

Independent auditor's report  
on the consolidated financial statements of  
***PJSC "Magnit" and its subsidiaries***  
for 2016

*March 2017*

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## Independent auditor's report

To the Shareholders and Board of Directors of  
PJSC "Magnit"

### **Opinion**

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

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

### **Basis for opinion**

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

### **Key audit matters**

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

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

### **Recognition of vendor allowances**

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor (Note 3 to the consolidated financial statements). We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group's obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories.

We assessed and tested the design and operating effectiveness of the Group's internal controls over recognition of vendor allowances. We agreed a sample of accruals of volume and other rebates, recorded based on management assumptions, to supporting documents from vendors and supplier agreements. We also reconciled the outstanding allowances receivable to the direct confirmations from suppliers. We tested cut-off of vendor allowances recorded during a period shortly before and after year-end to supporting documents from vendors.

### ***Other information included in the Group's 2016 Annual report***

Other information consists of the information included in the Annual report of PJSC "Magnit" for 2016, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report of PJSC "Magnit" for 2016 is expected to be 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.

### ***Responsibilities of management and the Board of Directors for the financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



A.B. Kalmykova  
Partner  
Ernst & Young LLC

23 March 2017

***Details of the audited entity***

Name: PJSC "Magnit"

Record made in the State Register of Legal Entities on 12 November 2003, certificate series 23 № 001807969, State Registration Number 1032304945947.

Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5.

***Details of the auditor***

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203. Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC "Magnit"

Consolidated statement of financial position

as at 31 December 2016

(In thousands of US dollars)

	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	4,780,088	3,649,644
Investment property		9,892	8,232
Land lease rights	7	43,514	39,540
Intangible assets	8	23,470	19,162
Goodwill	8	22,545	18,763
Long-term financial assets		824	1,852
		<b>4,880,333</b>	<b>3,737,193</b>
<b>Current assets</b>			
Inventories	9	2,224,242	1,598,069
Trade and other receivables		13,916	13,634
Advances paid	10	85,864	72,661
Taxes receivable		7,383	1,326
Prepaid expenses		7,565	4,403
Short-term financial assets		3,559	3,386
Income tax receivable		3,952	-
Cash and cash equivalents	11	272,999	115,129
		<b>2,619,480</b>	<b>1,808,608</b>
<b>Total assets</b>		<b>7,499,813</b>	<b>5,545,801</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	12	34	34
Share premium	12	1,511,666	1,510,336
Treasury shares	12	-	(5,307)
Foreign currency translation reserve		(2,413,987)	(2,933,216)
Retained earnings		4,134,845	3,693,994
<b>Total equity</b>		<b>3,232,558</b>	<b>2,265,841</b>
<b>Non-current liabilities</b>			
Long-term borrowings and loans	17	1,277,677	815,162
Long-term advances received		436	1,568
Deferred tax liability	24	257,172	176,781
		<b>1,535,285</b>	<b>993,511</b>
<b>Current liabilities</b>			
Trade and other payables	14	1,383,573	1,212,527
Accrued expenses	15	175,549	132,738
Taxes payable	16	145,259	81,318
Dividends payable	13	196,793	233,167
Income tax payable		-	9,203
Short-term advances received		4,742	2,575
Short-term borrowings and loans	17	826,054	614,921
		<b>2,731,970</b>	<b>2,286,449</b>
<b>Total liabilities</b>		<b>4,267,255</b>	<b>3,279,960</b>
<b>Total equity and liabilities</b>		<b>7,499,813</b>	<b>5,545,801</b>

The accompanying notes on pages 12-55 are an integral part of these consolidated financial statements.



PJSC "Magnit"

Consolidated statement of comprehensive income

for the year ended 31 December 2016

(In thousands of US dollars)

	Notes	2016	2015
Revenue	18	16,033,612	15,594,588
Cost of sales	19	(11,621,596)	(11,151,836)
<b>Gross profit</b>		<b>4,412,016</b>	<b>4,442,752</b>
Selling expenses	20	(193,921)	(207,612)
General and administrative expenses	21	(3,059,278)	(2,883,839)
Investment income		1,585	3,702
Finance costs	22	(198,310)	(194,986)
Other income	23	60,208	64,967
Other expenses		(13,260)	(13,838)
Foreign exchange gain/(loss)		16,992	(43,194)
<b>Profit before income tax</b>		<b>1,026,032</b>	<b>1,167,952</b>
Income tax expense	24	(214,380)	(199,067)
<b>Profit for the year</b>		<b>811,652</b>	<b>968,885</b>
<b>Other comprehensive income</b>			
Gain/(loss) on translation to presentation currency		518,342	(659,933)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>518,342</b>	<b>(659,933)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>1,329,994</b>	<b>308,952</b>
<b>Profit for the year</b>			
Attributable to:			
Equity holders of the Parent		811,652	968,885
		<b>811,652</b>	<b>968,885</b>
<b>Total comprehensive income for the year, net of tax</b>			
Attributable to:			
Equity holders of the Parent		1,329,994	308,952
		<b>1,329,994</b>	<b>308,952</b>
<b>Earnings per share (in US dollars per share)</b>			
- basic and diluted, for profit for the year attributable to equity holders of the parent	25	8.58	10.25

Chief Executive PJSC "Magnit"

23 March 2017

Galitskiy S.N.

The accompanying notes on pages 12-55 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of cash flows

for the year ended 31 December 2016

(In thousands of US dollars)

	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Profit before income tax		1,026,032	1,167,952
<i>Adjustments for:</i>			
Depreciation	6	376,220	338,037
Amortization	21	9,038	8,380
Loss from disposal of property, plant and equipment		9,893	8,586
Loss from disposal of land lease rights	7	302	-
(Reversal of) / bad debt provision	21	(142)	1,760
Foreign exchange (gain)/loss		(16,992)	43,194
Finance costs	22	198,310	194,986
Investment income		(1,585)	(3,702)
<b>Operating cash flows before working capital changes</b>		<b>1,601,076</b>	<b>1,759,193</b>
(Increase)/decrease in trade and other receivables		(141)	951
(Increase)/decrease in advances paid		(13,203)	13,536
Increase/(decrease) in advances received		1,035	(1,006)
Increase in taxes receivable		(6,057)	(93)
Increase in prepaid expenses		(3,162)	(92)
Increase in inventories		(626,173)	(149,829)
Increase/(decrease) in trade and other payables		188,047	(18,201)
Increase/(decrease) in accrued expenses		42,811	(12,744)
Increase/(decrease) in taxes payable		63,941	(14,424)
<b>Cash generated from operations</b>		<b>1,248,174</b>	<b>1,577,291</b>
Income tax paid		(187,036)	(147,024)
Interest paid		(204,288)	(179,980)
Interest received		1,500	3,736
<b>Net cash from operating activities</b>		<b>858,350</b>	<b>1,254,023</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(743,021)	(885,859)
Purchase of intangible assets	8	(8,535)	(15,532)
Purchase of land lease rights	7	(534)	(4,521)
Proceeds from sale of property, plant and equipment		2,552	2,712
Proceeds from sale of land lease rights		30	1,484
Loans provided		(32,862)	(55,196)
Loans repaid		34,677	58,293
<b>Net cash used in investing activities</b>		<b>(747,693)</b>	<b>(898,619)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		10,452,202	8,510,154
Repayment of loans and borrowings		(10,097,488)	(8,384,711)
Dividends paid		(405,485)	(584,843)
Repayment of obligations under finance leases		(7)	(8)
Proceeds from sale of treasury shares	12	54,938	148,379
Purchase of treasury shares		(47,414)	(143,826)
<b>Net cash used in financing activities</b>		<b>(43,254)</b>	<b>(454,855)</b>
Effect of foreign exchange rates on cash and cash equivalents		90,467	(99,889)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>157,870</b>	<b>(199,340)</b>
Cash and cash equivalents at the beginning of the year	11	115,129	314,469
<b>Cash and cash equivalents at the end of the year</b>	11	<b>272,999</b>	<b>115,129</b>

The accompanying notes on pages 12-55 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of changes in equity

for the year ended 31 December 2016

(In thousands of US dollars)

	Attributable to equity holders of the parent					Equity attributable to equity holders of the parent
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	
<b>Balance at 1 January 2015</b>	<b>34</b>	<b>1,507,642</b>	<b>(8,842)</b>	<b>(2,271,607)</b>	<b>3,326,196</b>	<b>2,553,423</b>
Profit for the period	-	-	-	-	968,885	968,885
Other comprehensive income	-	-	-	(659,933)	-	(659,933)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(659,933)</b>	<b>968,885</b>	<b>308,952</b>
Dividends declared (Note 13)	-	-	-	-	(601,087)	(601,087)
Purchase of treasury shares	-	-	(143,826)	-	-	(143,826)
Sale of treasury shares (Note 12)	-	2,694	147,361	(1,676)	-	148,379
<b>Balance at 31 December 2015</b>	<b>34</b>	<b>1,510,336</b>	<b>(5,307)</b>	<b>(2,933,216)</b>	<b>3,693,994</b>	<b>2,265,841</b>
<b>Balance at 1 January 2016</b>	<b>34</b>	<b>1,510,336</b>	<b>(5,307)</b>	<b>(2,933,216)</b>	<b>3,693,994</b>	<b>2,265,841</b>
Profit for the period	-	-	-	-	811,652	811,652
Other comprehensive income	-	-	-	518,342	-	518,342
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518,342</b>	<b>811,652</b>	<b>1,329,994</b>
Dividends declared (Note 13)	-	-	-	-	(370,801)	(370,801)
Purchase of treasury shares	-	-	(47,414)	-	-	(47,414)
Sale of treasury shares (Note 12)	-	1,330	52,721	887	-	54,938
<b>Balance at 31 December 2016</b>	<b>34</b>	<b>1,511,666</b>	<b>-</b>	<b>(2,413,987)</b>	<b>4,134,845</b>	<b>3,232,558</b>

The accompanying notes on pages 12-55 are an integral part of these consolidated financial statements.

# PJSC "Magnit"

## Notes to the consolidated financial statements

for the year ended 31 December 2016

*(All amounts are in thousands of US dollars if not otherwise indicated)*

### 1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for release by the Chief Executive Officer of PJSC "Magnit" on 23 March 2017.

Close Joint Stock Company "Magnit" ("Magnit") was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company "Magnit". There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal form to Public Joint Stock Company (the "Company" or PJSC "Magnit") in accordance with changes in legislation.

PJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The Group's retail operations are operated through convenience stores, cosmetic stores, hypermarkets and other.

All of the Group's operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya St., 350072, Krasnodar, the Russian Federation.

The principal activities of the Group's subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

Company name	Principal activity	Ownership interest 2016	Ownership interest 2015
JSC "Tander"	Food retail and wholesale	100%	100%
LLC "Retail Import"	Import operations	100%	100%
LLC "BestTorg"	Food retail in Moscow and the Moscow region	100%	100%
LLC "MFK"	Other activities	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%
LLC "TK Zelenaya Liniya"	Greenhouse complex	100%	100%
LLC "Tandem"	Rent operations	100%	100%
LLC "Alkotrading"	Other operations	100%	100%
LLC "Logistika Alternativa"	Import operations	100%	100%
LLC "Zvezda"	Assets holder, maintenance services for the Group	100%	100%
LLC "ITM"	IT operations	100%	100%
LLC "TD-holding"	Production and processing of food for the Group	100%	100%
LLC "MagnitEnergo"	Buyer of electric power for the Group	100%	100%
LLC "Management Company "Industrial Park Krasnodar"	Management of production assets	100%	-
LLC "Kuban Confectioner"	Production of food for the Group	100%	-
LLC "Kuban Factory of Bakery Products"	Production of food for the Group	100%	-

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 1. Corporate information (continued)

In March 2016, the Group established "Management Company "Industrial Park Krasnodar" LLC with 100% ownership. The main activity of the company is management of production assets.

In October 2016, the Group established "Kuban Confectioner" LLC and "Kuban Factory of Bakery Products" LLC with 100% ownership. The main activity of the companies is production of food for Group purposes.

Under the new Charter of "Tander Magnit" approved on 27 June 2016, the company was renamed to "MFK" LLC.

At 31 December 2016 and 2015, the shareholding structure of the Company was as follows:

Shareholder	2016		2015	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitskiy S.N.	33,200,000	35.11	36,563,000	38.67
Gordeichuk V.E.	1,002,820	1.06	2,402,820	2.54
Shares controlled by Lavreno Ltd. (Cyprus)	210,850	0.22	617,079	0.65
Shares controlled by the Group's Management	213,048	0.23	386,387	0.41
Treasury shares	-	0.00	31,677	0.03
Free float	59,934,637	63.38	54,560,392	57.70
	<b>94,561,355</b>	<b>100</b>	<b>94,561,355</b>	<b>100</b>

### 2. Basis of preparation of the financial statements

#### Statement of compliance

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

#### Basis of accounting

The Group's entities maintain their accounting records in Russian roubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as of the date of transition to IFRS and investment property at fair value.

The functional currency of each of the Group's entities is the Russian rouble ("RUB").

The presentation currency of the consolidated financial statements is the United States of America dollar ("USD") as it is considered by management a more relevant presentation currency for international users of the consolidated financial statements of the Group.

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 2. Basis of preparation of the financial statements (continued)

#### Basis of accounting (continued)

The translation from functional currency into presentation currency is made as follows:

- ▶ Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- ▶ Income and expenses for each consolidated statement of comprehensive income presented are translated at the average exchange rates for the periods presented (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- ▶ All resulting exchange differences are recognized in other comprehensive income;
- ▶ All items included in the consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- ▶ In the consolidated cash flow statement, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

The following USD/RUB ex-rates were used during preparation of the consolidated financial statements:

	<u>2016</u>	<u>2015</u>
As of 31 December	60.6569	72.8827
Average for the year	67.0349	60.9579

### 3. Summary of significant accounting policies

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### Basis of consolidation (continued)

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- ▶ Derecognises the carrying amount of any non-controlling interest;
- ▶ Derecognises the cumulative translation differences, recorded in equity;
- ▶ Recognises the fair value of the consideration received;
- ▶ Recognises the fair value of any investment retained;
- ▶ Recognises any surplus or deficit in profit or loss;
- ▶ Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

### **3. Summary of significant accounting policies (continued)**

#### **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.



## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### **3. Summary of significant accounting policies (continued)**

##### **Current versus non-current classification**

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

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

All other assets are classified as non-current. A liability is current when:

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

##### **Fair value measurement**

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 27.

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

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

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

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

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

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### Fair value measurement (continued)

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

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

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

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

External valuers are involved for valuation of investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

#### Revenue recognition

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centres and retail stores. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 3. Summary of significant accounting policies (continued)

#### Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern on a perspective basis as a change in an accounting estimate.

The estimated useful economic lives of the related assets are as follows:

	<u>Useful life in years</u>
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-10

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

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 statement of comprehensive income.

#### Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 3. Summary of significant accounting policies (continued)

##### Land lease rights

Land lease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

##### 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 their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortization:

<u>Description</u>	<u>Useful life in years</u>
Licenses	1-25
Lease rights (convenience stores)	1-21
Software	1-25
Trade marks	1-10
Other	1-7

##### Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

### **3. Summary of significant accounting policies (continued)**

#### **Impairment of non-current assets (continued)**

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss.

The following asset has specific characteristics for impairment testing:

#### ***Goodwill***

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### **Finance leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised 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.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

**Vendor allowances**

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

**Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of 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. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Income taxes (continued)**

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognised 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 utilised, except:

- ▶ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting 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 apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting 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 taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated profit and loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or 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 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.

### **3. Summary of significant accounting policies (continued)**

#### **Retirement benefit costs**

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

#### **Bonus plan**

Under the bonus program the Group has agreed to pay, at its discretion, cash bonuses to key management personnel. The amount of the cash bonus, if paid, will be based on the market price of the Group's shares on that date times a fixed number of shares as indicated in the employment contract of each individual. The compensation expense is recognized over the one-year service period based on its assessment that it is probable the amounts will be paid. The liability will be remeasured at the date of settlement, with any changes recognised in profit or loss.

The fair value of the liability is determined based on the market value of shares at the end of each reporting period adjusted for expected employee turnover.

#### **Segment reporting**

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, hypermarkets and others, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

#### **Seasonality**

The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are expensed in the period they occur.



### **3. Summary of significant accounting policies (continued)**

#### **Financial assets**

##### ***General description***

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets 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.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

##### ***Effective interest rate method***

The effective interest rate method is a method of calculating the amortised 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 to the net carrying amount of the financial asset.

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate. Interest income is included in investment income in the statement of comprehensive income.

##### ***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 amortised cost using the effective interest rate method.

##### ***Cash and cash equivalents***

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

##### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where 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 amortised 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.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Financial assets (continued)**

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is 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 recognised in the profit and loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Derecognition of financial assets***

A financial asset is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Financial liabilities and equity instruments issued by the Group**

***Treasury shares***

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain and loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. On disposal the cost of treasury shares is written off using weighted average method. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

### **3. Summary of significant accounting policies (continued)**

#### **Financial liabilities and equity instruments issued by the Group (continued)**

##### ***Share premium***

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares.

##### ***Earnings per share***

Earnings per share have been determined using the weighted average number of the Group's shares outstanding during 12 months ended 31 December 2016 and 2015. The Group does not have any potentially dilutive equity instruments.

##### ***Classification as debt or equity***

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

##### ***Equity instruments***

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 are recorded at the proceeds received, net of direct issue costs.

##### ***Financial liabilities***

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised using an effective interest rate method.

##### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

##### ***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

##### ***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 (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Fair value of financial instruments (continued)**

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may 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.

**Changes in accounting policies**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new or revised standards and interpretations effective as of 1 January 2016.

*IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income (OCI). The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

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

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Changes in accounting policies (continued)**

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

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are applied prospectively and do not have any impact on the Group's consolidated financial statements, as it has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

The amendments are applied retrospectively and do not have any impact on the Group's consolidated financial statements as it does not have any bearer plants.

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *Annual improvements 2012-2014 cycle*

These improvements include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered as a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively. These amendments do not have any impact on the Group's consolidated financial statements, as the Group does not have any non-current assets held for sale or discontinued operations.

##### *IFRS 7 Financial Instruments: Disclosures*

###### *(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. These amendments do not have any impact on the Group's consolidated financial statements, as the Group does not have servicing contracts.

###### *(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

##### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Changes in accounting policies (continued)**

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

*Amendments to IAS 1 Disclosure Initiative*

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

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

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

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Standards issued but not yet effective**

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

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.



## PJSC “Magnit”

### Notes to the consolidated financial statements (continued)

#### **3. Summary of significant accounting policies (continued)**

##### **Standards issued but not yet effective (continued)**

###### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The effective date of these amendments has not been yet defined, but an entity that early adopts the amendments must apply them prospectively.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

###### *IAS 7 Disclosure Initiative - Amendments to IAS 7*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

The Group is currently assessing the possible impact of amendments on its consolidated financial statements.

###### *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (continued)

**3. Summary of significant accounting policies (continued)**

**Standards issued but not yet effective (continued)**

*IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group plans to assess the potential effect of the amendments on its consolidated financial statements in 2017 year.

## PJSC “Magnit”

### Notes to the consolidated financial statements (continued)

#### **3. Summary of significant accounting policies (continued)**

##### **Standards issued but not yet effective (continued)**

###### *IFRS 1 First-time Adoption of International Financial Reporting Standards - Amendments to IFRS 1*

The amendment repeals short-term exemptions for first-time adopters. The amendment is effective from 1 January 2018. These amendments are not expected to have any impact on the Group.

###### *IAS 28 Investments in Associates and Joint Ventures - Amendments to IAS 28*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

###### *IFRS 12 Disclosure of Interests in Other Entities - Amendments to IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

###### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

### 3. Summary of significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) the beginning of the reporting period in which the entity first applies the interpretation or (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. The amendments are effective for annual periods beginning on or after 1 January 2018.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *IAS 40 Investment property - Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. The amendments will eliminate diversity in practice. The amendments are effective for annual periods beginning on or after 1 January 2018.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

#### *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4*

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach for IFRS 9 and IAS 39.

These amendments are not expected to have any impact on the Group.

### 3. Summary of significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### Temporary exemption from IFRS 9

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

##### The overlay approach

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9.

The amendments are effective for annual periods beginning on or after 1 January 2018.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

**4. Significant accounting judgements and estimates**

In the application of the Group's accounting policies, 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. Actual results may differ from these estimates.

**Estimates and assumptions**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

**Impairment of assets**

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

**Useful economic life of property, plant and equipment**

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

# PJSC "Magnit"

## Notes to the consolidated financial statements (continued)

### 4. Significant accounting judgements and estimates (continued)

#### Useful life of leasehold improvements

The Group's leasehold improvements in convenience stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the successful renewals of these agreements (all agreements that management wanted to prolong were successfully prolonged) and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a thirty year depreciation period for these leasehold improvements.

#### Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable 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 provisions in the period in which such determination is made.

### 5. Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides and receives loans and acquires construction services. Related parties of the Group are represented by shareholders and counterparties that are affiliated with the Group through key management and relatives (other related parties). Transactions with related parties are made on terms not necessarily available to third parties.

No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The Group entered into a number of agreements with related parties for short-term borrowings with limit amounting to RUB 150,000 thousand (USD 2,473 thousand).

Related party balances as at 31 December 2016 and 2015 consisted of the following:

	Shareholders		Other related parties	
	2016	2015	2016	2015
Loans received (Note 17)	2,498	23,794	-	-
Short-term loans receivable	2,465	2,305	1,075	331
Long-term financial assets	-	-	824	1,852
Other payables (Note 14)	-	-	642	822
Trade payables (Note 14)	-	-	346	2,453
Advances paid (Note 10)	-	-	241	69
Other receivables	-	-	173	212

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Notes to the consolidated financial statements (continued)

**5. Balances and transactions with related parties (continued)**

The Group's transactions with related parties for the years ended at 31 December 2016 and 2015 consisted of the following:

	Shareholders		Other related parties	
	2016	2015	2016	2015
Loans received repayment	163,378	284,712	73,488	126,783
Loans received	137,988	303,433	72,321	125,086
Loans given repayment	10,260	6,665	24,345	47,812
Loans given	9,696	9,072	23,110	42,369
Interest expense	1,781	9,728	1,168	1,697
Interest income	287	349	579	392
Purchases of inventory	-	-	140,398	143,037
Other income	-	-	4,318	2,825
Purchases of property, plant and equipment	-	-	3,046	4,917
Rent income	-	-	1,776	1,221
Other expense	-	-	448	1,097
Wholesale	-	-	395	162
Rent expense	-	-	39	44
Purchase of intangible assets	-	-	7	9
Purchase of land lease rights	-	-	-	4

All employee benefits of Group management and members of the Board of Directors of the Group for 2016 were USD 23,625 thousand (2015: USD 13,184 thousand).

**6. Property, plant and equipment**

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
<b>Cost</b>						
At 1 January 2016	183,645	2,799,751	1,015,587	484,311	232,919	4,716,213
Additions	21,169	-	243,541	5,558	472,800	743,068
Transfers	-	461,286	-	-	(461,286)	-
Disposals	(93)	(24,086)	(24,018)	(12,242)	(1,777)	(62,216)
Transfer from land lease right	2,864	-	-	-	-	2,864
Translation difference	39,532	610,278	227,781	96,909	47,973	1,022,473
<b>At 31 December 2016</b>	<b>247,117</b>	<b>3,847,229</b>	<b>1,462,891</b>	<b>574,536</b>	<b>290,629</b>	<b>6,422,402</b>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2016	-	(327,052)	(544,051)	(195,466)	-	(1,066,569)
Charge for the year	-	(137,816)	(186,619)	(51,785)	-	(376,220)
Disposals	-	18,925	20,361	10,485	-	49,771
Translation difference	-	(78,421)	(127,139)	(43,736)	-	(249,296)
<b>At 31 December 2016</b>	<b>-</b>	<b>(524,364)</b>	<b>(837,448)</b>	<b>(280,502)</b>	<b>-</b>	<b>(1,642,314)</b>
<b>Net book value</b>						
At 1 January 2016	183,645	2,472,699	471,536	288,845	232,919	3,649,644
<b>At 31 December 2016</b>	<b>247,117</b>	<b>3,322,865</b>	<b>625,443</b>	<b>294,034</b>	<b>290,629</b>	<b>4,780,088</b>



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Notes to the consolidated financial statements (continued)

**6. Property, plant and equipment (continued)**

Property, plant and equipment as at 31 December 2015 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
<b>Cost</b>						
At 1 January 2015	207,843	2,908,058	1,048,510	622,923	383,689	5,171,023
Additions	24,243	-	258,372	8,879	594,548	886,042
Transfers	-	668,661	-	-	(668,661)	-
Disposals	(1,584)	(5,076)	(11,787)	(4,729)	(1,512)	(24,688)
Transfer from land lease right	5,091	-	-	-	-	5,091
Translation difference	(51,948)	(771,892)	(279,508)	(142,762)	(75,145)	(1,321,255)
<b>At 31 December 2015</b>	<b>183,645</b>	<b>2,799,751</b>	<b>1,015,587</b>	<b>484,311</b>	<b>232,919</b>	<b>4,716,213</b>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2015	-	(305,651)	(528,607)	(195,716)	-	(1,029,974)
Charge for the year	-	(109,421)	(171,986)	(56,630)	-	(338,037)
Disposals	-	476	9,359	3,555	-	13,390
Translation difference	-	87,544	147,183	53,325	-	288,052
<b>At 31 December 2015</b>	<b>-</b>	<b>(327,052)</b>	<b>(544,051)</b>	<b>(195,466)</b>	<b>-</b>	<b>(1,066,569)</b>
<b>Net book value</b>						
At 1 January 2015	207,843	2,602,407	519,903	427,207	383,689	4,141,049
<b>At 31 December 2015</b>	<b>183,645</b>	<b>2,472,699</b>	<b>471,536</b>	<b>288,845</b>	<b>232,919</b>	<b>3,649,644</b>

In 2016, the weighted average capitalisation rate on funds borrowed is 10.91% per annum (2015: 11.82%).

**7. Land lease rights**

Land lease rights as at 31 December 2016 consisted of the following:

	Land lease rights
<b>Cost</b>	
At 1 January 2016	44,101
Additions	534
Disposals	(367)
Transfer to PPE	(2,864)
Translation difference	8,606
<b>At 31 December 2016</b>	<b>50,010</b>
<b>Accumulated amortization and impairment</b>	
At 1 January 2016	(4,561)
Charge for the year	(953)
Disposals	35
Translation difference	(1,017)
<b>At 31 December 2016</b>	<b>(6,496)</b>
<b>Net book value</b>	
At 1 January 2016	39,540
<b>At 31 December 2016</b>	<b>43,514</b>

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Notes to the consolidated financial statements (continued)

**7. Land lease rights (continued)**

Land lease rights as at 31 December 2015 consisted of the following:

	<u>Land lease rights</u>
<b>Cost</b>	
At 1 January 2015	59,523
Additions	4,521
Disposals	(1,635)
Transfer to PPE	(5,091)
Translation difference	(13,217)
<b>At 31 December 2015</b>	<u><b>44,101</b></u>
<b>Accumulated amortization and impairment</b>	
At 1 January 2015	(4,878)
Charge for the year	(1,103)
Disposals	150
Translation difference	1,270
<b>At 31 December 2015</b>	<u><b>(4,561)</b></u>
<b>Net book value</b>	
At 1 January 2015	<u><b>54,645</b></u>
At 31 December 2015	<u><b>39,540</b></u>

In 2016, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 47 thousand (2015: USD 183 thousand).

**8. Intangible assets**

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

	<u>Licenses</u>	<u>Lease rights</u>	<u>Software</u>	<u>Trade mark</u>	<u>Other</u>	<u>Total</u>
<b>Cost</b>						
At 1 January 2016	3,171	2,196	22,628	302	1,512	29,809
Additions	675	-	7,095	8	757	8,535
Disposals	(406)	-	(2,755)	(262)	(759)	(4,182)
Translation difference	668	443	5,018	34	305	6,468
<b>At 31 December 2016</b>	<u><b>4,108</b></u>	<u><b>2,639</b></u>	<u><b>31,986</b></u>	<u><b>82</b></u>	<u><b>1,815</b></u>	<u><b>40,630</b></u>
<b>Accumulated amortization and impairment</b>						
At 1 January 2016	(984)	(684)	(7,953)	(234)	(792)	(10,647)
Charge for the year	(860)	(242)	(6,074)	(32)	(924)	(8,132)
Disposals	406	-	2,755	262	759	4,182
Translation difference	(246)	(164)	(1,952)	(23)	(177)	(2,562)
<b>At 31 December 2016</b>	<u><b>(1,684)</b></u>	<u><b>(1,090)</b></u>	<u><b>(13,224)</b></u>	<u><b>(28)</b></u>	<u><b>(1,134)</b></u>	<u><b>(17,160)</b></u>
<b>Net book value</b>						
At 1 January 2016	<u><b>2,187</b></u>	<u><b>1,512</b></u>	<u><b>14,675</b></u>	<u><b>68</b></u>	<u><b>720</b></u>	<u><b>19,162</b></u>
At 31 December 2016	<u><b>2,424</b></u>	<u><b>1,549</b></u>	<u><b>18,762</b></u>	<u><b>54</b></u>	<u><b>681</b></u>	<u><b>23,470</b></u>

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 8. Intangible assets (continued)

Intangible assets as at 31 December 2015 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
<b>Cost</b>						
At 1 January 2015	2,499	2,816	16,729	389	1,683	24,116
Additions	1,811	152	12,642	12	915	15,532
Disposals	(326)	(125)	(1,026)	(10)	(661)	(2,148)
Translation difference	(813)	(647)	(5,717)	(89)	(425)	(7,691)
<b>At 31 December 2015</b>	<b>3,171</b>	<b>2,196</b>	<b>22,628</b>	<b>302</b>	<b>1,512</b>	<b>29,809</b>
<b>Accumulated amortization and impairment</b>						
At 1 January 2015	(854)	(701)	(5,520)	(232)	(730)	(8,037)
Charge for the year	(714)	(296)	(5,440)	(76)	(934)	(7,460)
Disposals	326	125	1,026	10	661	2,148
Translation difference	258	188	1,981	64	211	2,702
<b>At 31 December 2015</b>	<b>(984)</b>	<b>(684)</b>	<b>(7,953)</b>	<b>(234)</b>	<b>(792)</b>	<b>(10,647)</b>
<b>Net book value</b>						
At 1 January 2015	1,645	2,115	11,209	157	953	16,079
<b>At 31 December 2015</b>	<b>2,187</b>	<b>1,512</b>	<b>14,675</b>	<b>68</b>	<b>720</b>	<b>19,162</b>

Amortization expense is included in general and administrative expenses (Note 21).

Goodwill as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Goodwill as at beginning of the year	18,763	24,307
Goodwill impairment	-	-
Translation difference	3,782	(5,544)
<b>Goodwill as at the end of the year</b>	<b>22,545</b>	<b>18,763</b>

#### Goodwill impairment test

The Company performed its annual goodwill impairment test as of 31 December of each year. In assessing whether goodwill has been impaired, the current value of generating unit was compared with its estimated value in use. Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for ten years, approved by the management of the Group, taking into account inflation, the demand for produced products, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 13.38% (13.38% in 2015).

The impairment test did not reveal impairment of goodwill.

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 9. Inventories

Inventory as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Goods for resale	2,076,826	1,505,438
Materials and supplies	147,416	92,631
	2,224,242	1,598,069

Materials and supplies are represented by spare parts, packaging materials and other materials used in hypermarkets, stores and warehouses, as well as semi-finished goods of own production.

#### 10. Advances paid

Advances paid as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Advances to third party suppliers	76,887	59,667
Advances for customs duties	7,870	12,045
Advances to employees	866	880
Advances to related party suppliers (Note 5)	241	69
	85,864	72,661

#### 11. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Petty cash, in RUB	30,361	22,447
Cash in banks, in RUB	61,294	1,815
Cash in banks, in foreign currency	112	364
Cash in transit, in RUB	161,442	90,503
Short-term deposits	19,790	-
	272,999	115,129

Cash in transit represents cash collected by banks from the Group's stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2016 and 2015.

Cash were placed on short-term deposits in amount of RUB 387 thousand (USD 6 thousand) and on accounts with minimum required balance in amount of RUB 1,200,000 thousand (USD 19,784 thousand), maturing in January 2017.

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 12. Share capital, share premium and treasury shares

	2016 No. ('000)	2015 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issued and fully paid (par value of RUB 0.01)	94,561	94,561
Treasury shares	-	(31)
	<b>2016</b> No. ('000)	<b>2015</b> No. ('000)
<b>Balance of shares outstanding at beginning of financial year</b>	<b>94,530</b>	<b>94,513</b>
Sale of treasury shares	355	790
Purchase of treasury shares	(323)	(773)
<b>Balance of shares outstanding at the end of financial year</b>	<b>94,561</b>	<b>94,530</b>

In 2016 354,747 treasury shares were sold by the Group for a total cash consideration of RUB 3,689,713 thousand (USD 54,938 thousand at exchange rate at the date of transactions). The difference between cash received and the carrying value of shares was recorded as increase of share premium in the amount of USD 1,330 thousand and increase of foreign currency translation reserve in the amount of USD 887 thousand.

During 2016 the Group purchased 323,070 of own ordinary shares from the open market.

#### 13. Dividends declared

During the year ended 31 December 2016 the Group declared dividends to shareholders relating to 2015, the first half of 2016 and the first 9 months of 2016:

	2016
Dividends declared for 2015 (0.63 USD for 1 share)	59,967
Dividends declared for the first half of 2016 (1.31 for 1 share)	124,248
Dividends declared for the first 9 months of 2016 (1.97 for 1 share)	186,586

During the year ended 31 December 2015 the Group declared dividends to shareholders relating to 2014, the first half of 2015 and first 9 months of 2015:

	2015
Dividends declared for 2014 (2.50 USD for 1 share)	236,101
Dividends declared for the first half of 2015 (1.34 USD for 1 share)	126,497
Dividends declared for the first 9 months of 2015 (2.52 USD for 1 share)	238,489

As at 31 December 2016 the amount of liability for unpaid dividends is USD 196,793 thousand (at 31 December 2015: USD 233,167 thousand).

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 14. Trade and other payables

Trade and other payables as at 31 December 2016 and 2015 consisted of the following:

	31 December 2016	31 December 2015
Trade payables to third parties	1,350,410	1,196,126
Other payables to third parties	32,175	13,126
Other payables to related parties (Note 5)	642	822
Trade payables to related parties (Note 5)	346	2,453
	<b>1,383,573</b>	<b>1,212,527</b>

The average credit period for purchases was 43 days in 2016 and 41 days in 2015. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

#### 15. Accrued expenses

Accrued expenses as at 31 December 2016 and 2015 consisted of the following:

	31 December 2016	31 December 2015
Accrued salaries and wages	111,104	79,797
Other accrued expenses	64,445	52,941
	<b>175,549</b>	<b>132,738</b>

#### 16. Taxes payables

Taxes payables as at 31 December 2016 and 2015 consisted of the following:

	31 December 2016	31 December 2015
Value added tax	80,187	30,034
Social insurance contributions	35,171	27,793
Employee income tax withholding	17,014	12,375
Property tax	12,155	10,007
Other taxes	732	1,109
	<b>145,259</b>	<b>81,318</b>

PJSC "Magnit"

Notes to the consolidated financial statements (continued)

**17. Borrowings and loans**

Long-term and short-term borrowings and loans as at 31 December 2016 and 2015 consisted of the following:

	Year of maturity	Weighted average interest rate	31 December 2016	Weighted average interest rate	31 December 2015
<b>Long-term borrowings and loans</b>					
Unsecured bank loans	2018	9.70%	783,504	-	-
Unsecured bonds	2018	10.91%	339,634	12.11%	139,283
Unsecured bank loans	2019	9.89%	164,862	-	-
Unsecured bank loans	2017	-	-	11.72%	404,083
Unsecured bonds	2017	-	-	11.47%	279,334
Less: current portion of long-term borrowings and loans			(10,367)		(7,538)
<b>Total long-term borrowings and loans</b>			<b>1,277,677</b>		<b>815,162</b>
<b>Short-term borrowings and loans</b>					
Unsecured bonds	2017	10.98%	500,982	-	-
Unsecured bank loans	2017	9.58%	312,207	-	-
Unsecured borrowings from related parties (Note 5)	2017	9.65%	2,498	-	-
Unsecured bonds	2016	-	-	9.71%	354,914
Unsecured bank loans	2016	-	-	9.34%	228,675
Unsecured borrowings from related parties (Note 5)	2016	-	-	11.40%	23,794
Current portion of long-term borrowings and loans			10,367		7,538
<b>Total short-term borrowings and loans</b>			<b>826,054</b>		<b>614,921</b>

**18. Revenue**

Revenue for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Retail	15,949,988	15,548,452
Wholesale	83,624	46,136
	<b>16,033,612</b>	<b>15,594,588</b>

**19. Cost of sales**

Cost of sales for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Cost of goods sold	11,239,359	10,794,769
Transportation expenses	382,237	357,067
	<b>11,621,596</b>	<b>11,151,836</b>

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 19. Cost of sales (continued)

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold contains the amount of losses due to inventory shortages.

In 2016, payroll in amount of USD 128,010 thousand (2015: USD 125,078 thousand) was included in cost of sales.

In 2016, depreciation of production fixed assets in amount of USD 2,059 thousand (2015: USD 1,454 thousand) was included in cost of goods sold.

#### 20. Selling expenses

Selling expenses for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Advertising	79,131	94,751
Packaging and raw materials	68,087	60,925
Depreciation	46,703	51,936
	<b>193,921</b>	<b>207,612</b>

#### 21. General and administrative expenses

General and administrative expenses for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Payroll	1,254,397	1,258,696
Rent and utilities	841,983	721,862
Payroll related taxes	359,956	361,260
Depreciation	327,458	284,647
Repair and maintenance	64,875	54,860
Bank services	52,566	44,842
Taxes, other than income tax	47,667	50,020
Security	14,423	12,741
Amortization	9,038	8,380
Provision for unused vacation	(33)	11,165
Bad debt provision	(142)	1,760
Other expenses	87,090	73,606
	<b>3,059,278</b>	<b>2,883,839</b>



## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 22. Finance costs

Finance costs for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Interest on loans	119,193	151,651
Interest on bonds	87,934	53,598
<b>Total interest expense for financial liabilities</b>	<b>207,127</b>	<b>205,249</b>
Less: amounts included in the cost of qualifying assets	(8,817)	(10,263)
	<b>198,310</b>	<b>194,986</b>

#### 23. Other income

Other income for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	2015
Sale of packing	44,877	49,716
Penalties	7,764	6,598
Advertising income	5,585	6,110
Other	1,982	2,543
	<b>60,208</b>	<b>64,967</b>

#### 24. Income tax

The Group's income tax expense for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
<b>Consolidated statement of comprehensive income</b>		
Current tax	173,879	158,571
Deferred tax	40,501	40,496
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>214,380</b>	<b>199,067</b>

The movements for the years ended 2016 and 2015 in the Group's deferred tax position are as follows:

	2016	2015
<b>Liability at the beginning of the year</b>	<b>176,781</b>	<b>185,141</b>
Charge for the year	40,501	40,496
Translation difference	39,890	(48,856)
<b>Deferred tax liability at the end of the year</b>	<b>257,172</b>	<b>176,781</b>

PJSC "Magnit"

Notes to the consolidated financial statements (continued)

**24. Income tax (continued)**

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2016 and 2015 is as follows:

	Consolidated statement of financial position			Consolidated statement of comprehensive income	
	As at 31 December 2016	As at 31 December 2015	As at 1 January 2015	2016	2015
<b>Deferred tax assets</b>					
Accrued expenses	(1,444)	(940)	(628)	(284)	(545)
Inventories	(32,181)	(23,652)	(17,342)	(3,404)	(12,274)
Other	(8,471)	(8,168)	(9,609)	1,215	(898)
<b>Deferred tax liabilities</b>					
Property, plant and equipment	285,088	200,300	200,131	40,191	54,780
Other	14,180	9,241	12,589	2,783	(567)
<b>Net deferred tax liability</b>	<b>257,172</b>	<b>176,781</b>	<b>185,141</b>	<b>40,501</b>	<b>40,496</b>

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. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group's profit and loss:

	2016	2015
<b>Profit before tax</b>	<b>1,026,032</b>	<b>1,167,952</b>
<b>Theoretical income tax expense at 20%</b>	<b>(205,206)</b>	<b>(233,590)</b>
<i>Adjustments due to:</i>		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(4,389)	(4,163)
Tax effect of other expenses that are not deductible in determining taxable profit	(8,841)	(6,631)
Income tax recovery due to submission of revised tax returns	4,056	45,317
<b>Income tax expense</b>	<b>(214,380)</b>	<b>(199,067)</b>

**25. Earnings per share**

Earnings per share for the years ended 31 December 2016 and 2015 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

The calculation of earnings per common share for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Profit for the year attributable to equity holders of the parent	811,652	968,885
Weighted average number of shares (in thousands of shares)	94,561	94,561
<b>Basic and diluted earnings per share (in US dollars)</b>	<b>8.58</b>	<b>10.25</b>

The Group does not have any potentially dilutive equity instruments.

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 26. Contingencies, commitments and operating risks

##### 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 sanctions imposed consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A general slowdown in the Russian economy or in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

By the Executive Order of the President of Russia *On Special Economic Measures to Protect the Russian Federation's Security* signed on 6 August 2014 and Executive Order of the President of Russia *On Prolongation of Special Economic Measures to Protect the Russian Federation's Security* signed on 29 June 2016 it was prohibited to import into the territory of the Russian Federation certain agricultural products, raw materials and foodstuffs originating in countries, that have decided to impose economic sanctions on Russian legal entities and (or) individuals, or have joined such decision. The Group's management believes that these measures do not have material impact on the Group's operation.

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

##### Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows.

##### Capital and rent commitments

As at 31 December 2016 and 2015, the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	<u>2016</u>	<u>2015</u>
Within one year	182,615	119,944
In the second to fifth years inclusive	1,001	74,009
	<u><b>183,616</b></u>	<u><b>193,953</b></u>

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease payments under these agreements amount to approximately USD 702 million (2015: USD 488 million).

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 26. Contingencies, commitments and operating risks (continued)

##### 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 maximising the return to stakeholders through the optimisation of debt and equity ratios.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents disclosed in Note 11 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 12.

#### 27. Financial risk management objectives and policies

##### Gearing ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio in 2016 of up to 57% (2015: 58%) determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2016 and 2015 was as follows:

	2016	2015
Debt	2,103,731	1,430,083
Cash and cash equivalents	(272,999)	(115,129)
<b>Net debt</b>	<b>1,830,732</b>	<b>1,314,954</b>
Equity	3,232,558	2,265,841
<b>Net debt to equity ratio</b>	<b>57%</b>	<b>58%</b>

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

##### Fair values

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

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying amount		Fair value	
	2016	2015	2016	2015
Long-term borrowings and loans	948,194	403,999	949,364	402,399
Bonds	840,616	773,531	832,684	752,847

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 27. Financial risk management objectives and policies (continued)

##### Fair values (continued)

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term borrowing and loans are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

Fair values of financial instruments of the Group other than disclosed above approximate to their carrying amounts as at 31 December 2016 and 2015.

##### Foreign currency risk management

###### *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

###### *Foreign currency sensitivity*

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership over goods to the Group.

	Change in USD rate	Effect on profit before tax	Change in EUR rate	Effect on profit before tax
2016	+20.00%	10,516	+20.00%	4,515
	-20.00%	(10,516)	-20.00%	(4,515)
2015	+40.00%	44,291	+43.00%	19,629
	-13.00%	(14,395)	-15.00%	(6,847)

##### Interest rate risk management

The Group is exposed to insignificant interest rate risk as entities in the Group borrow funds on fixed rates primary.

##### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises with respect to operating activities (primarily for trade and other receivables) and investing activities (cash, short term loans).

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 27. Financial risk management objectives and policies (continued)

##### Credit risk management (continued)

Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of current assets at any time during the years presented.

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the statement of financial position.

##### Offsetting of financial assets and liabilities

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

	Gross amount			Net amount	
	Trade and other receivables	Trade and other payables	Amount of offset	Trade and other receivables	Trade and other payables
2016	369,223	(1,738,880)	355,307	13,916	(1,383,573)
2015	316,354	(1,515,247)	302,720	13,634	(1,212,527)

##### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## PJSC "Magnit"

### Notes to the consolidated financial statements (continued)

#### 27. Financial risk management objectives and policies (continued)

##### Liquidity risk tables

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	Total
<b>2016</b>						
Trade and other payables		1,225,846	157,727	-	-	1,383,573
Fixed interest rate instruments	10.23	60,789	214,469	625,362	1,349,709	2,250,329
Instruments with variable interest rate	9.06	650	74,755	-	-	75,405
		<b>1,287,285</b>	<b>446,951</b>	<b>625,362</b>	<b>1,349,709</b>	<b>3,709,307</b>
<b>2015</b>						
Trade and other payables		1,115,525	97,002	-	-	1,212,527
Fixed interest rate instruments	11.29	36,632	311,489	225,977	814,033	1,388,131
Instruments with variable interest rate	8.01	1,583	2,652	147,647	62,551	214,433
		<b>1,153,740</b>	<b>411,143</b>	<b>373,624</b>	<b>876,584</b>	<b>2,815,091</b>

The Group has access to financing facilities of RUB 216,300,000 thousand (USD 3,565,959 thousand) of which RUB 139,650,000 thousand (USD 2,302,294 thousand) remains unused at 31 December 2016. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

#### 28. Subsequent events

There were no significant events after the reporting date.