Public Joint Stock Company "M.video"

Consolidated Financial Statements
For the Year Ended 31 December 2016

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

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PUBLIC JOINT STOCK COMPANY "M.VIDEO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company "M.video" (the "Company") and its subsidiaries (the "Group") as at 31 December 2016, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved on 22 March 2017.

A. Tynkovan	**E. Sokolova**
Chief Executive Officer	Chief Financial Officer

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "M.video" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses	
The Group receives significant amounts of supplier incentives, discounts, and bonuses. These agreements largely comprise of volume-based bonuses based on percentage levels agreed for the calendar year, but also include arrangements with a greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support. We consider this to be a key audit matter because judgment is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data that is subject to bulky manual calculations. The Group's principal accounting policy on supplier bonuses is in Note 3 on page 23.	We obtained understanding of internal processes and controls in respect of accounting for supplier bonuses and assessed whether the amounts recognised in the consolidated financial statements were in line with the Group's accounting policies. We circularised a sample of suppliers to gain assurance that the amounts recorded were accurate and complete and, where outstanding balances were significant at the year end, to confirm the amounts owed. Where responses were not received, we completed alternative procedures such as obtaining individual supplier bonus agreements and tracing the amounts recorded to primary documents signed by suppliers and evidencing their concurrence with the Group's right for a particular bonus earned. In addition, for a sample of volume-based agreements, we recalculated the bonuses due based on shipments in the year and contractual terms. We recomputed the management's calculation of rebates earned but not recognised and allocated to year-end inventory, in particular focusing on the completeness and accuracy of source data as well as consistency of the calculations with the adopted accounting policies. We also performed a 'look-back' analysis of bonuses recognised in prior period to check that these amounts were appropriately recovered.
Net realisable value of inventory	
Inventories are carried at the lower of cost and net realisable value. At 31 December 2016 the value of inventory held by the Group was RUB 45 170 million (31 December 2015: RUB 43 913 million). The valuation of inventory was a focus for our audit for the following reasons: • assessing the valuation of inventory is an area of significant judgement that involves, among others, estimating the eventual selling price of items held, assessing which items may be slow-moving, obsolete and partially or fully damaged. The assessment process includes studying historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends; and	We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventory by: • checking the effectiveness of key inventory controls through attending inventory counts at 5 distribution centers and 7 stores; • testing the carrying value for a sample of individual products by checking that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated; • comparing the net realisable value, obtained through a detailed review of sales subsequent to the reporting date, to the cost of inventories; • assessing obsolescence rates against historical performance of individual categories of inventories over the past few years, and performing analysis of the provision as a percentage of gross inventory year on year on aggregate level;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
• in 2016 the Group revised the obsolescence rates used to calculate inventory allowance based on results of an in-depth analysis performed with regards to sales of inventories at a price below their carrying amounts plus costs to sell for the last three financial years. The impact of this 'change in estimate' has been charged to the consolidated statement of profit or loss and other comprehensive income in the current period and, at RUB 479 million, is significant. The Group's inventory provisions are disclosed in Note 9 on page 33, and the details of the obsolescence rates revision are in Note 5 on page 29.	• recomputing management calculations of provisions to ensure they are accurate and free from errors. We also examined the basis of the new obsolescence rates calculated by the Group in 2016 and the appropriateness of the revised provisioning percentages applicable to individual categories of inventories in context of historical analysis performed by management. We assessed whether the change in obsolescence rates represents a change in estimate and whether consequently recording the impact in the current period statement of profit or loss and other comprehensive income is appropriate.
Revenue recognition – customer loyalty programs We focused our work on revenue that is deferred and recognised on the Group's customer loyalty program and co-branded loyalty program. We consider this to be a key audit matter because judgment is involved in determining the amount of revenue to be deferred and recognised on customer loyalty programs relating to expected redemption rate applied to loyalty points in issue. The movement of the Group's deferred revenue in respect of customer loyalty programs is in Note 19 on page 38.	Our audit focused on challenging the Group's assumptions applied in determining the redemption rates and included: • obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty programs, as well as of key controls over deferring and recognizing revenue on customer loyalty programs; • assessing expected redemption rates used by the Group against historical data on factual redemptions; • using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs; • recomputing management calculations of revenues deferred and recognized to ensure they are accurate and free from errors.
Accounting for operating leases The Group leases the majority of its stores under operating lease arrangements with varying terms and conditions and recognises operating lease payments as expenses on a straight-line basis over the lease term. Accounting for operating leases is	Our audit focused on whether operating lease expenses were recognised by the Group in line with IAS 17. Our audit procedures included, among others: • obtaining understanding of internal controls around gathering complete and accurate data on existing lease arrangements and calculating the lease expenses recognised in reporting period;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
complex and requires significant judgment while assessing the lease term as well as determining minimal lease payments and components thereof. Calculations of lease expenses recognised in a reporting period are manual and are dependent on complete and accurate data on lease terms and conditions. The Group's principal accounting policy on operating leases is in Note 3 on page 23.	• testing completeness and accuracy of the lease register that is maintained by the Group by tracing a sample of leases to underlying agreements and verifying that revenue-generating stores have corresponding records in the lease register; • challenging management's assessment of lease term for a sample of leases through evaluating the underlying legal and economic factors as well as original lease agreements; • assessing management's calculations of minimal lease payments and components thereof of individual leases by tracing a sample to lease terms; • checking accuracy of management's calculations and consistency with the Group's accounting policies; • assessing disclosures on leases in the consolidated financial statements.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Vladimir Biriukov
Engagement partner

DELOITTE & TOUCHE

22 March 2017

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

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

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

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	31 December 2016	31 December 2015
NON-CURRENT ASSETS:			
Property, plant and equipment	6	8 127	8 880
Intangible assets	7	6 145	4 974
Deferred tax assets, net	15	3 995	3 556
Other non-current assets	8	692	649
Total non-current assets		**18 959**	**18 059**
CURRENT ASSETS:			
Inventories	9	45 170	43 913
Accounts receivable and prepaid expenses	10	13 162	10 161
Income tax receivable		22	21
Other taxes receivable	11	4 218	2 864
Cash and cash equivalents	12	18 763	11 779
Short-term investments	13	-	800
Other current assets		7	10
Total current assets		**81 342**	**69 548**
TOTAL ASSETS		**100 301**	**87 607**
EQUITY:			
Share capital	14	1 798	1 798
Additional paid-in capital	14	4 576	4 576
Treasury shares	14	(52)	(52)
Retained earnings		9 628	7 673
Equity attributable to owners of the Company		15 950	13 995
Non-controlling interests	14	1	-
Total equity		**15 951**	**13 995**
NON-CURRENT LIABILITIES:			
Provisions		7	5
Other liabilities	26	68	67
Total non-current liabilities		**75**	**72**
CURRENT LIABILITIES:			
Trade accounts payable		66 285	58 162
Other payables and accrued expenses	16	8 480	6 546
Advances received	17	2 372	2 069
Income tax payable		1 104	846
Other taxes payable	18	694	834
Deferred revenue	19	4 944	4 801
Provisions		396	282
Total current liabilities		**84 275**	**73 540**
Total liabilities		**84 350**	**73 612**
TOTAL EQUITY AND LIABILITIES		**100 301**	**87 607**

The Notes on pages 13-49 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 7.

Signed on 22 March 2017 by:

A. Tynkovan	**E. Sokolova**
Chief Executive Officer	Chief Financial Officer

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles, except earnings per share)

	Notes	2016	2015
REVENUE	20	183 219	161 691
COST OF SALES		(140 284)	(122 782)
GROSS PROFIT		42 935	38 909
Selling, general and administrative expenses	21	(37 351)	(34 596)
Other operating income	22	1 253	1 411
Other operating expenses	23	(153)	(125)
OPERATING PROFIT		6 684	5 599
Finance income	24	567	884
Finance expenses	24	(56)	(488)
PROFIT BEFORE INCOME TAX EXPENSE		7 195	5 995
Income tax expense	15	(1 649)	(1 448)
NET PROFIT and TOTAL COMPREHENSIVE INCOME for the year attributable to owners of the Company		**5 546**	**4 547**
BASIC EARNINGS PER SHARE (in Russian Rubles)	25	30,89	25,37
DILUTED EARNINGS PER SHARE (in Russian Rubles)	25	30,89	25,33

The Notes on pages 13-49 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 7.

Signed on 22 March 2017 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance as at 31 December 2014		**1 798**	**4 576**	**(328)**	**8 302**	**14 348**	**-**	**14 348**
Recognition of share-based payment for ordinary shares previously issued	26	-	-	-	28	28	-	28
Exercise of options granted as share-based payment		-	-	276	(356)	(80)	-	(80)
Dividends declared		-	-	-	(4 848)	(4 848)	-	(4 848)
Total comprehensive income for the year		-	-	-	4 547	4 547	-	4 547
Balance as at 31 December 2015		**1 798**	**4 576**	**(52)**	**7 673**	**13 995**	**-**	**13 995**
Disposal of partial interest in LLC "MARKETPLACE"	14	-	-	-	-	-	1	1
Dividends declared	14	-	-	-	(3 591)	(3 591)	-	(3 591)
Total comprehensive income for the year		-	-	-	5 546	**5 546**	**-**	5 546
Balance as at 31 December 2016		**1 798**	**4 576**	**(52)**	**9 628**	**15 950**	**1**	**15 951**

The Notes on pages 13-49 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 7.

Signed on 22 March 2017 by:

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A. Tynkovan
Chief Executive Officer

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E. Sokolova
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	2016	2015
OPERATING ACTIVITIES:			
Net profit for the year		5 546	4 547
Adjustments for:			
Income tax expense	15	1 649	1 448
Depreciation and amortization	21	3 660	3 231
Change in allowance for doubtful advances paid for rent, accounts receivable and prepaid expenses	8,10	(35)	161
Equity-settled share-based payment	26	-	28
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses		(221)	1 098
Interest income on bank deposits	24	(567)	(884)
Other non-cash reconciling items, net		206	142
Operating cash flows before movements in working capital		**10 238**	**9 771**
Increase in inventories		(1 044)	(9 471)
(Increase)/decrease in accounts receivable and prepaid expenses		(2 927)	450
Increase in other taxes receivable		(1 355)	(1 753)
Increase in trade accounts payable		8 123	734
Increase in other payables and accrued expenses		1 944	150
Increase/(decrease) in deferred revenue		143	(168)
Increase in other liabilities		1	67
Increase/(decrease) in advances received		303	(2 353)
Decrease in other taxes payable		(140)	(554)
Other changes in working capital, net		35	19
Cash generated by/(used in)operations		**15 321**	**(3 108)**
Income tax paid		(1 831)	(3 246)
Interest paid		(56)	(191)
Net cash generated by/(used in) operating activities		**13 434**	**(6 545)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	2016	2015
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1 816)	(1 391)
Proceeds from disposal of property, plant and equipment		-	1
Purchase of intangible assets		(2 368)	(1 449)
Placement of deposits with original maturity of more than 90 days		-	(2 287)
Withdrawal of deposits with original maturity of more than 90 days		800	1 190
Interest received		527	977
Net cash used in investing activities		**(2 857)**	**(2 959)**
FINANCING ACTIVITIES:			
Dividends paid		(3 591)	(4 848)
Proceeds from short-term loans and borrowings		2 753	6 630
Repayment of short-term loans and borrowings		(2 753)	(6 630)
Net cash used in financing activities		**(3 591)**	**(4 848)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6 986**	**(14 352)**
CASH AND CASH EQUIVALENTS, at the beginning of the year		**11 779**	**26 122**
Impact of foreign exchange on cash and cash equivalents		(2)	9
CASH AND CASH EQUIVALENTS, at the end of the year		**18 763**	**11 779**

The Notes on pages 13-49 form an integral part of these consolidated financial statements. The independent auditor’s report is presented on pages 2 to 7.

Signed on 22 March 2017 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

(in millions of Russian Rubles)

1. GENERAL INFORMATION

The consolidated financial statements of Public Joint Stock Company "M.video" (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 22 March 2017.

The Company and its subsidiaries (see the table below) are incorporated in the Russian Federation. Following the initial public offering in November 2007, the Company's ordinary shares were admitted to trading on MICEX stock exchange (Moscow Exchange) in the Russian Federation.

The Group is the operator of a chain of consumer electronic outlets and online internet stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (398 stores as at 31 December 2016; 378 stores as at 31 December 2015) and online internet stores in Moscow and 75 other cities (67 other cities as at 31 December 2015).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiaries as at 31 December 2016 and 2015 (the below subsidiaries operate in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 31 December 2016	Proportion of ownership interest and voting power held, % 31 December 2015
LLC "M.video Management"	Retailing	100	100
LLC "MARKETPLACE"	Marketplace project development	99,9	-
Charity fund "Beautiful children in the beautiful world"	Charity	100	100

Shareholders

As at 31 December 2016 and 2015 the registered shareholders of the Company and their respective ownership and voting interests were as follows:

	2016	2015
"SVECE Limited"	57,6755%	57,6755%
Various shareholders	42,3245%	42,3245%
Total	**100%**	**100%**

Ultimate Shareholders

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

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Accounting

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

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

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

Adoption of New Standards and Interpretations

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

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

- Disclosure Initiative (Amendments to IAS 1);
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38);
- Annual Improvements cycle 2012-2014.

The adoption of these standards and interpretations has not had a significant impact on consolidated financial statements of the Group for the year ended 31 December 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred income tax for the period

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

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

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

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

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

Financial assets that the Group holds on its consolidated statement of financial position at 31 December 2016 are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets as at FVTPL

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instrument

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

Financial liabilities

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

Financial liabilities as at FVTPL

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Share-based payments – Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining vesting period with a corresponding adjustment to retained earnings.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately in the consolidated statement of profit or loss and other comprehensive income. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Cash-settled share-based payments to employees are measured at fair value. The fair value of the cash-settled share-based payments is determined at each reporting date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest and the fair value of these instruments. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of profit or loss and other comprehensive income during the remaining vesting period with a corresponding adjustment of the Group's liabilities.

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

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

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

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

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

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

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

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

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

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

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

<u>Sale of goods</u>

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

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

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

<u>Loyalty programs</u>

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

<u>Revenue from services</u>

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

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

Additional service agreements

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

Agent fees

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

Gift cards

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

Interest income

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

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

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

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

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

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

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

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

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

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

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

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

4. NEW AND REVISED STANDARDS IN ISSUE NOT YET ADOPTED

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

- IFRS 9 *Financial Instruments* [2];
- IFRS 15 *Revenue from Contracts with Customers* [2];
- IFRS 16 *Leases* [3];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* [2];
- Amendments to IAS 7 – *Disclosure Initiative* [1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* [2];
- Annual Improvements to IFRS 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with early application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with early application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with early application permitted.

IFRS 9 *Financial Instruments*

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

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group does not anticipate that the application of IFRS 9 in the future may have a significant impact in future period, except that IFRS 9 will impact disclosures of financial instruments. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

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

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

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

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

The management of the Group does not anticipate that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 *Leases*

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

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

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

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

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

The amendments clarify that in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- the original liability is derecognized;
- the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognized. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively

The management of the Group does not anticipate that the application of IFRIC 22 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS 2014-2016 Cycle

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarized financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

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

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

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

Significant estimates and assumptions

Inventory valuation

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

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

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

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

Change in accounting estimates – net realizable value of inventories

During the year ended 31 December 2016 the management analysed the most recent and relevant information regarding sales of the inventories at a price below their carrying amounts plus costs to sell for the last three financial years and made a decision to revise the obsolescence rates based on results of this review. Management believes the revised obsolescence rates better reflect the historical performance of inventories, operational plans of the Group as well as existing consumer behavior patterns.

The revision of the inventory obsolescence rates had the following effect on the amount of allowance for obsolete and slow-moving inventories as at 31 December 2016:

	Amount before the change in accounting estimate	Effect of the change in accounting estimate	Amount after the change in accounting estimate
Allowance for obsolete and slow-moving inventories	(1,309)	479	(830)

Tax and customs provisions and contingencies

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

Assessment of lease term

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

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

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

Revenue attributed to loyalty programs

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

Supplier bonuses

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

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. As disclosed in Note 6, at 31 December 2016 the Group performed reclassifications of certain items of property, plant and equipment items and, consequently, reassessed useful lives of respective items for better alignment with the Group's accounting policies.

The impact of this reassessment on depreciation charge booked in the year ended 31 December 2016 has been insignificant. It is expected, however, that depreciation expense will increase by 44 in the year ending 31 December 2017 as a result of the reassessment.

(in millions of Russian Rubles)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2016 and 2015 consisted of the following:

	Buildings	Leasehold improve-ments	Construc-tion in progress and equipment to be installed	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2014 before reclassification	**5 214**	**4 950**	**184**	**4 683**	**1 522**	**3 337**	**19 890**
Reclassification	125	(116)	-	286	(365)	70	-
As at 31 December 2014 after reclassification	**5 339**	**4 834**	**184**	**4 969**	**1 157**	**3 407**	**19 890**
Additions	-	-	1 348	-	-		1 348
Transfers	6	133	(1 298)	505	119	535	-
Reclassification	-	-	-	38	(44)	6	-
Disposals	-	(108)	-	(137)	(24)	(334)	(603)
As at 31 December 2015	**5 345**	**4 859**	**234**	**5 375**	**1 208**	**3 614**	**20 635**
Additions	-	-	1 736	-	-	-	1 736
Transfers	29	327	(1 665)	475	120	714	-
Disposals	-	(40)	-	(76)	(9)	(215)	(340)
As at 31 December 2016	**5 374**	**5 146**	**305**	**5 774**	**1 319**	**4 113**	**22 031**
Accumulated depreciation and impairment losses							
As at 31 December 2014 before reclassification	**1 595**	**2 955**	-	**2 372**	**1 111**	**1 922**	**9 955**
Reclassification	66	(59)	-	173	(237)	57	-
As at 31 December 2014 after reclassification	**1 661**	**2 896**	**-**	**2 545**	**874**	**1 979**	**9 955**
Charge for the year	260	541	-	769	222	590	2 382
Reclassification	14	(15)	-	60	(64)	5	-
Disposals	-	(102)	-	(128)	(23)	(329)	(582)
As at 31 December 2015	**1 935**	**3 320**	**-**	**3 246**	**1 009**	**2 245**	**11 755**
Charge for the year	277	653	-	815	132	593	2 470
Disposals	-	(35)	-	(66)	(8)	(212)	(321)
As at 31 December 2016	**2 212**	**3 938**	**-**	**3 995**	**1 133**	**2 626**	**13 904**
Net book value							
As at 31 December 2015	**3 410**	**1 539**	**234**	**2 129**	**199**	**1 369**	**8 880**
As at 31 December 2016	**3 162**	**1 208**	**305**	**1 779**	**186**	**1 487**	**8 127**

Depreciation expenses have been included in "Selling, general and administrative expenses" (Note 21).

In 2016 the Group made certain reclassifications of property, plant and equipment items for better alignment with the adopted grouping.

Assets mainly related to the closed stores with net book value of 19 were disposed off by the Group in the year ended 31 December 2016 (in the year ended 31 December 2015: 21). Loss on disposal of these items of 19 (2015: 21) was recorded within other operating expenses (Note 23).

(in millions of Russian Rubles)

7. INTANGIBLE ASSETS

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

	Software licenses, development and web site	**Trademarks**	**Total**
Cost			
As at 31 December 2014	**5 367**	**26**	**5 393**
Additions	1 507	6	1 513
Disposals	(260)	-	(260)
As at 31 December 2015	**6 614**	**32**	**6 646**
Additions	2 361	2	2 363
Disposals	(574)	(1)	(575)
As at 31 December 2016	**8 401**	**33**	**8 434**
Accumulated amortization			
As at 31 December 2014	**1 071**	**12**	**1 083**
Charge for the year	846	3	849
Disposals	(260)	-	(260)
As at 31 December 2015	**1 657**	**15**	**1 672**
Charge for the year	1 188	2	1 190
Disposals	(573)	-	(573)
As at 31 December 2016	**2 272**	**17**	**2 289**
Net book value			
As at 31 December 2015	**4 957**	**17**	**4 974**
As at 31 December 2016	**6 129**	**16**	**6 145**

During 2016 the Group incurred expenditures in the total amount of 2 363 which for the most part related to the development of the new front-office / back-office system, the new web site platform, additional functionality of the Group's ERP system SAP R\3 and development of Marketplace project.

Amortization expenses have been included in "Selling, general and administrative expenses" (Note 21).

As at 31 December 2016 and 2015 the Group had commitments for the technical support of software licenses (Note 29).

8. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2016 and 2015 consisted of the following:

	2016	**2015**
Long-term advances paid for rent	514	540
Advances paid for non-current assets	166	85
Long-term loans and notes receivable	24	37
Less: allowance for doubtful long-term advances paid for rent	(12)	(13)
Total	**692**	**649**

(in millions of Russian Rubles)

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

	2016	2015
Balance at the beginning of the year	13	33
Impairment losses recognized on long-term advances paid for rent	-	1
Amounts recovered during the year	-	(2)
Amounts written off as uncollectible	(1)	(19)
Balance at the end of the year	**12**	**13**

9. INVENTORIES

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

	2016	2015
Goods for resale	45 819	45 294
Other inventories	181	182
Less: allowance for obsolete and slow-moving inventories	(830)	(1 563)
Total	**45 170**	**43 913**

Cost of inventories recognized as an expense in the amount of 137 437 and 118 880 and inventory losses net of surpluses in the amount of 512 and 395 for the years ended 31 December 2016 and 2015, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

10. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Bonuses receivable from suppliers	10 574	8 360
Other accounts receivable	2 020	1 280
Advances paid to suppliers and prepaid expenses	649	656
Advances paid to related parties (Note 27)	11	15
Less: allowance for doubtful accounts receivable and prepaid expenses	(92)	(150)
Total	**13 162**	**10 161**

As at 31 December 2016 and 2015 the Group did not have accounts receivable past due but not impaired.

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

	2016	2015
Balance at the beginning of the year	150	73
Impairment losses recognized on accounts receivable and prepaid expenses	26	172
Amounts written off as uncollectible	(23)	(85)
Amounts recovered during the year	(61)	(10)
Balance at the end of the year	**92**	**150**

The accounts receivable impaired as at 31 December 2016 were aged 120+ days (31 December 2015: 120+ days).

In determining the recoverability of accounts receivable the Group considers any change in the credit quality of receivables and prepaid expenses from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 30.

(in millions of Russian Rubles)

11. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
VAT recoverable	4 210	2 861
Other taxes receivable	8	3
Total	**4 218**	**2 864**

12. CASH AND CASH EQUIVALENTS

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

	2016	2015
Short-term bank deposits	14 650	8 663
Cash in transit	2 698	1 429
Cash at banks	1 036	1 295
Petty cash and cash in stores	379	392
Total	**18 763**	**11 779**

Cash at banks as at 31 December 2016 and 2015 includes the amounts of 80 and 125, respectively, collected by the Group from its customers for further transfer through "Rapida" payment system. The Group cannot use this cash in its operating activities as it is due to be transferred to the recipients.

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

Breakdown of short-term bank deposits as at 31 December 2016 is presented as follows:

	Interest rate	Maturity	2016
Short-term bank deposits in RUB	7,2%-9,5%	January-March 2017	14 650
Total			**14 650**

As at 31 December 2015 all short-term bank deposits denominated in RUB and USD earned interest ranging from 3,42% to 11,5% and 0,75% per annum respectively. The short-term deposits matured in January-March 2016.

13. SHORT-TERM INVESTMENTS

Short-term investments as at 31 December 2016 and 2015 consisted of the following:

	Interest rate	Maturity	2016	2015
Short-term bank deposits in RUB	10,44%	March 2016	-	500
Short-term bank deposits in RUB	10,30%	March 2016	-	300
Total			**-**	**800**

(in millions of Russian Rubles)

14. EQUITY

Share capital

As at 31 December 2016 and 2015 the Company had the following number of authorized, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
Balance as at 31 December 2015 and 2016	**179 531 237**	**179 768 227**	**209 768 227**

Each share has par value of 10 RUB per share. During 2016 and 2015 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

Additional paid-in capital

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

Treasury shares

As at 31 December 2016 and 31 December 2015 the Group owned 236 990 treasury shares held at cost of 52.

Non-controlling interests

In 2016 Mr. A. Tynkovan made a contribution of 1 into capital of LLC "MARKETPLACE" in exchange for 0,001% interest in this subsidiary.

Dividends declared

On 20 June 2016 the Annual General Meeting approved dividends of 20 RUB per share in respect of 2015.

Dividends attributable to the treasury shares were eliminated in full for the purpose of these consolidated financial statements. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were recognized as a reduction of shareholders' equity in these consolidated financial statements in the total amount of 3 591.

15. INCOME TAX

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

	2016	2015
Current tax		
Current tax expense in respect of the current year	(2 088)	(1 920)
	(2 088)	**(1 920)**
Deferred tax		
Deferred tax benefit recognized in the current year	439	472
	439	**472**
Total income tax expense recognized in the current year	**(1 649)**	**(1 448)**

(in millions of Russian Rubles)

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

	2016	2015
Deferred tax assets		
Supplier bonuses allocated to inventories	1 662	1 246
Accrued expenses	1 168	1 065
Deferred revenue and prepayments received for goods	432	410
Difference in depreciable value of property, plant and equipment	374	289
Salary-related accruals	320	324
Allowance for obsolete and slow-moving inventories	166	313
Allowance for doubtful long-term advances paid for rent, accounts receivable and prepaid expenses	20	33
Other items	41	43
Total	**4 183**	**3 723**
Deferred tax liabilities		
Difference in amortizable value of intangible assets	(188)	(167)
Total	**(188)**	**(167)**
Deferred tax assets, net	**3 995**	**3 556**

As at 31 December 2016 and 2015 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2016 and 2015 to the actual expense recorded in the Group's consolidated statement of profit or loss and other comprehensive income:

	2016	2015
Profit before income tax expense	7 195	5 995
Income tax expense calculated at 20%	(1 439)	(1 199)
Effect of expenses/(income) that are not deductible in determining taxable profit:		
Inventory losses	*(139)*	*(126)*
Non-deductible payroll expenses	*(27)*	*(29)*
Change in provision for taxes other than income tax	*-*	*60*
Other non-deductible expenses, net	*(44)*	*(154)*
Income tax expense recognized in profit or loss	**(1 649)**	**(1 448)**

As at 31 December 2016 and 2015 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary.

(in millions of Russian Rubles)

16. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Rent and utilities	4 432	4 012
Salaries and bonuses	1 645	1 095
Other current liabilities related to purchase of property, plant and equipment and intangible assets	1 015	730
Other current liabilities to related parties (Note 27)	34	17
Other	1 354	692
Total	**8 480**	**6 546**

As at 31 December 2016 accounts payable and accruals for rent and utilities included accrued liabilities for lease payments calculated on a straight-line basis over the lease term in the amount of 3 953 (31 December 2015: 3 515).

17. ADVANCES RECEIVED

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

	2016	2015
Prepayments received for goods (i)	1 427	1 276
Advances received for gift cards	791	701
Other advances received	154	92
Total	**2 372**	**2 069**

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

18. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2016 and 2015 consisted of the following:

	2016	2015
Payroll taxes	408	287
VAT payable	147	508
Other taxes payable	139	39
Total	**694**	**834**

(in millions of Russian Rubles)

19. DEFERRED REVENUE

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

	2016			2015		
	Customer loyalty programs	**Other programs**	**Additional services**	**Customer loyalty programs**	**Other programs**	**Additional services**
As at 1 January	1 340	1 068	2 393	1 201	1 131	2 637
Revenue deferred during the period	6 688	2 143	2 177	5 995	2 070	1 650
Revenue released to the consolidated statement of profit or loss and other comprehensive income	(6 286)	(2 777)	(1 802)	(5 856)	(2 133)	(1 894)
As at 31 December	**1 742**	**434**	**2 768**	**1 340**	**1 068**	**2 393**

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

20. REVENUE

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

	2016	**2015**
Retail revenue	179 407	157 944
Additional services revenue	1 802	1 894
Other services	2 010	1 853
Total	**183 219**	**161 691**

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

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

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	2016	**2015**
Payroll and related taxes (including share-based payments – Note 26)	11 415	10 089
Lease expenses, net of income from sublease (2016: 43; 2015: 30)	8 621	8 054
Depreciation and amortization	3 660	3 231
Advertising and promotional expenses, net	3 521	3 640
Maintenance and other property operating costs	1 818	1 904
Warehouse services	1 469	1 489
Bank charges	1 331	1 121
Repairs and servicing	1 082	985
Utilities	984	936
Security	970	880
Consulting services	737	862
Communication	293	320
Taxes other than income tax	175	193
Credit broker services	118	-
Release of provisions for taxes other than income tax	-	(300)
Other expenses	1 157	1 192
Total	**37 351**	**34 596**

(in millions of Russian Rubles)

Payroll and related taxes for the year ended 31 December 2016 include 1 625 contribution to the state pension fund (2015: 1 489) and social and medical insurance in the amount of 628 (2015: 579).

During 2016 the Group received 436 from its suppliers as a compensation of advertising and promotional expenses (2015: 366).

22. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2016 and 2015 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group's stores, non-commission income from mobile operators, income from lease of commercial space owned by the Group and other items.

23. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2016 include charity expense of 48 (2015: 49), expense on corporate events in amount of 41 (2015: 43), loss on disposal of property, plant and equipment of 19 (2015: 21) and other individually insignificant items.

24. FINANCE INCOME AND EXPENSES

Finance income/(expenses), net for the years ended 31 December 2016 and 2015 consisted of the following:

	2016	**2015**
Interest income on bank deposits	567	884
Interest expense on bank loans	(56)	(191)
Exchange loss from revaluation of investments (i)	-	(297)
Total	**511**	**396**

(i) On 30 January 2015 the Group placed foreign currency deposits with banks in the amount of USD 16 million and EUR 5 million with maturity on 29 January 2016. The interest rates on these deposits were 5,55% and 4,70% respectively. These deposits were withdrawn in June 2015 ahead of their maturities. Foreign exchange loss incurred on these deposits was 297.

25. EARNINGS PER SHARE

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

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

(in millions of Russian Rubles)

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

	2016	2015
Net profit attributable to equity holders of the Company	5 546	4 547
Weighted average number of ordinary share in issue (millions of shares)	179,53	179,25
Effect of share options granted to employees (millions of shares)	-	0,29
Basic earnings per share (in Russian rubles)	**30,89**	**25,37**
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179,53	179,53
Diluted earnings per share (in Russian rubles)	**30,89**	**25,33**

26. SHARE-BASED PAYMENTS

During the years ended 31 December 2016 and 31 December 2015 the Group had cash-settled share option plan – Long-term incentive plan Series 4.

Long-term incentive plan - Series 4 ("LTIP 4")

On 25 March 2015 the Group's Board of Directors approved LTIP 4 for 49 members of the management team for the period of 2015-2019 with the grant date being 1 April 2015.

The plan stipulates three awards based on results for 2014, 2015 and 2016. The awards will vest if:

- the Group meets EBITDA (earnings before interest, tax, depreciation and amortization) targets established at the beginning of each year;
- the plan participants hold their employment within the Group.

Each award is to be paid in tranches during 2016-2019. The settlement will be made in cash where the amount of each payment is to be calculated based on the quantity of shares allocated to particular participants within each tranche, and average share price of the Company calculated for the week preceding the payment. The Group classified LTIP 4 as cash-settled share-based payment and consequently recognized a liability in the consolidated statement of financial position as at 31 December 2016 at its fair value.

The fair value of liability was calculated using the Black-Scholes pricing model. Where relevant, the model reflected management's best estimate of the expected dividend yield, expected staff turnover and other. At 31 December 2016 the fair value of liability to the participants of LTIP 4 was 277 (31 December 2015: 138). Short-term portion of liability being 209 (31 December 2015: 71) was reflected within "Other payables and accrued expenses" and the long-term portion being 68 (31 December 2015: 67) – within "Other long-term liabilities".

	Number of shares equivalents granted to participants
Balance as at 1 January 2016	**1 260 000**
Forfeited during the period	(40 000)
Exercised during period	(300 000)
Balance as at 31 December 2016	**920 000**

(in millions of Russian Rubles)

The detailed information on awards outstanding as at 31 December 2016 is as follows:

Awards under LTIP 4	Vesting date	Expected number of plan participants at the vesting date (i)	Number of shares equivalents granted to participants	Expected number of shares equivalents at the vesting date (i)	Exercise price (RUB)	Fair value as at 31 December 2016
Award 1						
Tranche 2	April 2017	43	250 000	240 000	-	91
Tranche 3	April 2018	4	50 000	40 000	-	9
Award 2						
Tranche 1	April 2017	47	310 000	310 000	-	118
Tranche 2	April 2018	42	260 000	230 000	-	53
Tranche 3	April 2019	4	50 000	40 000	-	6
Total			**920 000**	**860 000**	**-**	**277**

The detailed information on awards outstanding as at 31 December 2015 is as follows:

Awards under LTIP 4	Vesting date	Expected number of plan participants at the vesting date (i)	Number of shares equivalents granted to participants	Expected number of shares equivalents at the vesting date (i)	Exercise price (RUB)	Fair value as at 31 December 2015
Award 1						
Tranche 1	April 2016	48	315 000	315 000	-	71
Tranche 2	April 2017	42	265 000	230 000	-	24
Tranche 3	April 2018	4	50 000	40 000	-	2
Award 2						
Tranche 1	April 2017	42	315 000	270 000	-	28
Tranche 2	April 2018	36	265 000	200 000	-	12
Tranche 3	April 2019	3	50 000	30 000	-	1
Total			**1 260 000**	**1 085 000**	**-**	**138**

(i) Estimated based on historical data on staff turnover.

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the years ended 31 December 2016 and 2015 is as follows:

	For the year ended	
Option series	**31 December 2016**	**31 December 2015**
LTIP 3	-	28
LTIP 4	230	138
Total	**230**	**166**

The above expense has been included into "Selling, general and administrative expenses" in the line item "Payroll and related taxes" (Note 21).

(in millions of Russian Rubles)

27. RELATED PARTIES

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

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances owed by / to related parties as at 31 December 2016 and 2015, respectively:

	2016		31 December 2016		2015		31 December 2015	
	Sales to related parties	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Entities under common control								
LLC "Private Security Agency Bars-SB" (i)	2	306	-	15	2	282	-	8
Transservice Group of Companies (ii)	-	264	11	-	-	301	15	-
Avtoritet Group of Companies (iii)	1	84	-	16	1	60	-	6
LLC "Avto-Express" (iv)	-	36	-	1	-	30	-	2
LLC "FUST-E" (v)	-	11	-	1	-	10	-	1
LLC "TechnoVideoService" (vi)	-	11	-	-	-	9	-	-
LLC "IT Service" (vii)	-	3	-	1	-	-	-	-
LLC "Universal service" (viii)	-	1	-	-	-	-	-	-
LLC "Noviy Format" (ix)	-	-	-	-	-	2	-	-
Total	**3**	**716**	**11**	**34**	**3**	**694**	**15**	**17**

The nature of transactions with related parties is as follows:

(i) (LLC "Private Security Agency Bars-SB" – provides store and head office security services
(ii) (iTransservice Group of Companies – provides after sale and other servicing of the Group's merchandise
(iii) Avtoritet Group of Companies – provides rental services
(iv) LLC "Avto-Express" – provides a car leasing service to the Group and logistic services
(v) LLC "FAST-E" – provides redecoration and network repair services in the central office and shops located in Moscow
(vi) LLC "TechnoVideoService" – provides home appliances installation services
(vii) LLC "IT Service" - provides after sale and other servicing of the Group's merchandise;
(viii) LLC "Universal service" - provides a car leasing service to the Group and logistic services
(ix) LLC "Noviy Format" – provides rental services

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. Impairment of accounts receivable relating to amounts owed by related parties has been recorded in the amount of 0 for the year ended 31 December 2016 (for the year ended 31 December 2015: 9). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(in millions of Russian Rubles)

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the years ended 31 December 2016 and 2015 was as follows:

	2016	2015
Short-term benefits*	808	421
Share-based payments**	58	69
Total	**866**	**490**

* Short-term benefits include salaries, bonuses and annual leave, medical and relocation expenses.
** Amounts relate to the participation of the key management personnel in the incentive program posted in the consolidated statement of profit or loss and other comprehensive income (Note 26).

As at 31 December 2016 there were outstanding payables of 166 to key management personnel (2015: 175).

The number of key management positions was 16 in 2016 (2015: 14).

The Group did not provide any material post-employment or other long-term benefits to key management personnel during the period other than those disclosed in Note 26, contributions to the state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. Social security contributions paid relating to compensation of key management personnel amounted to 77 for the year ended 31 December 2016 (2015: 38) and is included in the amounts stated above.

28. OPERATING LEASE AGREEMENTS

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

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

Payments recognized as an expense

	2016	2015
Minimum lease payments	7 786	7 519
Contingent rentals	878	565
Total	**8 664**	**8 084**

(in millions of Russian Rubles)

Non-cancellable operating lease commitments

Future minimum rentals payable during non-cancellable term of operating leases for premises occupied as at 31 December 2016 and 2015 were as follows:

	2016	2015
Within one year	8 481	7 652
After one year but not more than five years	29 085	26 598
More than five years	17 740	17 934
Total	**55 306**	**52 184**

Future minimal rental payments will be subject to VAT.

29. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transaction to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

The Group has identified possible tax contingencies for the three-year period ended 31 December 2016. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed 20% of the Group's profit before income tax expense.

Customs

During the years ended 31 December 2016 and 2015, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into the Russian Federation directly. As the Group was not involved in clearing customs for the goods purchased on the territory of the Russian Federation, management cannot be certain that the entities which imported the goods into the Russian Federation were in full compliance with the applicable regulations of the Russian customs code.

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

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

License agreements

As at 31 December 2016, the Group had a total commitment of approximately 172,6 – 172,8 million RUB per annum for technical support services with respect to existing SAP licenses and software during the period from 2016 to 2017 (31 December 2015: 147,8 – 172,2 million RUB).

The Group uses SAP software for finance, supply chain and human resources functions.

Litigation

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

The Group considers there is a risk of investigation to be held by Federal Antimonopoly Service related to pricing of smartphones of major brands. The Group believes it is fully compliant with the applicable legislation, but if the risks were to materialize the penalty for such offense stipulated by the legislation could be up to 15% of the turnover of respective smartphones. Management has estimated that possible exposure in relation to this risk, if it was to materialize, would not exceed half of the Group's profit before income tax expense for the year ended 31 December 2016.

Environmental matters

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

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2016 the Group entered into such guarantee contracts for the total amount of 2 042 (2015: 3 660). The Group has not pledged any assets (2015: none) as collateral under these guarantee contracts.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2016 and 2015.

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

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

(in millions of Russian Rubles)

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments as at 31 December 2016 and 2015 were as follows:

	2016	2015
Financial assets		
Loans and receivables (including cash and cash equivalents)	31 289	22 106
Financial liabilities		
Liabilities carried at amortized cost	70 812	61 193

Foreign currency risk management

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group's exposures to foreign currency risk arise from cash and cash equivalents held in US Dollars and Euro as well as from lease payments tied-in to currencies other than functional currency. At 31 December 2016 approximately 27% (at 31 December 2015: 32%) of the Group's operating lease agreements for stores and warehouses were tied-in to either US Dollars or Euro and these contracts accounted for approximately 40% (2015: 49%) of the Group's operating lease expenses for the year ended 31 December 2016. The Group minimizes, to the extent possible, the risk arising from foreign currency-denominated lease contracts by negotiating a fixed exchange rate or a cap for an exchange rate with the lessors.

During the years ended 31 December 2016 and 2015 the Group did not use forward exchange contracts to eliminate the currency exposures.

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

	US Dollar		Euro	
	2016	2015	2016	2015
Assets				
Cash and cash equivalents	31	84	-	7
Total assets	**31**	**84**	**-**	**7**
Liabilities				
Accounts payable and accruals for operating leases (shown within other accounts payable)*	(2 020)	(1 849)	(330)	(338)
Total liabilities	**(2 020)**	**(1 849)**	**(330)**	**(338)**
Total net position	**(1 989)**	**(1 765)**	**(330)**	**(331)**

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

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to changes in the exchange rates of the US Dollar and Euro. The following table details the Group's sensitivity to a 30% (31 December 2015: 30%) change of the Russian Ruble against these two currencies. As at 31 December 2016 the sensitivity rate of 30% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated assets and liabilities at year end and adjusts their translation for a movement in foreign currency exchange rates. Positive numbers below indicate an increase in profit and respective increase in equity where the Russian Ruble appreciates against the relevant currency. For a depreciation of the Russian Ruble against the relevant currency, there would be an equal and opposite impact on profit and equity.

(in millions of Russian Rubles)

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

	USD		**EUR**	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2015	+30%	(530)	+30%	(99)
	-30%	530	-30%	99

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2016 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2015: none).

Credit risk management

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

Bonuses receivable from suppliers are either offset against respective accounts payable or paid in cash. At 31 December 2016 bonuses receivable from four major suppliers comprised 46% of the Group's consolidated accounts receivable and prepaid expenses (31 December 2015: 43%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

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

The table below shows the balances that the Group had with 4 of its major counterparties as at 31 December 2016 and 2015:

			Carrying amount	
Counterparty	**Currency**	**Rating**	**2016**	**2015**
VTB	RUB	Ba2	6 651	4 201
Alfa-bank	RUB	Ba2	5 224	3 899
Sberbank	RUB	Ba2	3 807	2 657
Nonbanking credit company Rapida	RUB	-	4	1
Total			**15 686**	**10 758**

The carrying amount of financial assets recorded in the consolidated statement of financial position, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2016 (31 December 2015: none).

(in millions of Russian Rubles)

Liquidity risk management

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

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

As at 31 December 2016 the Group had obtained uncommitted standby borrowing facilities in the total amount of 21 000 (31 December 2015: 13 900).

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

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

As at 31 December 2015	**Less than 3 months**	**3-12 months**	**Total**
Trade accounts payable	50 170	7 992	58 162
Other accounts payable and accrued expenses	3 031	-	3 031
Total	**53 201**	**7 992**	**61 193**

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as at 31 December 2016 and 2015 approximate their fair values.

31. SUBSEQUENT EVENTS

After the balance sheet date no events have occurred which require disclosure in the consolidated financial statements.