost of inventories and services acquired from suppliers, freight in, costs related to transporting inventories from distribution centers to stores, allowance for obsolete and slow-moving inventory, inventory losses and supplier bonuses.

Supplier bonuses – The Group receives supplier bonuses in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. The Group has agreements in place with each vendor setting forth the specific conditions for each allowance or payment. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonably assured the Group will reach these volumes.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. Substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by the Group's buying teams and are credited directly to cost of goods sold in the period received. Vendor allowances received prior to merchandise being sold are deferred and recognized as a reduction of merchandise cost.

Leases – The Group has not entered into any finance leases, although it does have a significant number of operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. If reimbursement of utility and maintenance expenses is included in the fixed lease payments, the amount to be reimbursed and expensed in the reporting period needs to be calculated.

Any benefits received from the landlord as an incentive to enter into an operating lease are spread over the lease term on a straight-line basis. Sublease income and lease expenses are presented on the net basis.

Pre-opening expenses – Expenses incurred in the process of opening new stores which do not meet capitalization criteria under IAS 16 "Property, plant and equipment" are expensed as incurred. Such expenses include rent, utilities and other operating expenses.

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group contributes to the Russian Federation state pension, medical and social insurance funds on behalf of all its current employees (a defined contribution plan) by paying social security contributions ("SSC"). The Group's only obligation is to pay contributions to the funds as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. Any related expenses are recognized in the consolidated statement of profit or loss and other comprehensive income as they become due. Contribution for each employee varies from 15,1% to 30% depending on the annual gross remuneration of each employee. The Group does not operate any employer sponsored pension plans.

Dividends – Dividends are recognized as a liability in the period in which they have been declared by the shareholders in a general meeting and become legally payable. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Treasury shares – If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by the subsidiaries of the Company.

4. NEW AND REVISED STANDARDS IN ISSUE NOT YET ADOPTED

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements. The full impact of adopting IFRS 9 on the Group's consolidated financial statements in the year of adoption will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgments made as at the year end. The Group has selected not to restate comparatives on initial application of IFRS 9. Based on a preliminary analysis of the Group's financial assets and financial liabilities at 31 December 2017 on the basis of facts and circumstances that exist at that date, Management has assessed the impact that IFRS 9 May have on the Group's consolidated financial statements as follows:

- **Classification and measurement.** In general, the Group's financial assets and financial liabilities are measured at amortised cost using effective interest method. Foreign currency forward contracts are measured at fair value through profit or loss. Upon adoption of IFRS 9 the Group expects to measure respective financial assets and liabilities on the same basis as currently adopted under IAS 39.
- **Impairment.** The Group's financial assets measured at amortised cost (cash and cash equivalents, accounts receivable) will be subject to impairment provisions of IFRS 9. The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its accounts receivable and cash and cash equivalents as required or permitted by IFRS 9. In general, Management anticipates that the application of the expected credit loss model under IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items. However, as the Group holds its cash and cash equivalents in financial institutions with high credit rating (Note 31) and given the Group's trade receivables are represented by bonuses and rebates due from suppliers (Note 11), Management anticipates that any increase in the amount of loss allowance recognized following the adoption of IFRS 9 will not be significant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual reporting periods (including interim reporting periods within those periods) beginning 1 January 2018 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group continues to evaluate the impact that IFRS 15 and related clarifications will have on the Group's consolidated financial statements. As discussed in Note 21, the Group recognizes revenue mainly from sales in its retail stores and through the Internet and have customer loyalty programs. Management have performed an assessment of the impact that IFRS 15 may have on the Group's consolidated financial statements and have concluded that the impact will be limited to immaterial changes to the timing of recognition of revenue related to customer loyalty programs. The Group will not apply a fully retrospective approach upon transition to IFRS 15 and will book cumulative impact of transition as an adjustment to retained earnings at 1 January 2018.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning 1 January 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

The Group has begun evaluating and planning for the adoption and implementation of the new leases standard, including selecting lease accounting system and estimating the overall accounting policy and financial statements impact.

As at 31 December 2017, the Group's future minimal rental payments for non-cancellable operating lease agreements (Note 29) were RUB 51 232 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as future minimal rental payments for operating lease agreements in Note 29. A preliminary assessment indicates that these agreements will meet the definition of a lease agreement under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these agreements unless leases qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and Management is currently assessing its potential impact.

It is not practicable to provide a reasonable estimate of the financial effect of IFRS 16 until Management completes the review which is expected to be finalized during the year ended 31 December 2018.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Group's accounting policies, which have been described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates and assumptions

Inventory valuation

In accordance with the Group's accounting policy management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories, obsolete inventories and partially or fully damaged inventories. The identification process includes assessing historical performance of the inventory and analysis of sales of merchandise at prices below their carrying amounts less costs to sell in the recent years. Damaged stock is either provided for or written off depending on the extent of damage. Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

The net realizable value allowance is calculated using the following methodology:

- Stock held for resale – comparison of expected selling price versus the carrying value on a stock keeping unit basis;
- Damaged goods – examination of historical data relating to discounts associated with damaged goods and comparison to book value at the balance sheet date, and also examination of historical data on compensations, received from suppliers for damaged goods;
- Stock held at service centers – an allowance is applied based on management's estimate of the carrying value of the inventory and based on historical data on sales of respective inventories and compensations, received from suppliers in relation to stock held at service centers;
- Additional allowance is accrued if there is actual evidence of a decline in selling prices after the end of the reporting period to the extent that such decline confirms conditions existing at the end of the reporting period.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

Tax and customs provisions and contingencies

The Group is subject to varius taxes arising in the Russian Federation. The majority of its merchandise is imported into Russian Federation and is therefore subject to the Russian customs regulations. Significant judgment is required in determining the provision for income taxes and other taxes. The Group recognizes liabilities for anticipated tax issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provision in the period in which such determination is made.

Assessment of lease term

At the inception or modification of each operating lease agreement the Group assesses non-cancellable lease period. During the assessment the Group considers legal factors (the right to cancel the lease before the end of the lease period and the renewal option) and economic factors (financial and non-financial, such as revenue growth rates, profitability, strategic importance of location). The assessment requires exercise of the management's judgment. Once determined, the non-cancellable lease period is used in the calculation of lease payments to be recognized as an expense on a straight-line basis as well as in the estimation of depreciation period of leasehold improvements which cannot exceed the non-cancellable lease period of the relevant premises.

Determination of a portion of lease payments that does not represent a payment for the use of premises

As disclosed in Note 3, for the lease agreements which stipulate that payments for reimbursement of maintenance costs incurred by the lessor are embedded in the fixed periodic lease payments, the Group performs a calculation of such costs to be recognized as current period expense on an agreement-by-agreement basis. The calculation is performed based on amounts of factual maintenance costs incurred on similar leases for comparable premises where the amounts of maintenance costs are clearly stated in the documents. Where possible, comparable premises are selected within the same city or region.

Revenue attributed to loyalty programs

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized then as a revenue over the period that the award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the balance sheet date, as far as issued points are expired through the passage of time in the future.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. Management has concluded that substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

(in millions of Russian Rubles)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2017 and 2016 consisted of the following:

	Buildings	Leasehold improve-ments	Construc-tion in progress and equipment to be installed	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2015	**5 345**	**4 859**	**234**	**5 375**	**1 208**	**3 614**	**20 635**
Additions	-	-	1 736	-	-	-	1 736
Transfers	29	327	(1 665)	475	120	714	-
Disposals	-	(40)	-	(76)	(9)	(215)	(340)
As at 31 December 2016	**5 374**	**5 146**	**305**	**5 774**	**1 319**	**4 113**	**22 031**
Additions	-	-	2 000	-	-	-	2 000
Transfers	14	90	(1 762)	722	146	790	-
Disposals	(1)	(60)	-	(87)	(20)	(160)	(328)
As at 31 December 2017	**5 387**	**5 176**	**543**	**6 409**	**1 445**	**4 743**	**23 703**
Accumulated depreciation							
As at 31 December 2015	**1 935**	**3 320**	**-**	**3 246**	**1 009**	**2 245**	**11 755**
Charge for the year	277	653	-	815	132	593	2 470
Disposals	-	(35)	-	(66)	(8)	(212)	(321)
As at 31 December 2016	**2 212**	**3 938**	**-**	**3 995**	**1 133**	**2 626**	**13 904**
Charge for the year	271	350	-	732	123	700	2 176
Disposals	-	(59)	-	(79)	(19)	(156)	(313)
As at 31 December 2017	**2 483**	**4 229**	**-**	**4 648**	**1 237**	**3 170**	**15 767**
Net book value							
As at 31 December 2016	**3 162**	**1 208**	**305**	**1 779**	**186**	**1 487**	**8 127**
As at 31 December 2017	**2 904**	**947**	**543**	**1 761**	**208**	**1 573**	**7 936**

Depreciation expenses have been included in "Selling, general and administrative expenses" (Note 22).

Assets mainly related to the closed stores with net book value of 15 were disposed off by the Group in the year ended 31 December 2017 (in the year ended 31 December 2016: 19). Loss on disposal of these items of 12 (2016: 19) was recorded within other operating expenses (Note 24).

(in millions of Russian Rubles)

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2017 and 2016 consisted of the following:

	Software licenses, development and web site	Leasehold rights	Trademarks	Total
Cost				
As at 31 December 2015	**6 614**	**-**	**32**	**6 646**
Additions	2 361	-	2	2 363
Disposals	(574)	-	(1)	(575)
As at 31 December 2016	**8 401**	**-**	**33**	**8 434**
Additions	2 584	701	7	3 292
Disposals	(619)	-	-	(619)
As at 31 December 2017	**10 366**	**701**	**40**	**11 107**
Accumulated amortization				
As at 31 December 2015	**1 657**	**-**	**15**	**1 672**
Charge for the year	1 188	-	2	1 190
Disposals	(573)	-	-	(573)
As at 31 December 2016	**2 272**	**-**	**17**	**2 289**
Charge for the year	1 407	27	4	1 438
Disposals	(619)	-	-	(619)
As at 31 December 2017	**3 060**	**27**	**21**	**3 108**
Net book value				
As at 31 December 2016	**6 129**	**-**	**16**	**6 145**
As at 31 December 2017	**7 306**	**674**	**19**	**7 999**

During 2017 the Group incurred expenditures in the total amount of 3 292 which for the most part related to the development of the new front-office / back-office system, the new web site platform, additional functionality of the Group's ERP system SAP R\3 and development of Marketplace project.

Amortization expenses have been included in "Selling, general and administrative expenses" (Note 22).

In 2017, the Group acquired the leasehold rights on 6 properties from LLC "TechInvest-M". The valuation of lease rights was carried out by an independent appraiser.

As at 31 December 2017 and 2016 the Group had contractual commitments for the technical support of software licenses (Note 30).

(in millions of Russian Rubles)

8. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Loan issued (i)	1 631	-
Interest receivable	26	-
Non-current accounts receivable (ii)	814	-
Total	**2 471**	**-**

(i) In November 2017 the loan in amount of 1 631 was issued to VUPALIAR HOLDINGS LIMITED. The interest rate stipulated by the loan agreement is the key rate set by the Central Bank of the Russian Federation at the beginning of each interest period (November 1) increased by 0,5 percentage points. The maturity of the loan and interest thereon is no later than 30 October 2024.

(ii) On 24 October 2017, the Group entered into an agreement stipulating the issuance by the Group a financial guarantee to LLC "Autoclub", a related party, in amount not exceeding USD 878 million. This agreement stipulates the Group to receive a commission fee from LLC "Autoclub" at a rate of 0,5% of the remaining guaranteed amount per annum. As at the date of the agreement, the Group recognized non-current accounts receivable in amount of RUB 803 million that represented by commission fees to be received by the Group in future periods discounted at a rate of 6,06%.

As at 31 December 2017, the non-current accounts receivable under the agreement for the issuance of a financial guarantee amounted to RUB 814 million.

The table below provides a sensitivity analysis of the fair value of the non-current accounts receivable recognized under the financial guarantee agreement as at the date of its recognition in respect of the key inputs used in the estimation of the fair value:

Discount rate	Commission rate	Fair value, RUB million
5%	0,5%	864
6%	0,5%	407
7%	0,5%	767
6%	0,75%	1 220

As at 31 December 2017, the fair value of non-current financial assets approximately equal to their book value.

9. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Long-term advances paid for rent	465	514
Advances paid for non-current assets	448	166
Long-term loans and notes receivable	39	24
Advances paid to related parties (Note 28)	30	-
Investment in associates	15	-
Less: allowance for doubtful long-term advances paid for rent	(4)	(12)
Total	**993**	**692**

(in millions of Russian Rubles)

Movement in the allowance for doubtful long-term advances paid for rent is as follows:

	2017	2016
Balance at the beginning of the year	12	13
Amounts written off as uncollectible	(8)	(1)
Balance at the end of the year	**4**	**12**

10. INVENTORIES

Inventories as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Goods for resale	52 789	45 819
Other inventories	147	181
Less: allowance for obsolete and slow-moving inventories	(653)	(830)
Total	**52 283**	**45 170**

Cost of inventories recognized as an expense in the amount of 148 128 and 137 437 and inventory losses net of surpluses in the amount of 275 and 512 for the years ended 31 December 2017 and 2016, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

11. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Bonuses receivable from suppliers	14 298	10 574
Other accounts receivable	4 563	2 020
Accounts receivable from related parties (Note 28)	2 046	11
Advances paid to suppliers and prepaid expenses	777	649
Less: allowance for doubtful accounts receivable and prepaid expenses	(73)	(92)
Total	**21 611**	**13 162**

As at 31 December 2017 and 2016 the Group did not have accounts receivable past due but not impaired.

Movement in the allowance for doubtful accounts receivable and prepaid expenses is as follows:

	2017	2016
Balance at the beginning of the year	92	150
Impairment losses recognized on accounts receivable and prepaid expenses	29	26
Amounts written off as uncollectible	(7)	(23)
Amounts recovered during the year	(41)	(61)
Balance at the end of the year	**73**	**92**

The accounts receivable impaired as at 31 December 2017 and 2016 were aged of more than 120 days.

In determining the recoverability of accounts receivable the Group considers any change in the credit quality of receivables and prepaid expenses from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 31.

(in millions of Russian Rubles)

12. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
VAT recoverable	6 146	4 210
Other taxes receivable	8	8
Total	**6 154**	**4 218**

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
Short-term bank deposits	11 570	14 650
Cash in transit	4 695	2 698
Cash at banks	1 180	1 036
Petty cash and cash in stores	346	379
Total	**17 791**	**18 763**

Cash at banks as at 31 December 2017 and 2016 includes the amounts of 66 and 80, respectively, collected by the Group from its customers for further transfer through "Qiwi" payment system. The Group cannot use this cash in its operating activities as it is due to be transferred to the recipients.

Cash in transit represents acquiring and cash collected from the Group's stores and not yet deposited into the bank accounts at the year end.

As at 31 December 2017 short-term bank deposits denominated in RUB earned interest ranging from 0,01% to 7,5% per annum. The short-term deposits matured in January 2018.

As at 31 December 2016 all short-term bank deposits denominated in RUB earned interest ranging from 7,2% to 9,5% per annum. The short-term deposits matured in January-March 2017.

14. EQUITY

Share capital

As at 31 December 2017 and 2016 the Company had the following number of authorized, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
Balance as at 31 December 2017 and 2016	**179 531 237**	**179 768 227**	**209 768 227**

Each share has par value of 10 RUB per share. During 2017 and 2016 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

Additional paid-in capital

Additional paid-in capital consists of share premium which is the excess between proceeds from issuance of 30 000 000 additional ordinary shares issued at 1 November 2007 and their par value, less share issuance costs and related current and deferred income tax amounts.

(in millions of Russian Rubles)

Treasury shares

As at 31 December 2017 and 31 December 2016 the Group owned 236 990 treasury shares held at cost of 52.

Non-controlling interests

In 2016 Mr. A. Tynkovan made a contribution of 1 into capital of LLC "MARKETPLACE" in exchange for 0,1% interest in this subsidiary.

In 2017 Mr. A. Tynkovan made a contribution of 249 into capital of LLC "MARKETPLACE" in exchange for 20% interest in this subsidiary. As a result of this transaction, the Group's non-controlling interests in LLC "MARKETPLACE" increased by the same amount.

Dividends declared

On 20 June 2016 the Annual General Meeting approved dividends of 20 RUB per share in respect of 2015. Dividends attributable to the treasury shares were eliminated in full for the purpose of these consolidated financial statements. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were recognized as a reduction of shareholders' equity in these consolidated financial statements in the total amount of 3 591.

In 2017, dividends were not declared and were not paid.

15. INCOME TAX

The Group's income tax expense for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Current tax		
Current tax expense in respect of the current year	(2 154)	(2 088)
	(2 154)	**(2 088)**
Deferred tax		
Deferred tax benefit recognized in the current year	269	439
	269	**439**
Total income tax expense recognized in the current year	**(1 885)**	**(1 649)**

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2017 and 2016 is presented below:

	2017	2016
Deferred tax assets		
Supplier bonuses allocated to inventories	1 804	1 662
Accrued expenses	1 150	1 168
Deferred revenue and prepayments received for goods	598	432
Difference in depreciable value of property, plant and equipment	408	374
Salary-related accruals	304	320
Allowance for obsolete and slow-moving inventories	130	166
Allowance for doubtful long-term advances paid for rent, accounts receivable and prepaid expenses	15	20
Other items	8	41
Total	**4 417**	**4 183**
Deferred tax liabilities		
Difference in amortizable value of intangible assets	(153)	(188)
Total	**(153)**	**(188)**
Deferred tax assets, net	**4 264**	**3 995**

(in millions of Russian Rubles)

As at 31 December 2017 and 2016 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2017 and 2016 to the actual expense recorded in the Group’s consolidated statement of profit or loss and other comprehensive income:

	2017	**2016**
Profit before income tax expense	8 839	7 195
Income tax expense calculated at 20%	(1 768)	(1 439)
Effect of expenses that are not deductible in determining taxable profit:		
Inventory losses	*(105)*	*(139)*
Non-deductible payroll expenses	*(12)*	*(27)*
Other non-deductible expenses, net	-	*(44)*
Income tax expense recognized in profit or loss	**(1 885)**	**(1 649)**

As at 31 December 2017 and 2016 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary.

16. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2017 and 2016 consisted of the following:

	2017	**2016**
Rent and utilities	4 570	4 432
Salaries and bonuses	1 711	1 645
Other current liabilities related to purchase of property, plant and equipment and intangible assets	1 131	1 015
Other current liabilities to related parties (Note 28)	29	34
Other	1 267	1 354
Total	**8 708**	**8 480**

As at 31 December 2017 accounts payable and accruals for rent and utilities included accrued liabilities for lease payments calculated on a straight-line basis over the lease term in the amount of 4 071 (31 December 2016: 3 953).

17. ADVANCES RECEIVED

Advances received as at 31 December 2017 and 2016 consisted of the following:

	2017	**2016**
Prepayments received for goods (i)	1 737	1 427
Advances received for gift cards	678	791
Other advances received	241	154
Total	**2 656**	**2 372**

(i) Prepayments received for goods represent cash received for goods which have not yet been delivered to customers at the reporting date. These relate mostly to online sales and goods sold in stores for future delivery.

(in millions of Russian Rubles)

18. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2017 and 2016 consisted of the following:

	2017	2016
VAT payable	1 047	147
Payroll taxes	434	408
Other taxes payable	146	139
Total	**1 627**	**694**

19. DEFERRED REVENUE

Deferred revenue as at 31 December 2017 and 2016 consisted of the following:

	2017			2016		
	Customer loyalty programs	Other programs	Additional services	Customer loyalty programs	Other programs	Additional services
As at 1 January	1 742	434	2 768	1 340	1 068	2 393
Revenue deferred during the period	9 525	2 455	2 520	6 688	2 143	2 177
Revenue released to the consolidated statement of profit or loss and other comprehensive income	(9 557)	(1 894)	(2 070)	(6 286)	(2 777)	(1 802)
As at 31 December	**1 710**	**995**	**3 218**	**1 742**	**434**	**2 768**

Other programs represent primarily granting of gift cards to the Group's customers.

20. FINANCIAL GUARANTEES

As indicated in Note 8, in October 2017 the Group entered into an agreement stipulating the issuance by the Group a financial guarantee to LLC "Autoclub", a related party, in amount not exceeding USD 878 million.

At initial recognition, the fair value of the financial guarantee liability amounted to RUB 803 million was determined based on the present value of the Group's future commission fee under this agreement.

At the recognition date, the sensitivity of the fair value of the liability recognized under the financial guarantee agreement is similar to the sensitivity determined for the non-current accounts receivable under this agreement (Note 8).

As at 31 December 2017, the liability recognized under the financial guarantee agreement amounted to RUB 780 million, which approximates to its fair value.

21. REVENUE

Revenue for the years ended 31 December 2017 and 2016 consisted of the following:

	2017	2016
Retail revenue	194 537	179 407
Additional services revenue	2 070	1 802
Other services	1 590	2 010
Total	**198 197**	**183 219**

(in millions of Russian Rubles)

Retail revenue includes sales of goods in stores, pick-up in stores, internet home-delivery and commission fees.

Other services include revenue from services of installation, digital assistant, utilization and delivery.

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2017 and 2016 consisted of the following:

	2017	**2016**
Payroll and related taxes (including share-based payments – Note 27)	12 538	11 415
Lease expenses, net of income from sublease (2017: 29; 2016: 43)	8 885	8 621
Advertising and promotional expenses, net	3 827	3 521
Depreciation and amortization	3 614	3 660
Maintenance and other property operating costs	1 819	1 818
Bank charges	1 600	1 331
Warehouse services	1 484	1 469
Credit broker services	1 143	118
Repairs and servicing	1 096	1 082
Consulting services	1 083	737
Utilities	1 028	984
Security	979	970
Communication	243	293
Taxes other than income tax	165	175
Other expenses	1 250	1 157
Total	**40 754**	**37 351**

Payroll and related taxes for the year ended 31 December 2017 include 1 879 contribution to the state pension fund (2016: 1 625) and social and medical insurance in the amount of 733 (2016: 628).

During 2017 the Group received 709 from its suppliers as a compensation of advertising and promotional expenses (2016: 436).

23. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2017 and 2016 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group's stores, non-commission income from mobile operators, income from lease of commercial space owned by the Group and other items.

24. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2017 include charity expense of 47 (2016: 48), expense on corporate events in amount of 51 (2016: 41), loss on disposal of property, plant and equipment of 12 (2016: 19) and other individually insignificant items.

(in millions of Russian Rubles)

25. FINANCE INCOME AND EXPENSES

Finance income/(expenses), net for the years ended 31 December 2017 and 2016 consisted of the following:

	2017	2016
Interest income	657	567
Interest expense on bank loans	-	(56)
Exchange loss from revaluation of investments	2	-
Total	**659**	**511**

26. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017	2016
Net profit attributable to equity holders of the Company	6 954	5 546
Weighted average number of ordinary share in issue (millions of shares)	179,53	179,53
Basic and diluted earnings per share (in Russian rubles)	**38,73**	**30,89**

27. SHARE-BASED PAYMENTS

During the years ended 31 December 2017 and 2016 the Group had cash-settled share option plan – Long-term incentive plan – Series 4.

An expense recognized by the Group during the years ended 31 December 2017 and 2016 with regards to its share-based payments is as follows:

Series	2017	2016
LTIP 4	401	230
Total	**401**	**230**

The above expenses have been included into “Selling, General and Administrative Expenses” as “Payroll and related taxes” (Note 22).

The amount of payments for LTIP 4, for the year ended December 31, 2017 was 678 (for the year ended December 31, 2016: 230).

As at 31 December 2017, the Group has no liability to the participants of LTIP 4. As at 31 December 2016, the fair value of liability to the participants of LTIP 4 was 277: the short-term portion of liability being 209 was reflected within "Other payables and accrued expenses", and the long-term portion being 68 – within "Other long-term liabilities".

(in millions of Russian Rubles)

28. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, entities under control of key management personnel and entities over which the Group has significant influence.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances owed by / to related parties as at 31 December 2017 and 2016, respectively:

	2017		31 December 2017		2016		31 December 2016	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control								
LLC "Eldorado" (i)	1 628	1 641	1 994	-	-	-	-	-
LLC "PNK-Chekhov" (ii)	-	377	73	-	-	-	-	-
JSC "ComEstate" (iii)	-	60	7	-	-	-	-	-
JSC "GMG-BIN" (iv)	-	51	-	1	-	-	-	-
	1 628	**2 129**	**2 074**	**1**	**-**	**-**	**-**	**-**
Entities under key management control								
LLC "Private Security Agency Bars-SB" (v)	2	313	2	11	2	306	-	15
Transservice Group of Companies (vi)	-	237	-	12	-	264	11	-
Avtoritet Group of Companies(vii)	1	74	-	2	1	84	-	16
LLC "Avto-Express" (viii)	-	34	-	-	-	36	-	1
LLC "FUST-E" (ix)	-	7	-	1	-	11	-	1
LLC "TechnoVideo-Service" (x)	-	8	-	-	-	11	-	-
LLC "IT Service" (xi)	-	9	-	2	-	3	-	1
LLC "Universal service" (xii)	-	-	-	-	-	1	-	-
Total	**3**	**682**	**2**	**28**	**3**	**716**	**11**	**34**

The nature of transactions with related parties is as follows:

(i) LLC "Eldorado" - purchase and sale of goods;
(ii) LLC "PNK-Chekhov" – provides warehouse leasing services;
(iii) JSC "ComEstate" – provides trade premises leasing services;
(iv) JSC "GMG-BIN" – provides trade premises leasing services;
(v) LLC "Private Security Agency Bars-SB" – provides store and head office security services;
(vi) Transservice Group of Companies – provides after sale and other servicing of the Group's merchandise;
(vii) Avtoritet Group of Companies – provides rental services;
(viii) LLC "Avto-Express" – provides a car leasing service to the Group and logistic services;
(ix) LLC "FAST-E" – provides redecoration and network repair services in the central office and shops located in Moscow;
(x) LLC "TechnoVideoService" – provides home appliances installation services;
(xi) LLC "IT Service" - provides after sale and other servicing of the Group's merchandise;
(xii) LLC "Universal service" - provides a car leasing service to the Group and logistic services.

(in millions of Russian Rubles)

As at 31 December 2017 the liability of related parties in respect of the loan issued and the financial guarantee issued, including interest, was as follows:

	Interest income for 2017	**Amounts owed by related parties as at 31.12.2017, including interest**
VUPALIAR HOLDINGS LIMITED	26	1 657
LLC "Autoclub"	9	814
Total	**35**	**2 471**

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable, except for the guarantees for the obligations of LLC "Autoclub" (Note 8). No impairment of accounts receivable relating to amounts owed by related parties has been recorded by the Group during the years ended 31 December 2017 and 2016. 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.

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the years ended 31 December 2017 and 2016 was as follows:

	2017	**2016**
Short-term benefits*	949	808
Share-based payments**	192	58
Total	**1 141**	**866**

* Short-term benefits include salaries, bonuses and annual leave, medical and relocation expenses.
** Amounts relate to the participation of the key management personnel in the long-term incentive program posted in the consolidated statement of profit or loss and other comprehensive income (Note 27).

As at 31 December 2017 there were outstanding payables of 443 to key management personnel (2016: 166).

The number of key management positions was 20 in 2017 (2016: 16).

The Group did not provide any material post-employment or other long-term benefits to key management personnel during the period other than those disclosed in Note 27, contributions to the state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. Social security contributions paid relating to compensation of key management personnel amounted to 86 for the year ended 31 December 2017 (2016: 77) and is included in the amounts stated above.

(in millions of Russian Rubles)

29. OPERATING LEASE AGREEMENTS

The Group enters into long-term leases for the stores for the periods from 1 to 20 years. Some of these leases are not able to be fully registered and thus legally enforceable until the landlord is able to produce all valid ownership papers and therefore are arranged as 11-month rolling leases; at the same time some of the long-term lease contracts contain cancellation clauses and some of the short-term lease contracts contain prolongation clauses. The Group assesses non-cancellable lease period at the inception or modification of each operating lease agreement. The assessment considers legal factors and economic factors. The assessment requires exercise of the management's judgment. Once determined, the non-cancellable lease period is used in the calculation of lease payments to be recognized as an expense on a straight-line basis as well as in the estimation of depreciation period of leasehold improvements which cannot exceed the non-cancellable lease period of the relevant premises.

Certain lease contracts stipulate terms requiring the Group to pay the higher of minimum lease payments or a percentage of revenue. The amounts paid in excess of the minimum lease payments are disclosed as contingent rentals below. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Payments recognized as an expense

	2017	2016
Minimum lease payments	7 855	7 786
Contingent rentals	1 059	878
Total	**8 914**	**8 664**

Non-cancellable operating lease commitments

Future minimum rentals payable during non-cancellable term of operating leases for premises occupied as at 31 December 2017 and 2016 were as follows:

	2017	2016
Within one year	8 055	8 481
After one year but not more than five years	27 866	29 085
More than five years	15 311	17 740
Total	**51 232**	**55 306**

Future minimal rental payments will be subject to VAT.

30. COMMITMENTS AND CONTINGENCIES

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A recent downturn in the Russian economy and general slowdown in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

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

Russian Federation tax and regulatory environment

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

The Group has identified possible tax contingencies for the three-year period ended 31 December 2017. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed 20% of the Group's profit before income tax expense.

Customs

During the years ended 31 December 2017 and 2016, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into the Russian Federation directly. As the Group was not involved in clearing customs for the goods purchased on the territory of the Russian Federation, management cannot be certain that the entities which imported the goods into the Russian Federation were in full compliance with the applicable regulations of the Russian customs code.

As described above in *Russian Federation tax and regulatory environment* section, the relevant authorities may take a more assertive position in their interpretation of the applicable laws. Under Russian law a company in possession of goods that were imported with proven violations of the customs law may be subject to significant administrative or civil penalties and/or confiscation of the goods, if it was involved in, aware of, or should have known that violation of the customs code were occurring. To date, the Group has not been subject to any notification of violations of the customs code.

Management believes that the Group entities were acting in compliance with all applicable tax and legal requirements in respect of imported products, were not involved, not aware and could not be expected to know of any significant violations of the applicable customs code by the Russian wholesalers or resellers. Accordingly, management did not recognize any provisions in respect of such contingencies in these consolidated financial statements and determined that with current limitations in access to customs clearance documents it is not practicable to estimate the likely potential financial effect, if any, of such contingent liabilities.

License agreements

As at 31 December 2017, the Group had a total contractual commitment of approximately 178,1-222,1 million RUB per annum for technical support services with respect to existing SAP licenses and software during the period from 2017 to 2018 (31 December 2016: 172,6 – 172,8 million RUB). The Group uses SAP software for finance, supply chain and human resources functions.

Litigation

In the normal course of business, the Group is subject to proceedings, lawsuits, and other claims. While such matters are subject to other uncertainties, and outcomes are not predictable with assurance, the management of the Group believes that any financial impact arising from these matters would not be material to its financial position or annual operating results.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its environmental obligations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental matters.

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2017 the Group entered into such guarantee contracts for the total amount of 4 734 (as at 31 December 2016: 2 042). During the years ended 31 December 2017 and 2016 the Group has not pledged any assets as collateral under these guarantee contracts.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Generally the Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade and other receivables and cash and short-term deposits that arrive directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management provides assurance to the Group's Board of Directors that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2017 and 2016.

The capital structure of the Group consists of issued capital (less treasury shares), additional paid in capital and retained earnings.

(in millions of Russian Rubles)

The primary objective of the Group's capital management program is to maximize shareholder value while minimizing the risks associated with the loan portfolio. The consumer electronics business is a cyclical business and as such requires short-term fluctuations in capital to purchase goods to satisfy the seasonal demand. The Group uses a combination of short-term loans and supplier credit terms to meet the seasonal capital needs. The store expansion program adds to the capital needs as the capital and pre-opening costs associated with the new stores put additional pressure on the Group's financial resources. While the Group has not established any formal policies regarding debt to equity proportions the Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt.

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments as at 31 December 2017 and 2016 were as follows:

	2017	2016
Financial assets		
Loans and receivables (including cash and cash equivalents)	36 618	31 289
Financial liabilities		
Liabilities carried at amortized cost	82 335	70 812

Foreign currency risk management

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group's exposures to foreign currency risk arise from cash and cash equivalents held in US Dollars and Euro as well as from lease payments tied-in to currencies other than functional currency. At 31 December 2017 approximately 18% (at 31 December 2016: 27%) of the Group's operating lease agreements for stores and warehouses were tied-in to either US Dollars or Euro and these contracts accounted for approximately 32% (2016: approx. 40%) of the Group's operating lease expenses for the year ended 31 December 2017. The Group minimizes, to the extent possible, the risk arising from foreign currency-denominated lease contracts by negotiating a fixed exchange rate or a cap for an exchange rate with the lessors.

During the years ended 31 December 2017 and 2016 the Group did not use forward exchange contracts to eliminate the currency exposures.

The carrying amount of the Group's foreign currency-denominated assets and liabilities at the reporting date are as follows:

	US Dollar		Euro	
	2017	2016	2017	2016
Assets				
Cash and cash equivalents	2	31	-	-
Total assets	**2**	**31**	**-**	**-**
Liabilities				
Accounts payable and accruals for operating leases (shown within other accounts payable)*	(1 984)	(2 020)	(322)	(330)
Total liabilities	**(1 984)**	**(2 020)**	**(322)**	**(330)**
Total net position	**(1 982)**	**(1 989)**	**(322)**	**(330)**

* Although accrued liabilities for lease payments calculated on a straight-line basis over the lease term do not represent financial instruments they have been included in the table above since they subject the Group to foreign currency risk.

(in millions of Russian Rubles)

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to changes in the exchange rates of the US Dollar and Euro. The following table details the Group's sensitivity to a 30% (31 December 2016: 30%) change of the Russian Ruble against these two currencies. As at 31 December 2017 the sensitivity rate of 30% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated assets and liabilities at year end and adjusts their translation for a movement in foreign currency exchange rates. Positive numbers below indicate an increase in profit and respective increase in equity where the Russian Ruble appreciates against the relevant currency. For a depreciation of the Russian Ruble against the relevant currency, there would be an equal and opposite impact on profit and equity.

	USD		EUR	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
	+30%	(594)	+30%	(97)
2017	-30%	594	-30%	97

	USD		EUR	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2016	+30%	(597)	+30%	(99)
	-30%	597	-30%	99

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2017 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2016: none).

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which are potentially subject the Group to credit risk consist primarily of bonuses receivable from suppliers, other receivables, short-term investments as well as cash on current and deposit accounts with banks and other financial institutions.

Bonuses receivable from suppliers are either offset against respective accounts payable or paid in cash. At 31 December 2017 bonuses receivable from four major suppliers comprised 35% of the Group's consolidated accounts receivable and prepaid expenses (31 December 2016: 46%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury.
The management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

(in millions of Russian Rubles)

The table below shows the balances that the Group had with 4 of its major counterparties as at 31 December 2017 and 2016:

			Carrying amount	
Counterparty	**Currency**	**Rating**	**2017**	**2016**
VTB	RUB	Ba2	5 022	6 651
Alfa-bank	RUB	Ba1	3 649	5 224
Sberbank	RUB	Ba2	3 931	3 807
RSB	RUB	Caa2	145	-
Other	RUB	-	3	4
Total			**12 750**	**15 686**

The carrying amount of financial assets recorded in the consolidated statement of financial position, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2017 and 2016.

Liquidity risk management

The Group's treasury monitors the risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

As at 31 December 2017 the Group had obtained uncommitted standby borrowing facilities in the total amount of 16 000 (31 December 2016: 21 000).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments:

As at 31 December 2017	**Less than 3 months**	**3-12 months**	**Total**
Trade accounts payable	66 116	11 582	77 698
Other accounts payable and accrued expenses	4 637	-	4 637
Total	**70 753**	**11 582**	**82 335**

As at 31 December 2016	**Less than 3 months**	**3-12 months**	**Total**
Trade accounts payable	56 815	9 470	66 285
Other accounts payable and accrued expenses	4 527	-	4 527
Total	**61 342**	**9 470**	**70 812**

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as at 31 December 2017 and 2016 approximate their fair values.

32. SUBSEQUENT EVENTS

In January 2018, the trademarks "M.video" with a book value of RUB 2 million were pledged as collateral to secure the obligations of LLC "Autoclub", a related party, under a loan agreement with PJSC Bank VTB.