Independent auditor's report
on the consolidated financial statements of
PJSC "Magnit" and its subsidiaries
for 2017

March 2018

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

Contents

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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 2017, 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 consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 the matter below, our description of how our audit addressed the matter is provided in that context.

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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 this matter. 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition of vendors 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. 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. Information about vendor allowances is disclosed in Note 3 to the financial statements.	We assessed and tested the design and operating effectiveness of the Group's internal controls over recognition of vendor allowances. We compared a sample of accruals of volume and other rebates, recorded based on management assumptions, to supporting documents from vendors and supplier agreements. We also compared 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 2017 Annual report

Other information consists of the information included in the Annual report of PJSC "Magnit" for 2017, 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 2017 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.

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Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 the Board of Directors, 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.

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

A.B. Kalmykova
Partner
Ernst & Young LLC

22 March 2018

Details of the audited entity

Name: PJSC "Magnit"
Record made in the State Register of Legal Entities on 12 November 2003, certificate series 23 No. 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 2017

(In thousands of US dollars)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	5,726,142	4,780,088
Investment property		10,417	9,892
Land lease rights	7	41,198	43,514
Intangible assets	8	39,374	23,470
Goodwill	8	23,741	22,545
Long-term financial assets		6,088	824
		5,846,960	4,880,333
Current assets			
Inventories	9	2,816,041	2,224,242
Trade and other receivables		24,291	13,916
Advances paid	10	86,639	85,864
Taxes receivable		10,387	7,383
Prepaid expenses		11,119	7,565
Short-term financial assets		3,738	3,559
Income tax receivable		20,029	3,952
Cash and cash equivalents	11	318,357	272,999
		3,290,601	2,619,480
Total assets		9,137,561	7,499,813
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	12	35	34
Share premium	12	2,280,463	1,511,666
Foreign currency translation reserve		(2,223,901)	(2,413,987)
Retained earnings		4,445,253	4,134,845
Total equity		4,501,850	3,232,558
Non-current liabilities			
Long-term borrowings and loans	17	1,498,921	1,277,677
Long-term advances received		-	436
Government grants	18	19,107	-
Deferred tax liability	25	373,640	257,172
		1,891,668	1,535,285
Current liabilities			
Trade and other payables	14	1,721,213	1,383,573
Accrued expenses	15	200,953	175,549
Taxes payable	16	109,092	145,259
Dividends payable	13	14	196,793
Short-term advances received		11,980	4,742
Deferred revenue		3,270	-
Government grants	18	962	-
Short-term borrowings and loans	17	696,559	826,054
		2,744,043	2,731,970
Total liabilities		4,635,711	4,267,255
Total equity and liabilities		9,137,561	7,499,813

The accompanying notes on pages 12-58 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of comprehensive income

for the year ended 31 December 2017

(In thousands of US dollars)

	Notes	2017	2016
Revenue	19	19,593,103	16,033,612
Cost of sales	20	(14,372,405)	(11,621,596)
Gross profit		5,220,698	4,412,016
Selling expenses	21	(284,857)	(193,921)
General and administrative expenses	22	(4,063,487)	(3,059,278)
Investment income		5,839	1,585
Finance costs	23	(222,421)	(198,310)
Other income	24	132,972	60,208
Other expenses		(12,603)	(13,260)
Foreign exchange gain		2,291	16,992
Profit before income tax		778,432	1,026,032
Income tax expense	25	(169,397)	(214,380)
Profit for the year		609,035	811,652
Other comprehensive income			
Gain on translation to presentation currency		190,086	518,342
Other comprehensive income for the year, net of tax		190,086	518,342
Total comprehensive income for the year, net of tax		799,121	1,329,994
Profit for the year			
Attributable to:			
Equity holders of the Parent		609,035	811,652
		609,035	811,652
Total comprehensive income for the year, net of tax			
Attributable to:			
Equity holders of the Parent		799,121	1,329,994
		799,121	1,329,994
Earnings per share (in US dollars per share)			
- basic and diluted, for profit for the year attributable to equity holders of the parent	26	6.40	8.58

Chief Executive PJSC "Magnit" Pombukhchan K.E.

22 March 2018

The accompanying notes on pages 12-58 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of cash flows

for the year ended 31 December 2017

(In thousands of US dollars)

	Notes	2017	2016
Cash flows from operating activities			
Profit before income tax		778,432	1,026,032
Adjustments for:			
Depreciation	6	564,623	376,220
Amortization including land lease rights	22	13,167	9,038
Loss from disposal of property, plant and equipment		7,950	9,893
Loss from disposal of land lease rights	7	423	302
Accrual/(reversal) of bad debt provision	22	2,215	(142)
Foreign exchange gain		(2,291)	(16,992)
Finance costs	23	222,421	198,310
Investment income		(5,839)	(1,585)
Operating cash flows before working capital changes		**1,581,101**	**1,601,076**
Increase in trade and other receivables		(12,590)	(141)
Increase in advances paid		(775)	(13,203)
Increase in advances received		6,802	1,035
Increase in taxes receivable		(3,004)	(6,057)
Increase in prepaid expenses		(3,554)	(3,162)
Increase in inventories		(591,306)	(626,173)
Increase in trade and other payables		339,950	188,047
Increase in accrued expenses		25,404	42,811
(Decrease)/increase in taxes payable		(36,167)	63,941
Increase in deferred revenue		3,270	-
Increase in government grants	18	6,089	-
Cash generated from operations		**1,315,220**	**1,248,174**
Income tax paid		(83,979)	(187,036)
Interest paid		(228,522)	(204,288)
Interest received		5,884	1,500
Net cash from operating activities		**1,008,603**	**858,350**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,260,061)	(743,021)
Purchase of intangible assets	8	(26,746)	(8,535)
Purchase of land lease rights	7	(1,080)	(534)
Proceeds from sale of property, plant and equipment		7,873	2,552
Proceeds from sale of land lease rights		-	30
Loans provided		(31,794)	(32,862)
Loans repaid		26,606	34,677
Proceeds from government grants	18	13,722	-
Net cash used in investing activities		**(1,271,480)**	**(747,693)**
Cash flows from financing activities			
Proceeds from loans and borrowings	28	11,794,505	10,452,202
Repayment of loans and borrowings	28	(11,808,038)	(10,097,488)
Dividends paid		(493,543)	(405,485)
Repayment of obligations under finance leases		(21)	(7)
Proceeds from additional issue of shares	12	768,798	-
Proceeds from sale of treasury shares	12	-	54,938
Purchase of treasury shares	12	-	(47,414)
Net cash generated from / (used in) financing activities		**261,701**	**(43,254)**
Effect of foreign exchange rates on cash and cash equivalents		46,534	90,467
Net increase in cash and cash equivalents		**45,358**	**157,870**
Cash and cash equivalents at the beginning of the year	11	272,999	115,129
Cash and cash equivalents at the end of the year	11	**318,357**	**272,999**

The accompanying notes on pages 12-58 are an integral part of these consolidated financial statements.

PJSC "Magnit"

Consolidated statement of changes in equity

for the year ended 31 December 2017

(In thousands of US dollars)

	Attributable to equity holders of the parent					
	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained earnings	Equity attributable to equity holders of the parent
Balance at 1 January 2016	**34**	**1,510,336**	**(5,307)**	**(2,933,216)**	**3,693,994**	**2,265,841**
Profit for the year	–	–	–	–	811,652	811,652
Other comprehensive income	–	–	–	518,342	–	518,342
Total comprehensive income for the year	**–**	**–**	**–**	**518,342**	**811,652**	**1,329,994**
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
Balance at 31 December 2016	**34**	**1,511,666**	**–**	**(2,413,987)**	**4,134,845**	**3,232,558**
Balance at 1 January 2017	**34**	**1,511,666**	**–**	**(2,413,987)**	**4,134,845**	**3,232,558**
Profit for the year	–	–	–	–	609,035	609,035
Other comprehensive income	–	–	–	190,086	–	190,086
Total comprehensive income for the year	**–**	**–**	**–**	**190,086**	**609,035**	**799,121**
Dividends declared (Note 13)	–	–	–	–	(298,627)	(298,627)
Additional issue of shares	1	768,797	–	–	–	768,798
Balance at 31 December 2017	**35**	**2,280,463**	**–**	**(2,223,901)**	**4,445,253**	**4,501,850**

The accompanying notes on pages 12-58 are an integral part of these consolidated financial statements.

(In thousands of US dollars)

1. Corporate information

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for release by the Chief Executive Officer of PJSC "Magnit" on 22 March 2018.

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 2017	Ownership interest 2016
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 "ITM"	IT operations	100%	100%
LLC "Logistika Alternativa"	Import operations	100%	100%
LLC "Zvezda"	Assets holder, maintenance services for the Group	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%	100%
LLC "Kuban Confectioner"	Production of food for the Group	100%	100%
LLC "Kuban Factory of Bakery Products"	Production of food for the Group	100%	100%
LLC "Volshebnaya svezhest"	Production of household chemicals for the Group	100%	-
LLC "Moroznye pripasy"	Production of food for the Group	100%	-
LLC "Moskva na Donu"	Production of agricultural products for the Group	100%	-

1. Corporate information (continued)

In May 2017, the Group established companies "Volshebnaya svezhest" LLC and "Moroznye pripasy" LLC with 100% ownership. The main activity of the company is production of food and household chemicals for the Group.

On July 2017, the Group acquired 100% of shares in capital of LLC "Moscow on Don". The Company specialize in production of agricultural products for the Group.

At 31 December 2017 and 2016, the shareholding structure of the Company was as follows:

	2017		2016	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	32,400,836	31.79	33,200,000	35.11
Gordeichuk V.E.	852,820	0.84	1,002,820	1.06
Shares controlled by Lavreno Ltd. (Cyprus)	210,850	0.21	210,850	0.22
Shares controlled by the Group's Management	213,048	0.21	213,048	0.23
Other shares	730,000	0.72	–	0.00
Free float	67,503,801	66.23	59,934,637	63.38
	101,911,355	**100**	**94,561,355**	**100**

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.

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

Basis of accounting (continued)

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.

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:

	2017	2016
As of 31 December	57.6002	60.6569
Average for the year	58.3529	67.0349

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.

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.

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Business combinations (continued)

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.

Current versus non-current classification

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

- Expected to be realised or intended to 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.

3. Summary of significant accounting policies (continued)

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 by the Group.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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.

3. Summary of significant accounting policies (continued)

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.

For sales promotion purposes and stimulation of client loyalty The Group provides loyalty programs, which allows to accumulate points and exchange it to the goods hereafter. In case of providing of loyalty points to customers, the Group allocates a part of compensation, received in consequence of sales transaction, to the points cost and recognizes the differed revenue. The differed revenue recognizes in the amount equaled to the fair value of loyalty points, corrected to the probability of exchange. Differed revenue recognized as income in that period than an exchange of loyalty points to the goods take place. Expenses related to the loyalty programs are recognised as selling expenses and classified as advertising expenses.

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.

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:

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

3. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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.

Government grants

A government grant is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

If grants provided to financing of definite expenses, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. If grants provided to financing of an asset, government grants shall be recognised in profit or loss as equal shares over the expected useful life of this asset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognized on fair value. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and cash received.

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.

3. Summary of significant accounting policies (continued)

Investment property (continued)

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.

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:

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

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Finance leases (continued)

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.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation, handling costs and is decreased by the amount of rebates and promotional bonuses received from suppliers, related to these goods. 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.

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Income taxes (continued)

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.

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.

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.

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

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 2017 and 2016. 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.

3. Summary of significant accounting policies (continued)

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

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.

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.

3. Summary of significant accounting policies (continued)

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Disclosure Initiative

In 2017, the Group adopted amendments to IAS 7 that require entities to provide to users of the consolidated financial statements disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group disclosed additional information in Note 28 of these consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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 deductible temporary difference related to unrealized losses. 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.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual improvements 2014-2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of disclosure requirements in 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.

These amendments do not have any impact on the Group as there has been no entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale during the period.

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 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 and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Classification and measurement

IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

The Group analyzed contractual cash flows that relate to these instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, no reclassification for these instruments is required.

(b) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of allowances for impairment based on expected credit losses rather than incurred credit losses under IAS 39. Expected credit losses are used to measure credit risk related to assets. This will require judgments about how changes in economic factors affect expected credit losses determined on a probability weighted basis.

The new impairment model is applicable to the Group's financial assets, including, but not limited to, trade and other receivables, cash and cash equivalents.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Allowance is measured on either of the following bases:

- Based on 12-month expected losses that are expected credit losses resulting from default events on a financial instrument, which may occur within the 12 months after the reporting date; or
- Based on lifetime expected credit losses resulting from all possible default events over the expected life of a financial instrument.

The Group has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables.

The Group's cash and cash equivalents have low credit risk based on the external credit ratings of banks and financial institutions.

Based on the assessment undertaken to date, the Group expects an insignificant change in the provision for losses related to trade receivables and other financial assets measured at amortized cost.

(c) Hedge accounting

The Group does not have any hedge relationships that are currently designated as effective hedge relationships and therefore applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments must be applied retrospectively; earlier application is permitted.
The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9. Amendments will not have a significant impact on Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for 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 plans to adopt the new standard on the required effective date using the full retrospective method. In 2017 the Group performed a detailed analysis of assessment of IFRS 15.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

The core principle of the standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- Step 1: identify the contract(s) with a customer;
- Step 2: identify the performance obligations in the contract;
- Step 3: determine the transaction price;
- Step 4: allocate the transaction price to the performance obligations in the contract;
- Step 5: recognize revenue when (or as) the entity satisfies a performance obligation.

The new standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The standard is applied either:

1. Retrospectively to each previous reporting period presented in the financial statements. In this case, the entity may elect to use any of the following practical expedients:
   - The entity need not to restate completed contracts that begin and end within the same annual reporting period;
   - For contracts with variable considerations, an entity can use the transaction price at the date of the contract completion rather than estimating the amount of variable considerations in comparative reporting periods;
   - For period presented before the initial application date, an entity cannot disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when that revenue will be recognized.
2. Retrospectively recognizing the cumulative effect of initial application. In this case, the entity is required to provide additional disclosures in the reporting periods that include the date of initial application:
   - The amount of a change in each line item for the current reporting period resulted from the adoption of IFRS 15 compared with previous accounting standards;
   - Clarify significant changes.

The Group operates in the retail sector. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of goods at a point of sale. Other revenue streams are not significant. The Group analyzed its revenue streams through a five-step model established by IFRS 15. The Group expects that adoption of IFRS 15 will have no significant impact on its balance sheet and equity.

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 IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

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 amendments are not expected to have any impact on Group's 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.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Transfers of 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 it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organization, 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 applicable to the Group.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

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 IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. 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. These amendments are not applicable to the Group.

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 the transaction date for each payment or receipt of advance consideration. 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.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. The Group doesn't expect any influence from this amendments on the consolidated financial statements.

Annual improvements to IFRSs 2015-2017 cycle

The IASB has issued the annual improvements to IFRS standards 2015-2017 cycle.
The amendments affect four standards:

- IFRS 3 *Business Combinations*;
- IFRS 11 *Joint Arrangements*;
- IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments are effective for annual periods beginning on or after 1 January 2019 and have no impact on the Group.

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.

Matters of accounting methodology requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

4. Significant accounting judgements and estimates (continued)

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.

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.

4. Significant accounting judgements and estimates (continued)

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 20,305,000 thousand (USD 352,516 thousand) with maturity dates in January and March 2018, at 7.4% and 9.65% interest rate per annum.

Related party balances as at 31 December 2017 and 2016 consisted of the following:

	Shareholders		Other related parties	
	2017	2016	2017	2016
Loans received (Note 17)	-	2,498	98,030	-
Advances paid (Note 10)	-	-	2,761	241
Short-term loans receivable	-	2,465	1,978	1,075
Other receivables	-	-	1,400	173
Other payables (Note 14)	-	-	1,017	642
Long-term financial assets	-	-	868	824
Trade payables (Note 14)	-	-	548	346

5. Balances and transactions with related parties (continued)

The Group's transactions with related parties for the years ended at 31 December 2017 and 2016 consisted of the following:

	Shareholders		Other related parties	
	2017	2016	2017	2016
Loans received repayment	867,917	163,378	85,363	73,488
Loans received	864,284	137,988	181,040	72,321
Loans given repayment	2,780	10,260	24,410	24,345
Interest expense	1,036	1,781	1,088	1,168
Interest income	218	287	380	579
Purchases of inventory	–	–	170,688	140,398
Loans given	–	9,696	24,865	23,110
Other income	–	–	4,026	4,318
Other expense	–	–	2,944	448
Rent utilities income	–	–	2,315	1,776
Purchases of property, plant and equipment	–	–	1,251	3,046
Rent expense	–	–	75	39
Wholesale	–	–	4	395
Purchase of intangible assets	–	–	2	7

All employee benefits of Group management and members of the Board of Directors of the Group for 2017 were USD 26,321 thousand (2016: USD 23,625 thousand). All employee benefits include the remuneration under labor contract, social contributions and repayments to the board of director's members.

6. Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2017	**247,117**	**3,847,229**	**1,462,891**	**574,536**	**290,629**	**6,422,402**
Additions	13,738	3,295	348,833	135,863	758,377	**1,260,106**
Transfers	-	686,106	-	-	(686,106)	-
Disposals	(16)	(108,998)	(82,889)	(43,798)	(3,347)	**(239,048)**
Transfer from land lease right	4,288	-	-	-	-	**4,288**
Translation difference	13,349	211,748	81,108	31,691	16,323	**354,219**
At 31 December 2017	**278,476**	**4,639,380**	**1,809,943**	**698,292**	**375,876**	**7,801,967**
Accumulated depreciation and impairment						
At 1 January 2017	**-**	**(524,364)**	**(837,448)**	**(280,502)**	**-**	**(1,642,314)**
Charge for the year	-	(255,456)	(237,099)	(72,561)	-	**(565,116)**
Disposals	-	109,138	73,384	40,703	-	**223,225**
Translation difference	-	(29,739)	(46,581)	(15,300)	-	**(91,620)**
At 31 December 2017	**-**	**(700,421)**	**(1,047,744)**	**(327,660)**	**-**	**(2,075,825)**
Net book value						
At 1 January 2017	**247,117**	**3,322,865**	**625,443**	**294,034**	**290,629**	**4,780,088**
At 31 December 2017	**278,476**	**3,938,959**	**762,199**	**370,632**	**375,876**	**5,726,142**

6. Property, plant and equipment (continued)

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

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
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**
At 31 December 2016	**247,117**	**3,847,229**	**1,462,891**	**574,536**	**290,629**	**6,422,402**
Accumulated depreciation and impairment						
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)**
At 31 December 2016	**-**	**(524,364)**	**(837,448)**	**(280,502)**	**-**	**(1,642,314)**
Net book value						
At 1 January 2016	**183,645**	**2,472,699**	**471,536**	**288,845**	**232,919**	**3,649,644**
At 31 December 2016	**247,117**	**3,322,865**	**625,443**	**294,034**	**290,629**	**4,780,088**

In 2017, the weighted average capitalisation rate on funds borrowed is 9.49% per annum (2016: 10.91%).

In 2017, depreciation of production fixed assets in amount of USD 493 thousand was included in cost of goods for resale.

7. Land lease rights

Land lease rights as at 31 December 2017 consisted of the following:

	Land lease rights
Cost	
At 1 January 2017	**50,010**
Additions	1,080
Disposals	(452)
Transfer to PPE	(4,288)
Translation difference	2,606
At 31 December 2017	**48,956**
Accumulated amortization and impairment	
At 1 January 2017	**(6,496)**
Charge for the year	(934)
Disposals	29
Translation difference	(357)
At 31 December 2017	**(7,758)**
Net book value	
At 1 January 2017	**43,514**
At 31 December 2017	**41,198**

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

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

In 2017, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of USD 45 thousand (2016: USD 47 thousand).

8. Intangible assets

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

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At 1 January 2017	**4,108**	**2,639**	**31,986**	**82**	**1,815**	**40,630**
Additions	766	11,861	12,447	426	1,246	**26,746**
Disposals	(470)	(235)	(4,858)	(2)	(1,192)	**(6,757)**
Translation difference	222	293	1,797	10	97	**2,419**
At 31 December 2017	**4,626**	**14,558**	**41,372**	**516**	**1,966**	**63,038**
Accumulated amortization and impairment						
At 1 January 2017	**(1,684)**	**(1,090)**	**(13,224)**	**(28)**	**(1,134)**	**(17,160)**
Charge for the year	(1,023)	(594)	(9,651)	(24)	(986)	**(12,278)**
Disposals	470	235	4,858	2	1,190	**6,755**
Translation difference	(97)	(62)	(764)	(1)	(57)	**(981)**
At 31 December 2017	**(2,334)**	**(1,511)**	**(18,781)**	**(51)**	**(987)**	**(23,664)**
Net book value						
At 1 January 2017	**2,424**	**1,549**	**18,762**	**54**	**681**	**23,470**
At 31 December 2017	**2,292**	**13,047**	**22,591**	**465**	**979**	**39,374**

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

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
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**
At 31 December 2016	**4,108**	**2,639**	**31,986**	**82**	**1,815**	**40,630**
Accumulated amortization and impairment						
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)**
At 31 December 2016	**(1,684)**	**(1,090)**	**(13,224)**	**(28)**	**(1,134)**	**(17,160)**
Net book value						
At 1 January 2016	**2,187**	**1,512**	**14,675**	**68**	**720**	**19,162**
At 31 December 2016	**2,424**	**1,549**	**18,762**	**54**	**681**	**23,470**

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

8. Intangible assets (continued)

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

	2017	2016
Goodwill as at beginning of the year	**22,545**	**18,763**
Goodwill impairment	–	–
Translation difference	1,196	3,782
Goodwill as at the end of the year	**23,741**	**22,545**

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 12.6% (13.38% in 2016).

The impairment test did not reveal impairment of goodwill.

9. Inventories

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

	2017	2016
Goods for resale	2,634,087	2,076,826
Materials and supplies	181,954	147,416
	2,816,041	2,224,242

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 2017 and 2016 consisted of the following:

	2017	2016
Advances to third party suppliers	75,573	76,887
Advances for customs duties	7,473	7,870
Advances to related party suppliers (Note 5)	2,761	241
Advances to employees	832	866
	86,639	85,864

11. Cash and cash equivalents

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

	2017	2016
Petty cash, in RUB	36,430	30,361
Cash in banks, in RUB	117,547	61,294
Cash in banks, in foreign currency	263	112
Cash in transit, in RUB	164,117	161,442
Short-term deposits	–	19,790
	318,357	272,999

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 2017 and 2016.

12. Share capital, share premium and treasury shares

	2017 No. ('000)	2016 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)	101,911	94,561

	2017	2016
Share premium at 1 January	1,511,666	1,510,336
Sale of treasury shares	–	1,330
Additional issue of shares	768,797	–
Share premium at 31 December	**2,280,463**	**1,511,666**

	2017 No. ('000)	2016 No. ('000)
Balance of shares outstanding at beginning of financial year	**94,561**	**94,530**
Issue of shares	7,350	–
Sale of treasury shares	–	355
Purchase of treasury shares	–	(323)
Balance of shares outstanding at the end of financial year	**101,911**	**94,561**

13. Dividends declared

During the year ended 31 December 2017 the Group declared dividends to shareholders relating to 2016 and the first half of 2017:

	2017
Dividends declared for 2016 (1.19 USD for 1 share)	112,646
Dividends declared for the first half of 2017 (1.97 USD for 1 share)	185,981

During the year ended 31 December 2016 the Group declared dividends to shareholders relating to 2015, the first half of 2016 and 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 USD for 1 share)	124,248
Dividends declared for the first 9 months of 2016 (1.97 USD for 1 share)	186,586

As at 31 December 2017 the amount of liability for unpaid dividends is USD 14 thousand (at 31 December 2016: USD 196,793 thousand).

14. Trade and other payables

Trade and other payables as at 31 December 2017 and 2016 consisted of the following:

	31 December 2017	31 December 2016
Trade payables to third parties	1,624,559	1,350,410
Other payables to third parties	95,089	32,175
Other payables to related parties (Note 5)	1,017	642
Trade payables to related parties (Note 5)	548	346
	1,721,213	**1,383,573**

The average credit period for purchases was 43 days in 2017 and 43 days in 2016. 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 2017 and 2016 consisted of the following:

	31 December 2017	31 December 2016
Accrued salaries and wages	124,712	111,104
Other accrued expenses	76,241	64,445
	200,953	**175,549**

16. Taxes payables

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

	31 December 2017	31 December 2016
Value added tax	38,549	80,187
Social insurance contributions	38,340	35,171
Employee income tax withholding	18,097	17,014
Property tax	13,220	12,155
Other taxes	886	732
	109,092	**145,259**

17. Borrowings and loans

Long-term and short-term borrowings and loans as at 31 December 2017 and 2016 consisted of the following:

	Year of maturity	Weighted average interest rate	31 December 2017	Weighted average interest rate	31 December 2016
Long-term borrowings and loans					
Unsecured bank loans	2019	8.23%	1,264,433	9.89%	164,862
Unsecured bank loans	2020-2025	8.17%	235,131	-	-
Unsecured bank loans	2018	-	-	9.70%	783,504
Unsecured bonds	2018	-	-	10.91%	339,634
Less: current portion of long-term borrowings and loans			(643)		(10,367)
Total long-term borrowings and loans			**1,498,921**		**1,277,677**
Short-term borrowings and loans					
Unsecured bonds	2018	10.91%	357,970	-	-
Unsecured bank loans	2018	7.76%	239,916	-	-
Unsecured borrowings from related parties (Note 5)	2018	7.40%	98,030	-	-
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
Current portion of long-term borrowings and loans			643		10,367
Total short-term borrowings and loans			**696,559**		**826,054**

18. Government grants

	2017	2016
At 1 January	**-**	**-**
Received during the year	21,573	-
Recognized in profit or loss	(1,763)	-
Translation difference	259	-
At 31 December	**20,069**	**-**
Short-term	962	-
Long-term	19,107	-

The Government grants were received to recover a part of the direct costs incurred for construction and modernization of fixed assets. The government grants were received in cash and as a benefit of the loan at a below-market rate of interest.

19. Revenue

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

	2017	2016
Retail	19,384,008	15,949,988
Wholesale	209,095	83,624
	19,593,103	**16,033,612**

20. Cost of sales

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

	2017	2016
Cost of goods sold	13,857,956	11,239,359
Transportation expenses	514,449	382,237
	14,372,405	**11,621,596**

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 2017, payroll in amount of USD 167,767 thousand (2016: USD 128,010 thousand) was included in cost of sales.

In 2017, depreciation of production fixed assets in amount of USD 3,812 thousand (2016: USD 2,059 thousand) was included in cost of goods sold.

21. Selling expenses

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

	2017	2016
Advertising	144,499	79,131
Packaging and raw materials	76,029	68,087
Depreciation	64,329	46,703
	284,857	**193,921**

22. General and administrative expenses

General and administrative expenses for the years ended 31 December 2017 and 2016 consisted of the following:

	2017	2016
Payroll	1,597,013	1,254,397
Rent and utilities	1,134,559	841,983
Depreciation	496,482	327,458
Payroll related taxes	460,398	359,956
Repair and maintenance	86,386	64,875
Bank services	76,538	52,566
Taxes, other than income tax	58,252	47,667
Security	21,918	14,423
Amortization	13,167	9,038
Bad debt provision	2,215	(142)
Provision for unused vacation	597	(33)
Other expenses	115,962	87,090
	4,063,487	**3,059,278**

23. Finance costs

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

	2017	2016
Interest on loans	169,976	119,193
Interest on bonds	67,578	87,934
Total interest expense for financial liabilities	**237,554**	**207,127**
Less: amounts included in the cost of qualifying assets	(15,133)	(8,817)
	222,421	**198,310**

24. Other income

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

	2017	2016
Sale of packing	61,460	44,877
Advertising income	38,037	7,764
Penalties	25,646	5,585
Government grants	1,763	–
Other	6,066	1,982
	132,972	60,208

25. Income tax

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

	2017	2016
Consolidated statement of comprehensive income		
Current tax	67,903	173,879
Deferred tax	101,494	40,501
Income tax expense reported in the consolidated statement of comprehensive income	169,397	214,380

The movements for the years ended 2017 and 2016 in the Group's deferred tax position are as follows:

	2017	2016
Liability at the beginning of the year	257,172	176,781
Charge for the year	101,494	40,501
Translation difference	14,974	39,890
Deferred tax liability at the end of the year	373,640	257,172

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

	Consolidated statement of financial position			Consolidated statement of comprehensive income	
	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016	2017	2016
Deferred tax assets					
Accrued expenses	(2,595)	(1,444)	(940)	(1,060)	(284)
Inventories	(3,779)	(32,181)	(23,652)	29,722	(3,404)
Other	(10,710)	(8,471)	(8,168)	(1,766)	1,215
Deferred tax liabilities					
Property, plant and equipment	372,011	285,088	200,300	70,867	40,191
Inventories	4,566	-	–	4,507	-
Other	14,147	14,180	9,241	(776)	2,783
Net deferred tax liability	373,640	257,172	176,781	101,494	40,501

25. Income tax (continued)

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:

	2017	2016
Profit before tax	778,432	1,026,032
Theoretical income tax expense at 20%	**(155,686)**	**(205,206)**
Adjustments due to:		
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(5,757)	(4,389)
Tax effect of other expenses that are not deductible in determining taxable profit	(7,955)	(8,841)
Income tax recovery due to submission of revised tax returns	1	4,056
Income tax expense	**(169,397)**	**(214,380)**

26. Earnings per share

Earnings per share for the years ended 31 December 2017 and 2016 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 2017 and 2016 is as follows:

	2017	2016
Profit for the year attributable to equity holders of the parent	609,035	811,652
Weighted average number of shares (in thousands of shares)	95,105	94,561
Basic and diluted earnings per share (in US dollars)	**6.40**	**8.58**

The Group does not have any potentially dilutive equity instruments.

27. Contingencies, commitments and operating risks

Operating environment

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

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

27. Contingencies, commitments and operating risks (continued)

Tax legislation

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

In 2017, further implementation of mechanisms aimed at countering tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. The amendments include, among other things, definitions of beneficial ownership and tax residency by actual place of business (for legal entities) and the approach to the taxation of controlled foreign companies in the Russian Federation.

In addition, a concept of tax benefit was introduced for all taxes payable in the Russian Federation, with a focus on the presence of a business purpose of activities and confirmation of discharge of obligations under agreements by the parties to these agreements or a party to which these obligations were transferred under a contract or by law. These amendments significantly modify the framework for determination of unjustified tax benefit obtained by a taxpayer, and will have a significant impact on established court practice. However, the mechanism of application of this regulation is yet to be settled, and the respective court practice is not established.

These changes and recent trends in the applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. This may result in significant amounts of tax charges, penalties and fines being imposed. It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Fiscal periods remain open to review by the tax authorities for a period of three calendar years immediately preceding the year of review.

According to management, at 31 December 2017, they had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high.

As at 31 December 2017 and 2016, the Group accrued no provisions for tax positions.

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.

27. Contingencies, commitments and operating risks (continued)

Capital and rent commitments

As at 31 December 2017 and 2016, the Group entered in a number of agreements related to the acquisition of property, plant and equipment, capital commitments are presented net of VAT:

	2017	2016
Within one year	308,981	182,615
In the second to fifth years inclusive	28,504	1,001
	337,485	**183,616**

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 921 million (2016: USD 702 million).

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.

28. 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 2017 of up to 42% (2016: 57%) determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2017 and 2016 was as follows:

	2017	2016
Loan debt	2,195,480	2,103,731
Cash and cash equivalents	(318,357)	(272,999)
Net debt	**1,877,123**	**1,830,732**
Equity	4,501,850	3,232,558
Net debt to equity ratio	**42%**	**57%**

28. Financial risk management objectives and policies (continued)

Gearing ratio (continued)

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

The change in the target gearing ratio is due to the changes in the capital structure in 2017.

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	
	2017	2016	2017	2016
Long-term borrowings and loans	1,498,921	948,194	1,500,295	949,364
Bonds	357,970	840,616	349,825	832,684

As at 31 December 2017 and 2016, the fair value of the Group's financial instruments, except as described above, approximates their carrying value.

Set out below are changes in liabilities arising from financing activities:

	1 January 2017	Proceeds from loans and borrowings	Repayment of loans and borrowings	Finance costs	Interest paid	Translation difference	31 December 2017
Short-term and long-term borrowings and loans	2,103,731	11,794,505	(11,808,038)	222,421	(228,522)	111,383	2,195,480

	1 January 2017	Dividends declared	Dividends paid	Translation difference	31 December 2017
Dividends paid	196,793	298,627	(493,543)	(1,863)	14

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 2017 and 2016.

28. Financial risk management objectives and policies (continued)

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
2017	+11.00%	9,467	+12.50%	2,390
	-11.00%	(9,467)	-12.50%	(2,390)
2016	+20.00%	10,516	+20.00%	4,515
	-20.00%	(10,516)	-20.00%	(4,515)

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).

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.

28. Financial risk management objectives and policies (continued)

Credit risk management (continued)

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
2017	198,490	(1,895,412)	174,199	24,291	(1,721,213)
2016	369,223	(1,738,880)	355,307	13,916	(1,383,573)

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.

28. 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	More than 5 years	Total
2017							
Trade and other payables		1,374,560	346,653	-	-	-	**1,721,213**
Fixed interest rate instruments	8.56	26,317	356,106	447,855	1,540,642	12,487	**2,383,407**
		1,400,877	**702,759**	**447,855**	**1,540,642**	**12,487**	**4,104,620**
2016							
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**
		1,287,285	**446,951**	**625,362**	**1,349,709**	**-**	**3,709,307**

The Group has access to financing facilities of RUB 300,466,170 thousand (USD 5,216,408 thousand) of which RUB 174,279,126 thousand (USD 3,025,669 thousand) remains unused at 31 December 2017. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

29. Subsequent events

In February 2018, Galitskiy S.N. entered into an agreement with the subsidiary of PJSC "VTB Bank" on sale of 29.1% shares of PJSC "Magnit" owned by him and retire from responsibility of general director and the member of Board of Directors of PJSC "Magnit". The transfer of shares' ownership title to the subsidiary of PJSC "VTB Bank" was registered on 14 March 2018 year. Pombukhchan K.E. was elected the general director of PJSC "Magnit" on the meeting of the board of directors on 16 February 2018 year.