X5 RETAIL GROUP N.V.

Notes to the consolidated financial statements

for the year ended 31 December 2017

(expressed in millions of Russian Roubles, unless otherwise stated)

01 Principal activities and the Group structure

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 6 (the "Group").

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for a group of companies that operate retail grocery stores. The Company's address and tax domicile is Parkstraat 20, 2514 JK The Hague, the Netherlands.

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2017 the Group operated a retail chain of 12,121 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2016: 9,187 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores.

	31 December 2017	31 December 2016
"Pyaterochka" – Proximity stores		
Central FD	4,607	3,512
Volga FD	3,038	2,348
North-western FD	1,333	1,028
Ural FD	951	730
Southern FD	841	577
Siberian FD	277	40
Northern Caucasus	178	128
TOTAL	**11,225**	**8,363**
"Perekrestok" – Supermarkets		
Central FD	389	336
Volga FD	107	95
North-western FD	65	50
Ural FD	40	26
Southern FD	28	24
Northern Caucasus	9	8
TOTAL	**638**	**539**
"Karusel" – Hypermarkets		
Central FD	37	35
Volga FD	24	25
North-western FD	18	17
Ural FD	8	8
Southern FD	5	5
Northern Caucasus	1	1
TOTAL	**93**	**91**
"Perekrestok Express" – Express	**165**	**194**
TOTAL STORES	**12,121**	**9,187**

As at 31 December 2017 the principal shareholder exerting significant influence over the Company is CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 31 December 2017 the Company's shares were listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share (Note 20).

02 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

On 28 March 2018, the Management Board authorised the consolidated financial statements for issue. Publication is on 29 March 2018.

2.2 Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of businesses other than those acquired from parties under common control. The consideration transferred is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Goodwill is measured by deducting the fair value of net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (bargain purchase gain) is recognised in consolidated statement of profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

02 Summary of significant accounting policies

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method (also referred as "the predecessor values method"). Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserve within equity.

2.3 Foreign currency translation and transactions

(a) Functional and presentation currency

The functional currency of the Group's entities is the national currency of the Russian Federation, the Russian Rouble ("RUB"). The presentation currency of the Group is the Russian Rouble ("RUB"), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items.

2.4 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of the property, plant and equipment or part's estimated useful life whichever is sooner.

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment including construction in progress. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs of disposal.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Buildings are divided into foundation and frame with a depreciation period of 40-50 years and other parts of 7-8 years. Other parts mainly include fixtures and fitting.

The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Useful lives
Buildings (foundation and frame)	40-50 years
Buildings (other parts)	7-8 years
Machinery and equipment	5-10 years
Refrigerating equipment	7-10 years
Vehicles	5-7 years
Other	3-5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

2.6 Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of owned shopping centres that are leased to third party retailers as investment property, unless they represent insignificant portions of the property and are used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After purchase or construction of the building the Group assesses the main purpose of its use and, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment without changes in the carrying amount and cost of that property for measurement or disclosure purposes. Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 40-50 years.

Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The Group engaged an independent valuation specialist to assess the fair value of investment properties. The measurement is classified in level 3 of the fair value hierarchy.

02 Summary of significant accounting policies

2.7 Intangible assets

(a) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill represents the excess of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets of the acquired subsidiary at the date of exchange. Goodwill is not deductible for tax purposes.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is tested on the operating segment level.

(b) Lease rights

Lease rights represent:
- Rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value;
- Key money payments due to incumbent tenants and other directly attributable costs for entering into lease contracts.

Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts – ranging from 5 to 50 years.

(c) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Private labels are amortised using the straight-line method over their useful lives. In 2017 the Group revised the useful life of its "Pyaterochka" and "Karusel" brands and estimated them to be indefinite-lived as there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows for the Company. Change in estimate was based on the demonstration of the brands' ability to survive changes in the economic environment.

	Useful lives
Private labels	1-8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using the straight-line method over their useful lives.

(e) Software and other intangible assets

Expenditure on acquired patents, software and licenses is capitalised and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

(f) Impairment of intangible assets

Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

2.8 Operating leases

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease except preopening rentals, which are directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management, capitalised as a part of retail store or distribution centre construction costs.

The Group leases retail outlets and distribution centres under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents.

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to previous tenants for entering into lease contracts are recognised as lease rights.

2.9 Inventories

Inventories at distribution centres and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales. The Group also provides for aged stock provision where the expected selling price is below cost.

2.10 Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. The Group designates investments as available-for-sale only when they fall outside the other category of financial assets.

Initial recognition of financial instruments

Financial assets are initially recorded at fair value plus transaction costs. Financial liabilities are initially recorded at fair value minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

Impairment

The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an asset is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using an allowance account.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into the following measurement categories: (a) financial derivatives and (b) other financial liabilities. Financial derivatives are carried at fair value with changes in value recognised in the consolidated statement of profit or loss in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.11 Loans, trade and other receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group determines that there is objective evidence of impairment by assessing groups of receivables against credit risk factors established based on historical loss experience for each group. Indications that the trade receivable may be impaired include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. The amount of the provision is recognised in the consolidated statement of profit or loss. Uncollectible receivables are written off against the related impairment provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recovery of amounts previously written off is credited to impairment account within the profit or loss for the year.

02 Summary of significant accounting policies

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments used for meeting short term cash commitments.

2.13 Provisions

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

2.14 Value added tax

Output VAT related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and fulfilment of other conditions in compliance with Russian tax legislation.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT, presented within other non-current assets. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.15 Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of their employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.16 Share-based payments

Employee stock plan

The Group receives services from employees as consideration for conditional rights to receive GDRs after vesting period of 3 years and fulfilment of certain predetermined performance conditions.

Share-based payment transactions under the employee stock plan are accounted for as equity-settled transactions.

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period with the corresponding increase in equity (Share-based payment reserve) and measured by reference to the market price of the GDRs which is determined at grant date.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2.17 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

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

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

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

2.18 Trade and other payables

Trade and other payables are accrued when the counterparty performs its obligation under the contract and are carried at amortised cost using the effective interest method. Trade payables are recognised initially at fair value.

2.19 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.20 Dividends

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

2.21 Treasury shares

Where any group company purchases the Company's equity share capital, the paid consideration, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any received consideration, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.22 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

2.23 Taxes

Current tax is the amount expected to be paid to, or recovered from, the state budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Current income tax liabilities (assets) are measured in accordance with IAS 12 *Income Taxes*, based on legislation that is enacted or substantively enacted at the reporting date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided using the reporting liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exception, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the reporting date.

02 Summary of significant accounting policies

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted within the consolidated group of taxpayers (CGT) and within individual companies of the Group for the entities that are not members of the CGT.

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge. Interest incurred in relation to taxation is included in finance costs in the consolidated statement of profit or loss. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

2.24 Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 32.

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 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.

2.25 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue

Revenue from the sale of goods through retail outlets is recognised at the point of sale. Revenue from franchisee fees is recognised based on contractual agreements over the term of the contracts. The up-front non-refunda ble franchisee fees received by the Group are deferred and recognised over the contractual term. Revenue from advertising services is recognised based on contractual agreements. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognised net of value added tax.

The Group has a loyalty card scheme. Discounts earned by customers through loyalty cards are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue.

(b) Cost of sales

Cost of sales includes the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of volume discounts and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis.

(d) Selling, general and administrative expenses

Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current assets and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred.

2.26 Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.27 Fair value of assets and liabilities at the acquisition date

A primary valuation of assets and liabilities of acquired companies was performed on a provisional basis. Once the valuation is finalised, any adjustments arising are recognised retrospectively.

2.28 Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is included in net assets acquired in the business combination if the selling shareholders of the acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability does not have any impact on future earnings, unless the indemnification asset becomes impaired.

2.29 Offsetting of financial assets and financial liabilities

Accounts receivable and accounts payable are offset and the net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

03 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12. During 2017 the Group recognised impairment of goodwill for Perekrestok Express segment (included in other segments) in the amount of RUB 286 due to underperformance of the relevant CGUs.

Identifying a business combination

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group treats such transactions as business combinations when the integrated set of activities and assets acquired is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the Group. In making this judgment the Group considers whether it acquired inputs and processes applied to the inputs that have ability to create output. All acquisitions of assets and operations of retail stores occurred in 2017 and 2016 were treated by the Group as business combinations.

Litigations

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 33).

Deferred tax assets and liabilities

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

IAS 12 requires a deferred tax liability to be recognised for all taxable temporary differences associated with investments in subsidiaries unless: (a) the parent, investor joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. The Group excercises significant judgment in assessing the amount of taxable temporary differences associated with investments in subsidiaries (unremitted earnings) that will not reverse in the foreseeable future.

If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 10). The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. Management increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2017 the Group recognised an impairment loss in the amount of RUB 5,311 (year ended 31 December 2016: a net impairment loss in the amount of RUB 3,132).

Investment property

The Group's management determines the estimated useful lives and related depreciation charges for its investment properties (Note 11). Management increases the depreciation charge where useful lives are less than previously estimated lives or it writes-off or writes-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 11). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2017 the Group recognised a net impairment gain in the amount of RUB 1,007 (year ended 31 December 2016: a net impairment loss in the amount of RUB 257).

Lease rights

The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of such lease rights is based on the estimate of the market rates of the lease (Note 13). The Group periodically assesses whether there is any indication that lease rights may be impaired. The Group performs assets impairment testing (Note 13). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2017 the Group recognised a net impairment gain in the amount of RUB 178 (year ended 31 December 2016: a net impairment loss in the amount of RUB 66).

Inventories of goods for resale provisions

The Group provides for estimated inventory shrinkage on the basis of historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for aged stock where the expected selling price is below cost (Note 14).

Revenue recognition - Loyalty programmes

The Group estimates the amount of obligations related to customer loyalty programmes by allocating transaction price to loyalty points based on the standalone selling price of the points. The standalone selling price of the points is reduced for the expected amount of the points that will expire unredeemed. As at 31 December 2017 the estimated liability for unredeemed points was RUB 1,665 (31 December 2016: RUB 236).

Provision for impairment of trade and other receivables

The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 16). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectability of the outstanding accounts receivable balances supplemented by the judgement of management.

03 Critical accounting estimates and judgements in applying accounting policies

Brand and private labels

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing of brands with indefinite useful lives at least annually (Note 13). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2017 the Group recognised impairment in the amount of RUB Nil (year ended 31 December 2016: an impairment loss in the amount of RUB 68).

04 Adoption of new and revised standards and interpretations and new accounting pronouncements

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2017.

- *Amendments to IAS 7 – Disclosure Initiative*

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group disclosed additional information in Note 19 in these consolidated financial statements for the year ended 31 December 2017.

- *Amendments to IAS 12 – 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 that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The application of these amendments has no effect on the Group's financial position and performance as the Group followed the same principles in prior periods.

- *Annual Improvements Cycle – 2014-2016*

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.

The amendments described above had no significant impact on the financial position and performance of the Group or the disclosures in the consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018*
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018*
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018*
Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures	1 January 2019*
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019*
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019*
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019*
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019*
IFRS 17 Insurance Contracts	1 January 2021*

*Subject to EU endorsement

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application except for IFRS 16.

The Group plans to apply IFRS 9 and IFRS 15 starting from the dates effective in the European Union. At present the Group is in the process of analysis of the possible impact of the application of these standards on its consolidated financial statements, but the preliminary results show that the impact will not be significant.

IFRS 9 Financial Instruments

Starting from 2018, the Group will apply IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. 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 will adopt the new standard on the required effective date and due to the exemption in IFRS 9 will not restate comparative periods in the year of initial application. As a consequence, any adjustments to the carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in the opening balance of accumulated profits.

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. 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 contains 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 amortised 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.

Based on the assessment, the Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

04

Adoption of new and revised standards and interpretations and new accounting pronouncements

Loans, trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on the expected credit losses rather than only incurred credit losses under IAS 39. The expected credit losses represent measures of an asset's credit risk. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

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

Loss allowances are measured on either of the following bases:

- 12-month basis - these are expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- lifetime basis - these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The Group has chosen to apply applies 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 assessments undertaken to the date, the Group expects an insignificant change in the loss allowance for trade debtors and other financial assets held at amortised cost.

(c) Hedge accounting

The Group does not have hedge relationships that are currently designated as effective hedging relationships and therefore applying the hedging requirements of IFRS 9 will not have a significant impact on Group's 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. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

The Group is in the retail business and sells their goods both as acting as principal or through franchisees acting as agents. The Group expects the revenue recognition to occur when control of the asset is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Other revenue streams are not significant. The Group performed analysis of its revenue streams through a five-step model established by IFRS 15. The Group does not expect a significant impact on its balance sheet or equity on applying the requirements of IFRS 15.

In preparing to adopt IFRS 15, the Group considered the effect of IFRS 15 requirements on accounting for its loyalty programmes. Under IFRIC 13 Customer Loyalty Programmes, the Group allocated a portion of the transaction price to the loyalty programme using the fair value of points issued and recognised the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under IFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on relative standalone selling price instead of the allocation using the fair value of points issued, i.e. residual approach, as it did under IFRIC 13. The Group determined that more revenue must be allocated to the goods sold in comparison to the existing accounting policy. The Group assessed that the effect of this change in accounting policy is insignificant.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

05 Segment reporting

The Group identifies retail chains of each format (see Note 1) as separate operating segments in accordance with the criteria set forth in IFRS 8.

The following significant operating functions are decentralised by formats:
- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

The formats' general managers are determined as segment managers in accordance with IFRS 8. The chief operating decision-maker has been determined as the Management Board. The Management Board reviews each format's internal reporting in order to assess performance and allocate resources.

The Management Board assesses the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (EBITDA). Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements. Capital expenditures include additions of property, plant and equipment, investment properties and intangible assets, acquisitions of property, plant and equipment, investment properties and intangible assets through business combinations as well as goodwill acquired through such business combinations.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements.

05

Segment reporting

The segment information for the year ended 31 December 2017, comparative figures for earlier periods and reconciliation of EBITDA to profit for the year is provided as follows:

Year ended 31 December 2017	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate centre	Total
Revenue	**1,004,406**	**188,501**	**90,608**	**11,493**	**–**	**1,295,008**
EBITDA	**82,891**	**13,012**	**4,618**	**(68)**	**(4,260)**	**96,193**
Depreciation, amortisation and impairment						(38,435)
Operating profit						**57,758**
Finance cost, net						(16,017)
Net foreign exchange result						75
Profit before income tax						**41,816**
Income tax expense						(10,422)
Profit for the year						**31,394**
Capital expenditure	70,401	23,734	4,047	103	356	98,641
31 December 2017						
Inventories	75,304	14,627	8,472	897	–	99,300

Year ended 31 December 2016	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate centre	Total
Revenue	**779,448**	**157,004**	**84,649**	**12,566**	**–**	**1,033,667**
EBITDA	**64,441**	**11,935**	**4,322**	**(195)**	**(4,236)**	**76,267**
Depreciation, amortisation and impairment						(30,636)
Operating profit						**45,631**
Finance cost, net						(17,318)
Net foreign exchange result						340
Profit before income tax						**28,653**
Income tax expense						(6,362)
Profit for the year						**22,291**
Capital expenditure	62,971	11,881	5,213	501	112	80,678
31 December 2016						
Inventories	52,022	12,050	8,951	778	–	73,801

06 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2017 and 31 December 2016 are as follows:

			Ownership (%)	
Company	Country	Nature of operations	31 December 2017	31 December 2016
Agrotorg LLC	Russia	Retailing	100	100
Trade House PEREKRIOSTOK JSC	Russia	Retailing	100	100
Agroaspect LLC	Russia	Retailing	100	100
X5 Nedvizhimost CJSC	Russia	Assets holding company	100	100
KOPEYKA-MOSCOW Ltd.	Russia	Retailing	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	100
PEREKRESTOK HOLDINGS Ltd.	Gibraltar	Holding company	100	100
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
ALPEGRU RETAIL PROPERTIES Ltd.	Cyprus	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
SPEAK GLOBAL Ltd.	Cyprus	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
X5 Finance B.V.	the Netherlands	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100

07 Acquisition of businesses

Acquisitions in 2017

Acquisition of business from Monetka retail chain

During 2017 the Group acquired a number of stores from Monetka retain chain in Moscow and Moscow region. This acquisition was considered as an acquisition of business. The Group acquired 100% interest in these stores.

In the year ended 31 December 2017 the acquired business contributed revenue of RUB 3,007 from the date of acquisition. As the business was not acquired as a separate legal entity, it is impracticable to disclose net profit from the date of acquisition. The business did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2017 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired business and the related goodwill are as follows:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	319
Other intangible assets (Note 13)	24
Deferred tax assets (Note 28)	142
Net assets acquired	**485**
Goodwill (Note 12)	2,869
Purchase consideration	**3,354**
Net cash outflow arising from the acquisition	**2,017**

The Group assigned provisional fair values to net assets acquired, in estimating provisional values of intangible assets and property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal are used (market approach). The Group will finalise the purchase price allocation within a 12 month period from the acquisition date which is not yet finished at the date of approval of these consolidated financial statements.

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 2,017 and RUB 1,337 as deferred consideration measured at fair value and payable in 2018.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to Pyaterochka and Perekrestok segments.

Acquisition of business from Sedmoy Kontinent retail chain

In August and September 2017 the Group acquired a number of stores from Sedmoy Kontinent retail chain in Moscow, the Moscow and Ivanovo regions. This acquisition was considered as an acquisition of business. The Group acquired 100% interest in these stores.

In the year ended 31 December 2017 the acquired business contributed revenue of RUB 1,845 from the date of acquisition. As the business was not acquired as a separate legal entity, it is impracticable to disclose net profit from the date of acquisition. The business did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2017 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired business and the related goodwill are as follows:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	15
Other intangible assets (Note 13)	49
Other non-current assets	895
Deferred tax assets (Note 28)	313
Net assets acquired	**1,272**
Goodwill (Note 12)	1,254
Purchase consideration	**2,526**
Net cash outflow arising from the acquisition	**2,449**

The Group assigned provisional fair values to net assets acquired, in estimating provisional values of intangible assets and property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal are used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 2,449 and RUB 77 as deferred consideration measured at fair value and payable in 2018.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to this acquisition was allocated to Pyaterochka and Perekrestok segments.

07 Acquisition of businesses

Acquisition of business from O'KEY retail chain

In December 2017 the Group acquired a number of stores from O'KEY retail chain in St Petersburg, Moscow, the Moscow and Leningrad regions, Volgograd, Astrakhan, Lipetsk, Togliatti and Novocherkassk.

In the year ended 31 December 2017 the acquired business didn't contribute any revenue from the date of acquisition. Net loss from the date of acquisition comprised RUB 5. The business did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2017 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired business and the related goodwill are as follows:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	2,091
Other intangible assets (Note 13)	47
Deferred tax assets (Note 28)	142
Trade, other accounts receivable and prepayments	51
VAT and other taxes receivable	165
Cash and cash equivalents	5
Provisions and other liabilities	(23)
Net assets acquired	**2,478**
Goodwill (Note 12)	4,175
Purchase consideration	**6,653**
Net cash inflow arising from the acquisition	**(5)**

The Group assigned provisional fair values to net assets acquired, in estimating provisional values of intangible assets and property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal are used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration for the reporting period comprised RUB 6,653 as deferred consideration.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Perekrestok segment.

Other acquisitions

In 2017 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2017 the acquired businesses contributed revenue of RUB 3,890 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. The businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2017 as though the acquisition date had been the beginning of that period.

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	821
Other intangible assets (Note 13)	41
Deferred tax assets (Note 28)	282
Net assets acquired	**1,144**
Goodwill (Note 12)	1,895
Purchase consideration	**3,039**
Net cash outflow arising from the acquisitions	**2,006**

The Group assigned provisional fair values to net assets acquired, in estimating provisional values of intangible assets and property, plant and equipment direct references to observable prices in an active market and estimates of the independent appraisal are used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprises the transfer of cash and cash equivalents of RUB 2,006 and 1,033 as deferred consideration measured at fair value and payable in 2018.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka and Perekrestok segments.

Acquisitions in 2016

In 2016 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2016 the acquired businesses contributed revenue of RUB 11,509 from the date of acquisition. The businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2016 as though the acquisition date had been the beginning of that period. During 2017 the Group finalised purchase price allocation for acquisitions occurred in 2016, which resulted in no change from provisional values.

07 Acquisition of businesses

Details of assets and liabilities of acquired businesses and the related goodwill are as follows:

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 10)	965
Other intangible assets (Note 13)	322
Deferred tax assets (Note 28)	627
Trade and other accounts receivable	1
Deferred tax liabilities (Note 28)	(18)
Net assets acquired	**1,897**
Goodwill (Note 12)	4,802
Purchase consideration	**6,699**
Net cash outflow arising from the acquisitions	**6,654**

The goodwill recognised is attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka and Perekrestok segments. During the year ended 31 December 2017 the Group has finalised fair value assessment of business combinations occurred during the year ended 31 December 2016 resulting in no change in the amount of goodwill initially recognised at provisional values.

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 6,654, accounts receivable with fair value of RUB 44 and RUB 1 as deferred consideration. During 12 months ended 31 December 2016 the Group transferred RUB 4 as deferred payments for prior period's acquisitions.

08 Related party transactions

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2017 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	Relationship	2017	2016
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		93	90
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		1,831	1,517
Insurance expenses		339	223
Other operating expenses		2	2
Bonuses from related parties		66	226
Other	Other		
Other operating expenses		1	42

The consolidated financial statements include the following balances with the related parties:

	Relationship	31 December 2017	31 December 2016
Other	Under control by the entity with significant influence over the Company		
Trade accounts payable		298	278
Other accounts payable		1	3
Trade accounts receivable		19	29
Other receivables and prepayments from related parties		2	11
Other	Other		
Other accounts payable		–	12
Other accounts receivable		–	–

Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2017 and 2016, the Group did not record any impairment of receivables relating to amounts owed by related parties.

09 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank current account – Roubles	12,120	5,799
Cash in transit – Roubles	11,750	9,105
Cash in hand – Roubles	3,063	2,599
Deposits – Euros	653	–
Deposits – US dollars	19	–
Deposits – Roubles	–	681
Bank current accounts and deposits – other currencies	–	6
TOTAL	**27,605**	**18,190**

The bank accounts represent current accounts. Interest income on overnights/term deposits was immaterial. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

The Group assessed credit quality of outstanding cash and cash equivalents balances as high and considered that there was no significant individual exposure. The maximum exposure to credit risk at the reporting date was the carrying value of cash and bank balances.

Credit quality of cash and cash equivalents balances are summarised as follows (current ratings):

Bank	Moody's	Fitch	S&P	31 December 2017	31 December 2016
Alfa-Bank	Ba2	BB+	BB	1,123	1,088
Sberbank	Ba2[1]	BBB-	–	10,978	3,510
Russian Regional Development Bank	Ba2	–	–	374	–
Russian Agricultural Bank	Ba2	BB+	–	279	–
Gazprombank	Ba2	BB+	BB+	24	–
Credit Bank of Moscow	Ba3/NP	BB-	BB-	–	1,866
Other banks				14	22
Cash in transit and in hand				14,813	11,704
TOTAL				**27,605**	**18,190**

[1] LT Bank Deposits (Foreign) rating

10 Property, plant and equipment

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress[1]	Total
Cost							
At 1 January 2016	**171,981**	**24,409**	**28,053**	**7,367**	**21,959**	**12,613**	**266,382**
Additions	–	–	–	–	–	70,492	70,492
Transfers	36,816	10,874	12,964	5,273	6,873	(72,800)	–
Transfers to investment property (Note 11)	(473)	–	–	–	–	(312)	(785)
Assets from acquisitions (Note 7)	–	–	–	–	–	965	965
Disposals	(363)	(4,041)	(2,780)	(710)	(2,843)	(3)	(10,740)
At 31 December 2016	**207,961**	**31,242**	**38,237**	**11,930**	**25,989**	**10,955**	**326,314**
Additions	–	–	–	–	–	80,783	80,783
Transfers	41,288	11,854	11,745	5,774	10,520	(81,181)	–
Transfers to investment property (Note 11)	(267)	–	–	–	–	–	(267)
Assets from acquisitions (Note 7)	–	27	37	–	91	3,091	3,246
Disposals	(10,016)	(2,790)	(2,446)	(1,046)	(1,942)	(48)	(18,288)
At 31 December 2017	**238,966**	**40,333**	**47,573**	**16,658**	**34,658**	**13,600**	**391,788**
Accumulated depreciation and impairment							
At 1 January 2016	**(39,587)**	**(10,984)**	**(9,750)**	**(3,948)**	**(12,216)**	**(897)**	**(77,382)**
Depreciation charge	(10,677)	(3,907)	(3,929)	(1,133)	(4,470)	–	(24,116)
Impairment charge	(4,883)	(835)	(685)	(2)	(157)	(643)	(7,205)
Reversal of impairment	3,671	–	–	–	–	402	4,073
Transfers	(1,454)	(30)	(24)	–	1,416	92	–
Transfers to investment property (Note 11)	141	–	–	–	–	238	379
Disposals	166	3,909	2,717	642	2,819	–	10,253
At 31 December 2016	**(52,623)**	**(11,847)**	**(11,671)**	**(4,441)**	**(12,608)**	**(808)**	**(93,998)**
Depreciation charge	(12,655)	(5,091)	(5,215)	(1,983)	(6,292)	–	(31,236)
Impairment charge	(6,908)	(787)	(747)	(34)	(266)	(130)	(8,872)
Reversal of impairment	3,611	–	–	–	–	(50)	3,561
Transfers	(580)	(12)	3	–	33	556	–
Transfers to investment property (Note 11)	122	–	–	–	–	–	122
Disposals	9,871	2,736	2,413	615	1,922	6	17,563
At 31 December 2017	**(59,162)**	**(15,001)**	**(15,217)**	**(5,843)**	**(17,211)**	**(426)**	**(112,860)**
Net book value at 31 December 2017	**179,804**	**25,332**	**32,356**	**10,815**	**17,447**	**13,174**	**278,928**
Net book value at 31 December 2016	**155,338**	**19,395**	**26,566**	**7,489**	**13,381**	**10,147**	**232,316**
Net book value at 1 January 2016	**132,394**	**13,425**	**18,303**	**3,419**	**9,743**	**11,716**	**189,000**

[1] this category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet put into use

10 Property, plant and equipment

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2017 and 31 December 2016.

Construction in progress predominantly related to the development of stores through the use of sub-contractors.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 33). No loans were collateralised by land and buildings including investment property as of 31 December 2017.

Impairment test

At the end of 2017 management performed an impairment test of property, plant and equipment, lease rights, franchise agreements and investment property. The approach for determination of the recoverable amount of an asset was different for each class of property, plant and equipment, lease rights, franchise agreements and investment property.

The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store/unit level (cash generating unit – CGU). The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

The impairment review has been carried out by comparing recoverable amount of the individual store/unit with their carrying values. The recoverable amount of store/unit is determined as the higher of fair value less cost of disposal or value in use.

The resulting impairment charge arose primarily from underperforming stores. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores. Due to the great number of CGUs being tested for impairment it is considered impracticable to disclose detailed information for each individual CGU.

Fair value less costs of disposal

Fair value of land and buildings and construction in progress is determined by an independent appraiser by reference to current observable prices on an active market subsequently adjusted for specific characteristics of respective assets. The fair value measurement of these assets is classified at level 3 of the fair value hierarchy.

Value in use

For property, plant and equipment, lease rights, franchise agreements and investment property the discounted future cash flow approach is applied and covers a 10 year period from 2018 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4% to 7.9% in accordance with the strategic plan and consumer price index projections (31 December 2016: 3.5% to 6%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2017 is used (31 December 2016: 3.5%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 13.9% (31 December 2016: 15.9%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, investment property and intangible assets by RUB 1,449 (31 December 2016: RUB 1,005), if 200 b.p. lower – increase by RUB 1,589 (31 December 2016: RUB 1,643). If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying value of property, plant and equipment, investment property and intangible assets by RUB 2,765 (31 December 2016: RUB 2,592), lower – decrease by RUB 3,261 (31 December 2016: RUB 2,473).

11 Investment property

The Group held the following investment properties at 31 December 2017 and 31 December 2016:

	2017	2016
Cost		
Cost at 1 January	**8,684**	**8,040**
Transfer from fixed assets	267	785
Disposals	(35)	(141)
Cost at 31 December	**8,916**	**8,684**
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	**(4,094)**	**(3,212)**
Depreciation charge	(254)	(246)
Impairment charge	(292)	(446)
Reversal of impairment	1,299	189
Transfer from fixed assets	(122)	(379)
Disposals	35	–
Accumulated depreciation and impairment at 31 December	**(3,428)**	**(4,094)**
Net book value at 31 December	**5,488**	**4,590**
Net book value at 1 January	**4,590**	**4,828**

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2017 and 31 December 2016.

Rental income from investment property amounted to RUB 1,365 (2016: RUB 1,243). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 604 (2016: RUB 546). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2017 amounted to RUB 9,701 (31 December 2016: RUB 7,839). The fair value was estimated using market approach with key inputs being rent income rates and market value of comparable assets.

Impairment test

At the end of 2017 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

12 Goodwill

Movements in goodwill arising on the acquisition of businesses at 31 December 2017 and 31 December 2016 are:

	2017	2016
Cost		
Gross book value at 1 January	**146,681**	**141,625**
Acquisition of businesses (Note 7)	10,193	4,802
Effect of change in purchase price allocation	–	254
Gross book value at 31 December	**156,874**	**146,681**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,312)**	**(66,312)**
Impairment charge	(286)	–
Accumulated impairment losses at 31 December	**(66,598)**	**(66,312)**
Carrying amount at 1 January	**80,369**	**75,313**
Carrying amount at 31 December	**90,276**	**80,369**

Goodwill impairment test

For the purposes of impairment testing, goodwill is allocated to groups of cash-generating units (groups of CGUs) being store chains of each format. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The group of CGUs to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the particular group of CGUs might be impaired. Goodwill is tested for impairment at the group of CGUs level by comparing carrying values of particular group of CGU assets including allocated goodwill to their value in use.

The allocation of carrying amounts of goodwill to each group of CGUs is as follows:

Year ended 31 December 2017	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other**	**Total**
Goodwill	70,426	15,300	4,550	–	90,276
Year ended 31 December 2016	**Pyaterochka**	**Perekrestok**	**Karusel**	**Other**	**Total**
Goodwill	65,189	10,344	4,550	286	80,369

Value in use

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10 year period from 2018 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4% to 7.9% in accordance with the strategic plan and consumer price index projections (31 December 2016: 3.5% to 6%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2017 is used (31 December 2016: 3.5%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 13.9% (31 December 2016: 15.9%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

Except for Perekrestok Express segment (included in other segments) the changes in assumptions applied in the model used for impairment testing do not indicate any trigger for impairment because the fair value less cost of disposal and the value in use are significantly higher than the carrying values of the cash generating unit assets.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment test

The recoverable amount of the groups of CGUs calculated exceeds their carrying amounts except for Perekrestok Express segment and therefore no impairment is recognised for them. Goodwill related to Perekrestok Express segment was impaired by RUB 286 due to underperformance of the relevant CGUs.

13 Other intangible assets

Other intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost					
At 1 January 2016	**17,136**	**12**	**7,501**	**11,985**	**36,634**
Additions	–	–	3,294	549	3,843
Acquisition of businesses (Note 7)	–	–	–	322	322
Disposals	–	(12)	(20)	(91)	(123)
At 31 December 2016	**17,136**	**–**	**10,775**	**12,765**	**40,676**
Additions	–	–	3,821	437	4,258
Acquisition of businesses (Note 7)	–	–	–	161	161
Disposals	–	–	(15)	(82)	(97)
At 31 December 2017	**17,136**	**–**	**14,581**	**13,281**	**44,998**
Accumulated amortisation and impairment					
At 1 January 2016	**(10,996)**	**–**	**(3,029)**	**(7,508)**	**(21,533)**
Amortisation charge	(726)	(7)	(1,096)	(736)	(2,565)
Impairment charge	(68)	(5)	(181)	(442)	(696)
Reversal of impairment	–	–	–	376	376
Disposals	–	12	20	90	122
At 31 December 2016	**(11,790)**	**–**	**(4,286)**	**(8,220)**	**(24,296)**
Amortisation charge	(26)	–	(1,596)	(737)	(2,359)
Impairment charge	–	–	(174)	(358)	(532)
Reversal of impairment	–	–	–	536	536
Disposals	–	–	15	80	95
At 31 December 2017	**(11,816)**	**–**	**(6,041)**	**(8,699)**	**(26,556)**
Net book value at 31 December 2017	**5,320**	**–**	**8,540**	**4,582**	**18,442**
Net book value at 31 December 2016	**5,346**	**–**	**6,489**	**4,545**	**16,380**
Net book value at 1 January 2016	**6,140**	**12**	**4,472**	**4,477**	**15,101**

Brand and private labels includes brand "Pyaterochka" with the carrying amount of RUB 4,029 (31 December 2016: RUB 4,029) and brand "Karusel" with the carrying amount of RUB 1,258 (31 December 2016: RUB 1,258).

Amortisation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2017 and 31 December 2016.

Impairment test

At the end of 2017 management performed an impairment test of lease rights, brands and franchise agreements.

For private labels, lease rights and franchise agreements the evaluation performed and reasons for it are consistent with the approach for impairment testing of property, plant and equipment (Note 10). For brands, which are tested annually for impairment, evaluation performed is consistent with the approach for goodwill (Note 12).

Also the Group recognised an impairment of software and private labels which were no longer used.

14 Inventories

At 31 December 2017 inventories in the amount of RUB 99,300 were accounted at the lower of cost and net realisable value (31 December 2016: RUB 73,801). Write-off of inventory to net realisable value at 31 December 2017 amounted to RUB 1,986 (31 December 2016: RUB 1,311).

15 Financial instruments by category

	Loans and receivables
31 December 2017	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	12,214
Cash and cash equivalents	27,605
TOTAL	**39,819**

	Financial liabilities at amortised cost
31 December 2017	
Liabilities as per consolidated statement of financial position	
Borrowings	194,296
Interest accrued	1,642
Trade, other current and non-current payables excluding statutory liabilities and advances	188,639
TOTAL	**384,577**

	Loans and receivables
31 December 2016	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	25,021
Cash and cash equivalents	18,190
TOTAL	**43,211**

	Financial liabilities at amortised cost
31 December 2016	
Liabilities as per consolidated statement of financial position	
Borrowings	156,033
Interest accrued	1,177
Trade and other payables excluding statutory liabilities and advances	172,396
TOTAL	**329,606**

16 Trade, other accounts receivable and prepayments

	31 December 2017	31 December 2016
Trade accounts receivable	11,770	24,606
Other receivables	1,903	2,206
Accounts receivable for franchise services	9	15
Provision for impairment of trade and other receivables	(1,468)	(1,806)
Total trade and other accounts receivable	**12,214**	**25,021**
Prepayments	3,567	2,956
Advances made to trade suppliers	445	733
Provision for impairment of prepayments and advances	(695)	(683)
Total prepayments	**3,317**	**3,006**
TOTAL	**15,531**	**28,027**

Trade and other accounts receivable are categorised as loans and receivables under IAS 39 classification. The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles.

Other non-current assets were mainly represented by long-term prepayments for rent in the amount of RUB 7,375 (31 December 2016: RUB 4,221).

Trade receivables

There were balances of RUB 765 that in accordance with accounting policies were past due but not impaired as at 31 December 2017 (31 December 2016: RUB 715).

The ageing of these receivables based on days outstanding was as follows:

	31 December 2017	31 December 2016
2-12 months	765	715
TOTAL	**765**	**715**

Movements on the provision for impairment of trade receivables were as follows:

	2017	2016
At 1 January	**(912)**	**(1,190)**
Addition of provision for receivables impairment	(235)	(666)
Release of provision for receivables impairment	92	645
Receivables written off as uncollectable	367	299
At 31 December	**(688)**	**(912)**

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

The individually impaired trade receivables mainly related to debtors that expect financial difficulties or where there was likelihood of the debtor's insolvency. It was assessed that a portion of the receivables was expected to be recovered.

The ageing of accounts receivable (gross) that were individually impaired based on days outstanding was as follows:

	31 December 2017	31 December 2016
3-6 months	170	107
Over 6 months	818	1,161
TOTAL	**988**	**1,268**

For those receivables that were neither past due nor impaired the Group considered the credit quality as high. Trade receivables are mainly bonuses from suppliers of goods for resale receivable on quarterly basis with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

Other receivables and receivables for franchise services

There were balances of RUB 291 that in accordance with accounting policies were past due but not impaired as at 31 December 2017 (31 December 2016: RUB 189).

The ageing of these receivables based on days outstanding was as follows:

	31 December 2017	31 December 2016
2-12 months	291	189
TOTAL	**291**	**189**

Movements on the provision for impairment of other receivables and receivables for franchise services were as follows:

	2017	2016
At 1 January	**(894)**	**(947)**
Addition of provision for receivables impairment	(329)	(399)
Release of provision for receivables impairment	199	289
Receivables written off as uncollectable	244	163
At 31 December	**(780)**	**(894)**

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated statement of profit or loss.

The individually impaired other receivables mainly related to debtors that expected financial difficulties or there was likelihood of the debtor's insolvency. It was assessed that a portion of the receivables was expected to be recovered.

The ageing of amounts receivable (gross) that were individually impaired based on days outstanding was as follows:

	31 December 2017	31 December 2016
3-6 months	136	119
Over 6 months	709	1,038
TOTAL	**845**	**1,157**

For those receivables that were neither past due nor impaired the Group considered the credit quality as high. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

16 Trade, other accounts receivable and prepayments

Prepayments and advances made to trade suppliers

There were balances of RUB 1,059 that in accordance with accounting policies were past due but not impaired as at 31 December 2017 (31 December 2016: RUB 876).

The ageing of prepayments based on days outstanding was as follows:

	31 December 2017	31 December 2016
2-12 months	1,059	876
TOTAL	**1,059**	**876**

Movements on the provision for impairment of prepayments and advances made to trade suppliers were as follows:

	2017	2016
At 1 January	**(683)**	**(868)**
Addition of provision for receivables impairment	(453)	(417)
Release of provision for receivables impairment	161	297
Receivables written off as uncollectable	280	305
At 31 December	**(695)**	**(683)**

The creation and release of the provision for impaired prepayments have been included in general and administrative costs in the consolidated statement of profit or loss.

The individually impaired prepayments mainly related to debtors that expected financial difficulties or there was likelihood of the debtor's insolvency. It was assessed that a portion of the prepayments was expected to be recovered.

The ageing of prepayments (gross) that were individually impaired based on days outstanding was as follows:

	31 December 2017	31 December 2016
Over 1 year	798	754
TOTAL	**798**	**754**

For those prepayments that were neither past due nor impaired the Group considered the credit quality as high. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable mentioned above. The Group did not hold any collateral as security.

17 VAT and other taxes receivable

	31 December 2017	31 December 2016
VAT receivable	13,924	8,698
Other taxes receivable	423	224
TOTAL	**14,347**	**8,922**

18 Provisions and other liabilities

	31 December 2017	31 December 2016
Other accounts payable and accruals	24,725	14,232
Accrued salaries and bonuses	15,386	12,412
Accounts payable for property, plant and equipment	15,228	11,890
Taxes other than income tax	11,804	7,037
Advances received	1,752	1,462
Payables to landlords	1,368	1,210
Provisions and liabilities for tax uncertainties (Note 33)	494	499
TOTAL	**70,757**	**48,742**

There were no significant amounts of other payables to foreign counterparties as at 31 December 2017 and 31 December 2016.

19 Borrowings

The Group had the following borrowings at 31 December 2017 and 31 December 2016:

Current	Final maturity year[1]	Fair value 2017	Fair value 2016	Carrying value 2017	Carrying value 2016
RUB Bonds X5 Finance series BO-05	2018	5,100	–	4,998	–
RUB Bonds X5 Finance series BO-06	–	–	5,045	–	4,993
RUB Bilateral Loans	2018	53,676	40,175	53,676	40,175
Total current borrowings		**58,776**	**45,220**	**58,674**	**45,168**
Non-current	**Final maturity year[1]**	**Fair value 2017**	**Fair value 2016**	**Carrying value 2017**	**Carrying value 2016**
RUB Bonds X5 Finance series BO-04	2019	5,243	5,219	4,996	4,993
RUB Bonds X5 Finance series BO-05		–	5,089	–	4,995
RUB Bonds X5 Finance series BO-06	2019	5,002	–	4,996	–
RUB Bonds X5 Finance series BO-07	2019	5,095	5,008	4,995	4,991
RUB Bonds X5 Finance series 001P-01	2019	15,480	14,970	14,987	14,997
RUB Bonds X5 Finance series 001P-02	2020	10,135	–	9,985	–
RUB Eurobond X5 Finance B.V.	2020	20,490	–	19,872	–
RUB Bilateral Loans	2020	76,571	81,919	75,791	80,889
Total non-current borrowings		**138,016**	**112,205**	**135,622**	**110,865**
TOTAL BORROWINGS		**196,792**	**157,425**	**194,296**	**156,033**

[1] In case of the Group's Bonds – the next oferta (put option) date.

19 Borrowings

Related to publically trade debt activities in 2017:

- In April 2017 the Group issued debut RUB 20 bln Eurobond with a 9.25% coupon rate per annum and 3-years maturity. Bonds are traded on the Irish Stock Exchange.
- In May 2017 the Group issued RUB 10 bln exchange corporate bonds series 001P-02 with 8.45% coupon rate and 3.5-years oferta (put-option).
- In November 2017 the Group successfully passed the oferta on the RUB 5 bln exchange corporate bonds series BO-06. The new annual rate for the next 3 semi-annual coupons was fixed at 7.95%.

In 2017 the Group executed and made drawdowns under new long-term bank loans with fixed interest rate in the total amount of RUB 42 bln.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2017 comprised 9.51% per annum (year ended 31 December 2016: 11.30%).

All borrowings at 31 December 2017 are shown net of related transaction costs of RUB 303 which are amortised over the term of the loans using the effective interest method (year ended 31 December 2016: RUB 267). Borrowing costs capitalised for the year ended 31 December 2017 amounted to RUB 338 (year ended 31 December 2016: RUB 285). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 9.37% (year ended 31 December 2016: 11.20%).

Change in total borrowings in amount of RUB 38,263 in 2017 equals to the proceeds from borrowings in amount of RUB 100,780, repayment of borrowings in amount of RUB 62,700 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 183.

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. At 31 December 2017 the Group complied with this covenant and Net Debt/EBITDA was equal to 1.73 (31 December 2016: 1.81).

20 Share capital

As at 31 December 2017 the Group had 190,000,000 authorised ordinary shares (31 December 2016: 190,000,000) of which 67,886,748 ordinary shares were outstanding (31 December 2016: 67,884,340) and 6,470 ordinary shares were held as treasury stock (31 December 2016: 8,878). The nominal par value of each ordinary share is EUR 1.

The Supervisory Board proposed to the General Meeting to distribute in 2018 current year profit in the amount of RUB 21,590 (318.03 RUB per ordinary share) to shareholders.

21 Earnings per share

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

Earnings per share were calculated as follows:

	2017	2016
Profit attributable to equity holders of the parent	31,394	22,291
Weighted average number of ordinary shares in issue	67,885,831	67,883,606
Effect of share options granted to employees, number of shares	12,944	2,366
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,898,775	67,885,972
Basic earnings per share for profit from continuing operations (expressed in RUB per share)	**462.45**	**328.37**
Diluted earnings per share for profit from continuing operations (expressed in RUB per share)	**462.36**	**328.36**

22 Revenue

	2017	2016
Revenue from sale of goods	1,294,481	1,033,320
Revenue from franchise services	29	34
Revenue from other services	498	313
TOTAL	**1,295,008**	**1,033,667**

23 Expenses by nature

	2017	2016
Cost of goods sold	946,044	751,763
Staff costs (Note 26)	114,808	92,947
Operating lease expenses	64,472	51,202
Depreciation, amortisation	33,849	26,927
Impairment of non-current assets	4,586	3,709
Other store costs	20,201	17,773
Utilities	24,976	20,445
Other	36,510	30,230
TOTAL	**1,245,446**	**994,996**

23 Expenses by nature

Operating lease expenses included RUB 61,967 (2016: RUB 49,626) of minimum lease payments and contingent rent of RUB 2,505 (2016: 1,576 RUB).

Impairment of trade, other accounts receivable and prepayments amounted to RUB 522 for the year ended 31 December 2017 (2016: RUB 247).

The fees listed below related to the procedures applied to the Group by E&Y Accountants LLP and Other EY Network as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: Wta):

	2017	2016
Statutory audit of financial statements performed by E&Y Accountants LLP	12	12
Other assurance services performed by E&Y Accountants LLP	11	–
Statutory audit of financial statements performed by Other EY Network	49	43
Other assurance services performed by Other EY Network	1	–
Other non-audit services	35	8
TOTAL	**108**	**63**

The external auditor of the Group is Ernst & Young Accountants LLP.

24 Operating lease / sublease income

The Group leases part of its store space to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease and sublease payments receivable under non-cancellable operating leases were as follows:

	31 December 2017	31 December 2016
Not later than 1 year	2,769	2,325
Later than 1 year and no later than 5 years	2,161	1,474
Later than 5 years	1,649	615
TOTAL	**6,579**	**4,414**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 amounted to RUB 6,584 (2016: RUB 6,142). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2017 amounted to RUB 113 (2016: 170).

25 Finance income and costs

	2017	2016
Interest expense	15,533	17,044
Interest income	(59)	(47)
Other finance costs, net	543	321
TOTAL	**16,017**	**17,318**

26 Staff costs

	2017	2016
Wages and salaries	89,385	73,435
Social security costs	25,352	19,464
Share-based payments expense	71	48
TOTAL	**114,808**	**92,947**

Wages and salaries in 2017 included expenses of RUB 2,470 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2016: RUB 2,778).

Social security costs in 2017 included pension contributions amounted to RUB 16,555 (2016: RUB 13,065).

The number of employees as at 31 December 2017 amounted to 250,874 (31 December 2016: 196,128).

Key management personnel

The Group 'key management personnel' consists of members of the Supervisory Board , Management Board and certain members of the Executive Board. The total direct compensation for members of the Management Board and Executive Board including the members of the Management Board consists of a base salary, a performance related short-term incentive and a performance related long-term incentive; members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

26 Staff costs

Management Board

The remuneration of the members of the Management Board, which comprises the CEO and the Company Secretary, is determined by the Supervisory Board within the framework of the remuneration policy as approved by the General Meeting of Shareholders. More details about the remuneration policy are included in the Remuneration Report section on pages 188-191.

Base salaries in 2017

Base salaries of each member of the Management Board are determined in line with compensation levels in peer companies. For the CEO, the Supervisory Board has applied its discretionary authority to deviate from the remuneration policy in the same way that it had previously done for Mr. DuCharme when in office as CEO, thereby securing continuity. As such, Mr. Shekhterman's reward package does not include a severance entitlement and instead, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO.

Short-term incentive (STI) for 2017

For 2017 the Supervisory Board has determined that 100% of the total on-target bonus opportunity for the CEO depends on achieving financial and quantitative group targets. Group targets consist of elements related to the Company's operational performance, including net sales and return on invested capital (ROIC), with a profitability threshold as a condition for STI payout. For the Company Secretary the STI is based on achievement of individual targets, also with a profitability threshold as a condition for STI payout. The on-target payout as a percentage of base salary is set at a level of 100% for the CEO, and 60% for the Company Secretary. With regard to financial targets, the Group achieved EBITDA above the target threshold. Other group targets, including the net sales target, were partially met, albeit within the target range set by the Supervisory Board. The achievement of individual performance targets was assessed and determined by the Supervisory Board for each Management Board member individually, as reflected in the table below.

Long-term incentive (LTI)

The LTI programme comprises two stages which run until 31 December 2019. LTI targets have been structured to align the long-term interests of shareholders and management. The targets represent the Group's long-term ambitions, with a specific focus on net revenue and market share relative to the competition, without sacrificing EBITDA or incurring undue risk. The total available fund for all payouts under the LTI programme is capped at 12% of EBITDA in the year that the final stage performance targets are achieved i.e. 2017. Each stage of the programme includes a deferred component of conditional payouts in order to maintain the focus on long-term goals throughout the programme. The size of each individual cash award is based on a pre-determined score reflecting the participant's role and contribution to meeting the LTI targets, both at individual and team level. For each LTI participant, total LTI payout may be adjusted downwards based on individual performance during the period of the programme.

The targets set for the first payout under the second stage of the LTI were achieved as per 31 March 2017, as specific comparative performance indicators were met, and EBITDA also exceeded the target threshold. Consequently and in accordance with the rules of the LTI Programme, Mr. Shekhterman is eligible for a payout in 2018, details of which are provided in the table below.

Expenses recognised for remuneration of the members of the Management Board:

Name	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Share based compensation[4]	Social security cost[5]	Total
I. Shekhterman	2017	46	36	211	8	43	344
	2016	47	52	296	1	59	455
F. Lhoëst	2017	18	10	–	–	–	28
	2016	20	6	10	–	–	36
TOTAL	**2017**	**64**	**46**	**211**	**8**	**43**	**372**
	2016	**67**	**58**	**306**	**1**	**59**	**491**

Restricted Stock Units (RSU) awarded and outstanding to members of the Management Board:

Name	Tranche	RSUs award-ed in 2014	RSUs award-ed in 2015	RSUs award-ed in 2016	Year of vesting	RSUs vested	Value on vesting date[6]	GDRs locked-up as per 31 De-cem-ber 2017[7]	End of lock-up period	RSUs out-standing as per 31 De-cem-ber 2017	RSUs out-standing as per 31 De-cem-ber 2016
I. Shekhterman	4	7,384	–	–	2016	7,384	9	7,384	2018	–	–
	5	–	15,793	–	2017	15,793	33	15,793	2019	–	15,793
	6	–	–	11,396	2018	–	–	–	2020	11,396	11,396

Supervisory Board

The Annual General Meeting of Shareholders adopted the following remuneration principles for members of the Supervisory Board:

The chairman receives a fee of EUR 250,000, members chairing a committee receive a fee of EUR 200,000 with other members drawing a fee of EUR 100,000. Any member of the Supervisory Board who represents a legal entity or person holding at least thirty per cent of the voting rights in the Company, shall waive his/her entitlement to remuneration for acting as a member of the Supervisory Board.

1 Mr. Shekhterman's annual base salary is RUB 42 million. The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law.

2 Short-term incentives are based on results achieved in 2017 and payable in 2018. The short-term incentive levels are based on full achievement of individual targets and partial achievement of the revenue target (though within the target range set by the Supervisory Board), resulting in payouts of 85% of base salary for Mr. Shekhterman (31 December 2016: 123 %), and 55% of base salary for Mr. Lhoëst (31 December 2016: 32%).

3 For Mr. Shekhterman the expense recognized for the long-term incentive reward is composed of two elements: (i) accrual for the period 2017 with respect to the first payout under the second stage of the LTI programme, and (ii) an accrual based on the probability of achieving the targets under the second stage of the LTI programme as per 31 December 2018, as described in the Remuneration Report on pages 188-191.

4 Since 2013 members of the Management Board no longer participate in the Company's Restricted Stock Unit Plan. The share based compensation reflects the accrued amounts related to previous awards under the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

5 For the year ended 31 December 2017 statutory pension contributions amounted to RUB 28 (2016: RUB 39).

6 Vesting date is 19 May of each respective year of vesting.

7 Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

26 Staff costs

In addition, all remunerated board members are entitled to:

- additional compensation for time and expertise dedicated to specific strategic projects for X5, provided that such compensation (i) relates to work of a temporary, one-off nature, performed as an extension of the statutory non-executive duties of the relevant Board member and (ii) is approved in advance by the Supervisory Board -upon recommendation of the Nomination and Remuneration Committee- which will ensure, on a case-by-case basis, that any such engagement shall under no circumstance compromise the independence of the relevant Board member or the Board collectively.
- equity in the form of Restricted Stock Units (RSUs). The number of RSUs awarded in each given year is based on 100% of the board member's fixed annual remuneration, divided by the average market value[1] of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further two-year lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

In accordance with these remuneration principles, Mikhail Fridman and Andrey Elinson are not remunerated by the Group. In 2017 the remaining Supervisory Board members received remuneration in cash and an annual award of Restricted Stock Units (RSUs). In addition, Michael Kuchment received additional cash remuneration for time and expertise dedicated to specific strategic projects for X5, under the framework approved by the General Meeting of Shareholders.

Restricted Stock Units

In 2017 the Annual General Meeting of Shareholders approved that the Supervisory Board members Stephan DuCharme, Christian Couvreux, Pawel Musial, Geoff King, Peter Demchenkov and Michael Kuchment be awarded a number of RSUs with award date 19 May 2017, equal to 100% of the fixed remuneration in 2017 of the relevant Board member, divided by USD 34.69, the average market value of one GDR as of 19 May 2017. The RSUs awarded under tranche 8 will vest on 19 May 2021, followed by a lock-in period ending on 19 May 2023.

The number of RSUs awarded and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details refer to Note 27.

Expenses recognised for remuneration of the members of the Supervisory Board:

	Base remuneration[2]		Additional remuneration[3]		Share-based compensation[4]	
	2017	2016	2017	2016	2017	2016
S. DuCharme	20	32	–	–	14	10
A. Elinson	–	–	–	–	–	–
M. Fridman	–	–	–	–	–	–
C. Couvreux	13	14	–	8	16	10
P. Musial	7	7	–	35	8	4
G. King	17	18	–	8	17	10
P. Demchenkov	12	7	–	–	8	4
M. Kuchment	7	7	13	–	4	2
TOTAL	**76**	**85**	**13**	**51**	**67**	**40**

1 The Average Market Value is defined as "on any particular day the volume weighted average price of a GDR over the thirty immediately preceding calendar days. The volume weighted average price is calculated using the closing price of a GDR taken from the Official List of the London Stock Exchange".

2 The annual membership allowance for independent Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members chairing a committee EUR 200,000; other members EUR 100,000. In accordance with the remuneration principles for the Supervisory Board, Messrs. Fridman and Elinson were not remunerated.

3 Additional cash remuneration for time and expertise dedicated to key strategic projects in 2017.

4 The share-based compensation reflects the accrued amounts related to the Restricted Stock Unit Plan (see table below) and includes benefits resulting from the reduction in the value of the cash settled share-based payment compensation.

Restricted Stock Units awarded and outstanding to members of the Supervisory Board:

Name	Tranche	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016[1]	RSUs awarded in 2017	Year of vesting	RSUs vested	Value on vesting date[2]	GDRs locked-up as per 31 December 2017[3]	End of lock-up period	RSUs outstanding as per 31 December 2017	RSUs outstanding as per 31 December 2016
S. DuCharme[3]	7	–	–	25,703	–	2019	–	–	–	2021	25,703	25,703
	8	–	–	–	9,631	2020	–	–	–	2022	9,631	–
C. Couvreux	4	14,768	–	–	–	2016	14,768	19	9,747	2018	–	–
	5	–	15,793	–	–	2017	15,793	33	7,996	2019	–	15,793
	6	–	–	11,396	–	2018	–	–	–	2020	11,396	11,396
	7	–	–	11,424	–	2019	–	–	–	2021	11,424	11,424
	8	–	–	–	6,421	2020	–	–	–	2022	6,421	–
P.Musial	4	2,461	–	–	–	2016	2,461	3	2,461	2018	–	–
	5	–	7,897	–	–	2017	7,897	17	5,212	2019	–	7,897
	6	–	–	5,698	–	2018	–	–	–	2020	5,698	5,698
	7	–	–	5,712	–	2019	–	–	–	2021	5,712	5,712
	8	–	–	–	3,210	2020	–	–	–	2022	3,210	–
G. King	6	–	–	13,250	–	2018	–	–	–	2020	13,250	13,250
	7	–	–	14,280	–	2019	–	–	–	2021	14,280	14,280
	8	–	–	–	8,026	2020	–	–	–	2022	8,026	–
P. Demchenkov	6	–	–	5,698	–	2018	–	–	–	2020	5,698	5,698
	7	–	–	5,712	–	2019	–	–	–	2021	5,712	5,712
	8	–	–		5,618	2020	–	–	–	2022	5,618	–
M. Kuchment	7	–	–	5,712	–	2019	–	–	–	2021	5,712	5,712
	8	–	–	–	3,210	2020	–	–	–	2022	3,210	–

1 In 2016 the RSUs awarded under tranche 7 were awarded in accordance with the amended award schedule, observing the 3 year vesting period prescribed by the RSU Plan.
2 Vesting date is 19 May of each respective year of vesting.
3 Number of GDRs held during lock-up period equal the number of vested RSUs minus GDRs sold to cover taxes, if any.

26 Staff costs

Other key management personnel

Other key management personnel comprise certain members of the Executive Board. In accordance with the Remuneration Policy, the total direct compensation of other key management personnel consists of a base salary, a short-term incentive and a long-term incentive.

Base salaries in 2017

Base salaries of members of the Executive Board are determined in line with compensation levels in peer companies as set out in the remuneration policy.

Short-term Incentive

For 2017, the Supervisory Board had determined that 100% of the total on-target bonus opportunity for leaders of the formats would be based on achieving financial and quantitative group targets at company level, with a profitability threshold as a condition for STI payout. For functional leaders 100% of the total on-target bonus opportunity depends on achieving financial group and quantitative group targets at company level with profitability threshold is also a condition for STI payout . The on-target payout as a percentage of base salary is set at a level of 100%. With regard to financial target the Group achieved EBITDA above the target threshold, while other group targets, including net sales target were partially met. With regard to the individual performance targets the cash incentive is approved by the Supervisory Board for each executive individually.

Long-term incentive

As indicated above under “Management Board”, the targets set for the first payout under the second stage of the LTI were achieved in 2017, as specific comparative performance indicators were met, with EBITDA exceeding the required threshold. The size of each individual cash award is based on a pre-determined score reflecting the participant’s role and contribution to meeting the LTI targets, both at individual and team level. For each LTI participant, total LTI payout may be adjusted downwards based on individual performance during the period of the programme.

Expenses recognised for remuneration of other key management personnel:

	Year	Base salary[4]	Short-term incentive[5]	Long-term incentive[6]	Exit payment	Social security cost[7]	Total
Other key management personnel	2017	165	134	414	14	88	815
	2016	155	141	650	31	144	1,121

[4] Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation, in accordance with Russian labor law.
[5] Short-term incentive for performance in the year 2017 (2016) paid in cash in 2018 (2017).
[6] The expense recognised for the long-term incentive rewards is composed of two elements: (i) accrual for the period 2017 with respect to the first payout under the second stage of the LTI programme, and (ii) an accrual based on the probability of achieving the targets under the second stage of the LTI programme as per 31 December 2018, as described in the Remuneration Report on pages 188-191.
[7] For the year ended 31 December 2017 statutory pension contributions amounted to RUB 65 (2016: RUB 83).

27 Share-based payments

Restricted Stock Unit plan

Members of the Supervisory Board are entitled to annual awards of restricted stock units (RSUs) under the Company's Restricted Stock Unit Plan (RSU Plan) approved at the AGM in 2010. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

During the year ended 31 December 2017, a total number of 36,116 RSUs were awarded under tranches 8 of the RSU Plan and will vest in 2020. In 2017 39,483 RSUs awarded in 2015 under tranche 5 vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name, and kept in custody during a two-year lock-in period during which the GDRs cannot be traded.

During the year ended 31 December 2016, a total number of 115,981 RSUs were awarded under tranches 6 and 7 of the RSU Plan, of which 47,438 RSUs awarded under tranche 6 will vest in 2018 and 68,543 RSUs awarded under tranche 7 will vest in 2019. In 2016, 25,843 RSUs awarded in 2014 under tranche 4 vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name, and kept in custody during a two-year lock-in period during which the GDRs cannot be traded.

In total, during the year ended 31 December 2017 the Group recognised expense related to the RSU Plan in the amount of RUB 71 (expense during the year ended 31 December 2016: RUB 48). At 31 December 2017 the equity component was RUB 117 (31 December 2016: RUB 70). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2017		2016	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	155,464	1,030.77	123,123	765.23
Awarded during the period	36,116	2,114.26	68,543	1,272.00
Vested during the period	(39,483)	608.64	(25,843)	577.63
Waived of previously vested	29,851	673.04	18,168	890.28
Forfeited during the period	(29,851)	673.04	(28,527)	785.35
Outstanding at the end of the period	**152,097**	**1,397.63**	**155,464**	**1,030.77**

28 Income tax

	2017	2016
Current income tax charge	10,215	4,154
Deferred income tax charge	207	2,208
Income tax charge for the year	**10,422**	**6,362**

The theoretical and effective tax rates are reconciled as follows:

	2017	2016
Profit before taxation	41,816	28,653
Theoretical tax at the effective statutory rate[1]	**8,363**	**5,731**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income taxable at rates different from standard statutory rates	(2,716)	(1,512)
Expenses on inventory shrinkage	2,386	2,082
Unrecognised tax loss carry forwards for the year	557	181
Deferred tax income arising from the write-down of the deferred tax asset	(85)	(312)
Change in deferred tax liability associated with investments in subsidiaries	1,158	–
Other non-deductible expense	759	192
Income tax charge for the year	**10,422**	**6,362**

As at 31 December 2017 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with Trade House PEREKRIOSTOK JSC acting as a responsible CGT member.

In September 2017 the Group approved dividend policy and proposed to the General Meeting to distribute dividends to its shareholders in 2018 based on the results of 2017. As a result the Group estimates that part of temporary difference related to investments in subsidiaries will be reversed in the foreseeable future and therefore accrued related deferred tax liability.

[1] Profit before taxation on Russian operations is assessed based on the statutory rate of 20%.

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2017:

	31 December 2016	Credited/(debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2017
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	4,844	136	–	4,980
Property, plant and equipment and Investment property	622	(118)	81	585
Other intangible assets	21	310	477	808
Inventories	1,604	(578)	–	1,026
Accounts receivable	243	(140)	–	103
Accounts payable	5,106	(14)	–	5,092
Other	173	256	321	750
Gross deferred tax assets	**12,613**	**(148)**	**879**	**13,344**
Less offsetting with deferred tax liabilities	(7,307)	(894)	–	(8,201)
Recognised deferred tax assets	**5,306**	**(1,042)**	**879**	**5,143**
Tax effects of taxable temporary differences				
Property, plant and equipment and Investment property	(8,933)	(2,038)	–	(10,971)
Other intangible assets	(1,521)	1,070	–	(451)
Investments into subsidiary	–	(1,158)	–	(1,158)
Accounts receivable	(2,911)	2,074	–	(837)
Accounts payable	(2)	(8)	–	(10)
Other	(445)	1	–	(444)
Gross deferred tax liabilities	**(13,812)**	**(59)**	**–**	**(13,871)**
Less offsetting with deferred tax assets	7,307	894	–	8,201
Recognised deferred tax liabilities	**(6,505)**	**835**	**–**	**(5,670)**

28 Income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2016:

	31 December 2015	Credited/ (debited) to profit and loss	Deferred tax on business combinations	31 December 2016
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	4,661	183	–	4,844
Property, plant and equipment and Investment property	637	(43)	28	622
Other intangible assets	18	(596)	599	21
Inventories	2,394	(790)	–	1,604
Accounts receivable	193	33	17	243
Accounts payable	5,145	(66)	27	5,106
Other	190	(17)	–	173
Gross deferred tax assets	**13,238**	**(1,296)**	**671**	**12,613**
Less offsetting with deferred tax liabilities	(7,821)	538	(24)	(7,307)
Recognised deferred tax assets	**5,417**	**(758)**	**647**	**5,306**
Tax effects of taxable temporary differences				
Property, plant and equipment and Investment property	(6,730)	(2,197)	(6)	(8,933)
Other Intangible assets	(2,178)	669	(12)	(1,521)
Accounts receivable	(3,629)	818	(100)	(2,911)
Accounts payable	(45)	43	–	(2)
Other	(200)	(245)	–	(445)
Gross deferred tax liabilities	**(12,782)**	**(912)**	**(118)**	**(13,812)**
Less offsetting with deferred tax assets	7,821	(538)	24	7,307
Recognised deferred tax liabilities	**(4,961)**	**(1,450)**	**(94)**	**(6,505)**

Unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB 4,541 (2016: RUB 4,481) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,980 recognised at 31 December 2017 for the carry forward of unused tax losses (31 December 2016: RUB 4,844).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RUB 3,316 (2016: RUB 2,759).

Unused tax losses in the amount of RUB 1,031 were available for carry forward for a period not less than four years, starting from 2017 unused tax losses in the amount of RUB 2,285 has no time restrictions for carry forward.

29 Financial risk management

Financial risk management is a part of integrated risk management and internal control framework described in "Corporate Governance" section of this Annual Report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Financial risk management is carried out by Corporate Finance Department. Corporate Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases. As at 31 December 2017 the Group had trade accounts payable denominated in foreign currency in the amount of RUB 2,504 (31 December 2016: RUB 2,409). As at 31 December 2017 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Interest rates risk

As at 31 December 2017 the Group had no floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows were substantially independent of changes in market interest rates.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents held in banks, trade and other receivables (Note 9 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9). The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes only those counteragents with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored and no individual exposure was considered significant.

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group Treasury.

The Group finances its operations by a combination of cash flows from operating activities and long and short-term debt. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn available bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

29 Financial risk management

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the reporting date at spot foreign exchange rates:

Year ended 31 December 2017	During 1 year	In 1 to 3 years
Borrowings	74,928	146,331
Trade payables	130,766	–
Other financial liabilities	56,707	1,166
TOTAL	**262,401**	**147,497**

Year ended 31 December 2016	During 1 year	In 1 to 4 years
Borrowings	58,621	123,058
Trade payables	131,180	–
Other financial liabilities	39,744	1,472
TOTAL	**229,545**	**124,530**

At 31 December 2017 the Group had net current liabilities of RUB 104,902 (31 December 2016: RUB 97,294) including short-term borrowings of RUB 58,674 (31 December 2016: RUB 45,168). At 31 December 2017 the Group had available bank credit lines of RUB 314,838 (31 December 2016: RUB 280,808). At 31 December 2017 the Group had RUB bonds available for issue on MICEX of RUB 25,000 (31 December 2016: RUB 35,000).

Management regularly monitors the Group's operating cash flows and available credit lines to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programmes. Part of the short term liquidity needs is seasonal, with the highest peak in 1st quarter and strong cash generation in 4th quarter, therefore the Group negotiates the maturity of credit lines for those quarters, when the future cash flow allows for the repayment of debts. Part of the existing lines in the local currency (RUB) are provided on rolling basis which is closely monitored by detailed cash flow forecasts and are managed by the Group Treasury.

The Group's capital expenditure programme is highly discretionary. The Group optimises its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programmes, if required.

The Group is carefully monitoring its liquidity profile by optimizing the cost of funding and the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

30 Operating environment of the Group

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

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

31 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognised under IFRS requirements. The Group is in compliance with externally imposed capital requirements.

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA to operating profit is performed in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 19). At 31 December 2017 the Group complied with the requirements under the loan facilities.

32 Fair value of financial instruments

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

The carrying amount of cash and cash equivalents and trade and other financial receivables approximates their fair value.

Liabilities carried at amortised cost

The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques.

The fair value of bonds traded on the MICEX and the ISE is determined based on active market quotations and amounted to RUB 66,545 at 31 December 2017 (31 December 2016: RUB 35,331). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 64,829 at 31 December 2017 (31 December 2016: RUB 34,969) (Note 19). The fair value of long-term borrowings amounted to RUB 76,571 at 31 December 2017 (31 December 2016: RUB 81,919). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 956 at 31 December 2017. The fair value of short-term borrowings was not materially different from their carrying amounts.

33 Commitments and contingencies

Commitments under operating leases

At 31 December 2017, the Group operated 10,303 stores through rented premises (31 December 2016: 7,380 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable (contingent rent). For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments.

The Group entered into a number of cancellable short-term and long-term lease agreements. The expected annual lease payments under these agreements amount to RUB 36,860 (net of VAT) (31 December 2016: RUB 28,904).

Capital expenditure commitments

At 31 December 2017 the Group contracted for capital expenditure for the acquisition of property, plant and equipment of RUB 9,830 (net of VAT) (31 December 2016: RUB 10,987).

Law regulating the trade of the food products

In 2016 there were amendments in the law regulating the trade of the food products in the Russian Federation ("trade law"). These amendments established certain strict limitations on volume of back margin received from suppliers. At the same time these amendments also established stricter limitations on payments terms to suppliers.

The amendments were effective starting 15 July 2016 for newly concluded contracts and starting 1 January 2017 for the existed contracts and became obligatory for all market participants. The Group may be charged with the fine of from RUB 1 to RUB 5 for each violation in case of failure or improper application of the provisions of this law. Currently the official position of government authorities is continually being reconsidered.

The Group has performed all required procedures in order to amend existing and new contracts in compliance with the new provisions of the law by 1 January 2017 as well as the Group periodically evaluates its obligations under these regulations. As obligations are determined to be probable, they are recognised immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant probable liabilities related to compliance with the trade law.

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2017.

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of these legislative areas as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Should the Russian authorities decide to issue a claim and prove successful in court, they would be entitled to recover the tax amount claimed, together with fines amounting to 20% of such amount and late payment interest at the rate of 1/300 of the rate of the Central Bank of the Russian Federation (CBRF rate) for each day of the delay during the first 30 days, 1/150 of CBRF rate for each day of the delay if the latter is for more than 30 days to be calculated from the amount of underpaid tax. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russia has transfer pricing rules generally aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD). The transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Given that the concept of the Russian transfer pricing rules is rather new and the practice is not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group. The level of impact is not expected to be significant since the prices of transactions between related parties which are the members of CGT (consolidated group of taxpayers) are not subject to transfer pricing control. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation.

Starting 2015 the "de-offshorization law" came into force introducing the following rules and concepts which may have an impact on the Group's operations:

The concept of beneficial ownership

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that there was negative court practice for a number of taxpayers, the impact of any challenge may be significant and have an effect on the financial conditions and/or the overall operations of the Group.

Management believes that the Group's foreign companies receiving income from Russia are beneficial owners of that income and the reduced tax rates are correctly applied in accordance with the relevant DTTs.

Additionally starting 2017 the Russian company should have a written confirmation that the foreign recipient of funds is the beneficial owner of income. This means that if a foreign company fails to provide that confirmation, the application of lower rates may be denied by the tax authorities. The Tax Code specifies that both the confirmation and the residence certificate must be presented to the tax agent (i.e. the company responsible for withholding tax at source) before the date on which income is paid.

According to such law changes management organised the receipt of mentioned written confirmation from foreign counteragents to the Russian companies paying passive income abroad.

Broader rules for determining the tax residency of legal entities

Starting 2015, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entities' worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. Given that the concept of the Russian broader rules for determining the tax residency of legal entities is rather new and the practice is not yet developed, the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

Tax contingencies, commitments and risks

Russian tax legislation does not provide definitive guidance in many areas. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed.

33 Commitments and contingencies

From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

Management estimates that possible exposure in relation to the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times more than accrued liabilities and provisions reflected on the statement of financial position at that date. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

In 2017 the Group made net accrual of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 542 including net accrual of non-income tax provision of RUB 231, income tax provision of RUB 387 with simultaneous release of respective indemnification asset of RUB 76.

In 2016 the Group made net release of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 3,242 including net release of non-income tax provision of RUB 1,732, income tax provision of RUB 522 with simultaneous release of respective indemnification asset of RUB 988. In 2016 indemnification asset of RUB 91 was impaired.

At the same time management has recorded liabilities for income taxes in the amount of RUB 389 (31 December 2016: RUB 399) and provisions for taxes other than income taxes in the amount of RUB 494 at 31 December 2017 (31 December 2016: RUB 499) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 31 December 2015	**3,740**
Release of provision	(3,772)
Accrual of provision	530
Offset of provision	400
Balance at 31 December 2016	**898**
Release of provision	(604)
Accrual of provision	1,146
Offset of provision	(557)
Balance at 31 December 2017	**883**

34 Subsequent events for the Group

In March 2018 the Group issued RUB 10 bln exchange corporate bonds series 001P-03 with 6.95% coupon rate and 2-years oferta (put-option).