

Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company OR and its subsidiaries
for 2018

April 2019

**Independent auditor's report
on the consolidated financial statements of
Public Joint-Stock Company OR and its subsidiaries**

Translation of the original Russian version

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Independent auditor's report

Translation of the original Russian version

To the Shareholders and Board of Directors of
Public Joint-Stock Company OR and its subsidiaries

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company OR and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 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 (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.

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Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
<i>Allowances for expected credit losses on cash loans issued to individuals and for trade receivables from retail customers</i>	
<p>The appropriateness of allowances for expected credit losses on cash loans issued to individuals and for trade receivables from retail customers is a key area of judgment for the Group's management. The identification of impairment requires a professional judgment of management, the use of estimates, assumptions and analysis of various factors, including the counterparty's financial position and expected future cash flows.</p> <p>The use of various assumptions may significantly affect the estimates of allowances for expected credit losses on cash loans and for trade receivables. Due to these factors, as well as the significance of amounts of cash loans and receivables, the assessment of allowances for expected credit losses is a key audit matter.</p> <p>The Group's management approach to impairment of financial assets and corresponding disclosures are presented in Notes 2.5, 16, 19 to the consolidated financial statements.</p>	<p>Our audit procedures included testing of controls over issuing of loans to individuals, as well as the analysis of methods used to make allowances for expected credit losses, testing of data used in calculations, and the analysis of assumptions used by the Group to calculate the allowance on a collective basis. In the course of our audit procedures, we analyzed consistency of management's assumptions applied in assessing economic factors and statistical information on losses incurred and amounts recovered, as well as their compliance with the generally accepted practices and our professional judgment.</p> <p>We also reviewed the respective disclosures in the consolidated financial statements.</p>

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Key audit matter	How our audit addressed the key audit matter
<i>Net realizable value of goods</i>	
<p>Goods and finished products are recorded in the financial statements at the lower of acquisition cost and net realizable value. The identification of goods with low probability of sale and an allowance for potential impairment are key audit matters, since the assessment depends on management's professional judgment with regard to the determination of allowances for goods that can be sold at a price significantly lower than their cost, or never be sold.</p> <p>Inventories are disclosed in Note 15 to the financial statements.</p>	<p>Our audit procedures in respect of determining the possibility to sell and realizable value of goods included the following:</p> <ul style="list-style-type: none"> ▶ Testing of the controls over the condition of goods (by attending inventory observations); ▶ The review of the purchase price algorithm, including the analysis of direct cost allocation; ▶ Comparison of realizable value established for sales of goods after the reporting period with the carrying amount of inventories; ▶ The analysis of turnover of goods and identification of idle goods; ▶ Inquiries of management to identify plans to sell the prior years' collections; ▶ The review, recalculation and assessment of allowances made taking into account the structure of goods.
<i>Recognition and measurement of wholesale revenue</i>	
<p>Recognition and measurement of wholesale revenue was one of the most significant matters identified in the course of our audit due to a significant increase in barter transactions with a large number of counterparties in 2018. The assessment of the probability of returns, as well as the absence of evidence of non-monetary exchange that is not recognized as revenue, depends, in particular, on professional judgment of the Group's management.</p> <p>Information on wholesale revenue is disclosed in Note 5 to the consolidated financial statements.</p>	<p>Our audit procedures in respect of recognition and measurement of wholesale revenue included the following:</p> <ul style="list-style-type: none"> ▶ Testing of the effectiveness of controls over the revenue recognition process; ▶ The analysis aimed to determine corresponding revenue amounts based on existing contracts and primary documents; ▶ The analysis of quantifiable movements in goods; ▶ The analysis of average prices, profitability of goods by month and counterparty; ▶ Confirmation of balances of accounts receivable from counterparties and prepayments under barter contracts; ▶ Inquiries of management to confirm that there are no plans to repurchase goods; ▶ Monitoring of the shipment process, attendance of warehouses of counterparties. <p>We also reviewed the respective disclosures in the consolidated financial statements.</p>

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Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 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.

Responsibilities of management, the Board of Directors and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 its operations, or has no realistic alternative but to do so.

The Board of Directors and the Audit Committee 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 ISA 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.

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

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

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

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

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

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

A.A. SHLENKIN
Partner
Ernst & Young LLC

5 April 2019

Details of the audited entity

Name: Public Joint-Stock Company OR
Record made in the State Register of Legal Entities on 12 August 2013, State Registration Number 1135476124101.
Address: Russia 630110, Novosibirsk, Bogdana Khmel'nitskogo street, 56.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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PJSC OR

Consolidated statement of comprehensive income

for the years ended 31 December 2017 and 2018

(in thousands of Russian rubles)

	Note	2018	2017
Revenue	5	11,554,483	10,801,467
Cost of sales	6	(4,765,642)	(4,947,993)
Gross profit		6,788,841	5,853,474
Selling and distribution expenses	7	(3,054,483)	(2,556,977)
Administrative expenses	8	(991,250)	(995,939)
Other income	9	170,935	308,369
Other expenses	9	(322,384)	(136,529)
Finance income	10	50,940	62,631
Finance expense	10	(870,294)	(1,038,013)
Profit before tax		1,772,305	1,497,016
Income tax expense	11	(440,502)	(186,936)
Net profit for the year		1,331,803	1,310,080
Other comprehensive income		–	–
Total comprehensive income for the year		1,331,803	1,310,080
Weighted average number of ordinary shares (thousand)	12	113,056	78,675
Basic earnings per share, RUB	12	11.780	16.652

General Director

A.M. Titov

5 April 2019

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PJSC OR

Consolidated statement of financial position

as at 31 December 2018 and 2017

(in thousands of Russian rubles)

	Note	31 December 2018	31 December 2017
Non-current assets			
Property, plant and equipment	13	2,018,551	1,824,866
Intangible assets	14	40,872	39,988
Other non-current financial assets	19	63,270	90,379
Advances for construction in progress	18	48,026	180,925
Deferred tax assets	11	271,102	197,209
Total non-current assets		2,441,821	2,333,367
Current assets			
Inventories	15	10,142,758	6,444,672
Trade and other receivables	16	3,163,452	2,947,618
Advances issued	17	5,074,509	4,109,025
Income tax receivable		28,399	32,653
Other taxes receivable and VAT recoverable		120,167	106,058
Other current financial assets	19	1,362,848	1,498,702
Cash and cash equivalents	20	536,001	2,168,814
Total current assets		20,428,134	17,307,542
Total assets		22,869,955	19,640,909
Equity			
Share capital	21	11,305,600	11,305,600
Additional paid-in capital	21	(5,715,802)	(5,715,802)
Retained earnings		7,455,914	6,424,205
Total equity		13,045,712	12,014,003
Long-term liabilities			
Interest-bearing loans and borrowings	22	4,988,457	6,180,088
Deferred tax liabilities	11	66,504	40,146
Total long-term liabilities		5,054,961	6,220,234
Short-term liabilities			
Interest-bearing loans and borrowings	22	3,939,508	720,801
Trade and other payables	23	336,474	379,535
Advances received		2,839	2,630
Current income tax liabilities		88,351	34,743
Deferred revenue		1,945	2,077
Other taxes payable		395,709	263,305
Provisions		4,456	3,581
Total short-term liabilities		4,769,282	1,406,672
Total liabilities		9,824,243	7,626,906
Total equity and liabilities		22,869,955	19,640,909

General Director

A.M. Titov

5 April 2019

The notes are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity

for the years ended 31 December 2017 and 2018

(in thousands of Russian rubles)

	Note	Share capital (Note 21)	Additional paid-in capital (Note 21)	Retained earnings	Total equity
Balance at 31 December 2016		7,066,000	(6,904,204)	5,121,596	5,283,392
Net profit for the year		–	–	1,310,080	1,310,080
Total comprehensive income for the year		–	–	1,310,080	1,310,080
Issue of shares		4,239,600	1,188,402	–	5,428,002
Dividends accrued		–	–	(7,471)	(7,471)
Balance at 31 December 2017		11,305,600	(5,715,802)	6,424,205	12,014,003
Effect of first-time adoption of IFRS 9 (Note 4)		–	–	(37,804)	(37,804)
Balance at 1 January 2018 restated under IFRS 9		11,305,600	(5,715,802)	6,386,401	11,976,199
Net profit for the year		–	–	1,331,803	1,331,803
Total comprehensive income for the year		–	–	1,331,803	1,331,803
Dividends accrued		–	–	(262,290)	(262,290)
Balance at 31 December 2018		11,305,600	(5,715,802)	7,455,914	13,045,712

General Director

A.M. Titov

5 April 2019

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Consolidated statement of cash flows

for the years ended 31 December 2017 and 2018

(in thousands of Russian rubles)

	Note	2018	2017
Profit before tax for the year		1,772,305	1,497,016
Adjustments			
Depreciation of property, plant and equipment and amortization of intangible assets	13, 14	263,109	264,307
Allowances for expected credit losses	8	402,265	511,768
Write-down of goods for resale	9	46,019	45,210
Foreign exchange differences	9	14,531	20,809
Claims to suppliers	9	–	(145,082)
Supplier discounts		(399,355)	(105,931)
Taxes and other penalties		202,897	–
Finance income		(50,940)	(62,631)
Finance expense		870,294	1,038,013
Loss on disposal of property, plant and equipment	13	9,752	4,957
Other	9	30,238	29,689
Operating profit before changes in working capital		3,161,115	3,098,125
Changes in working capital			
(Increase) in trade and other receivables (besides utilization of allowances for expected credit losses)		(412,322)	(817,174)
(Increase) in inventories		(3,911,996)	(395,676)
(Increase) in advances issued		(440,171)	(2,380,029)
(Increase) in VAT recoverable		(14,792)	(49,020)
(Increase) in cash loans to individuals (besides utilization of allowances for expected credit losses)		(462,839)	(360,534)
Decrease in trade and other payables		(40,004)	(590,720)
Increase/(decrease) in other tax liabilities		(70,493)	45,577
Increase in payables to employees		3,294	3,144
Increase/(decrease) in deferred revenue		(132)	56
Increase/(decrease) in advances from customers		209	(3,753)
Net cash used in operating activities before income tax and interest paid		(2,188,131)	(1,450,004)
Interest paid		(838,331)	(969,533)
Income tax paid		(420,041)	(327,756)
Net cash used in operating activities		(3,446,503)	(2,747,293)
Investing activities			
Purchase of property, plant and equipment and intangible assets		(289,644)	(211,106)
Proceeds from sale of property, plant and equipment and intangible assets		2,950	15,245
Loans issued		(328,933)	(926,828)
Repayment of loans issued		643,902	718,874
Interest received on loans issued		18,093	11,002
Interest received on deposits		24,290	44,499
Net cash from / (used in) investing activities		70,658	(348,314)

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Consolidated statement of cash flows (continued)

(in thousands of Russian rubles)

	Note	2018	2017
Financing activities			
Issue of shares		–	5,935,440
Expenses related to issue of shares		–	(507,438)
Option premium received		10,209	–
Proceeds from loans and borrowings		5,186,546	8,992,716
Repayment of loans and borrowings		(3,191,433)	(9,501,016)
Dividends paid		(262,290)	(7,471)
Net cash from financing activities		1,743,032	4,912,231
Net increase/(decrease) in cash and cash equivalents		(1,632,813)	1,816,624
Cash and cash equivalents at the beginning of the year		2,168,814	352,190
Cash and cash equivalents at the end of the year		536,001	2,168,814

General Director

A.M. Titov

5 April 2019

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PJSC OR

Notes to the consolidated financial statements

for the year ended 31 December 2018

(in thousands of Russian rubles)

1. General information

1.1. Corporate information

The consolidated financial statements of Public Joint-Stock Company OR (the "PJSC OR") and its subsidiaries for the year ended 31 December 2018 were authorized for issue by its General Director A.M. Titov on 5 April 2019.

PJSC OR ("the Company") and its subsidiaries (together referred to as "the Group") form a federal retail footwear chain, one of major players in the Russian footwear market. The Group was established in 2003; its head office is located at: Novosibirsk, st. Bogdana Khmel'nitskogo, building 56. The Company was founded on 12 August 2013 as a holding company of the Group.

The Group is developing several business lines:

- ▶ Retail trade of footwear, accessories and related goods;
- ▶ Wholesale and franchising;
- ▶ Footwear production;
- ▶ Issuance of cash loans;
- ▶ Research and development in footwear production;
- ▶ Cash transfers with no bank accounts opened.

Retail line is represented by eight brands:

- ▶ Westfalika is the main retail chain of the Group that comprises mono-brand stores of midprice segment;
- ▶ Peshekhod is a chain of footwear supermarkets (multi-brand stores);
- ▶ Emilia Estra is a trademark for fashionable footwear, bags and accessories and the same-name chain of specialized stores;
- ▶ Rossita is a chain of supermarkets. It comprises family-centered mono-brand stores of European footwear of mid-price segment;
- ▶ Lisette is a chain of mono-brand stores of youth footwear of mid-price segment;
- ▶ S-TEP is a casual brand of comfortable semi-sport everyday footwear made of natural leather and fur using direct moulding technology;
- ▶ All.Go is a trademark for beach, summer, gardening, sport and hiking footwear;
- ▶ Snow Guard is a trademark for outdoor activity clothes.

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PJSC OR

Notes to the consolidated financial statements (continued)

1. General information (continued)

1.1. Corporate information (continued)

The Group comprises:

Entity	Principal activity	2018	2017
PJSC OR	Operations management	Parent	Parent
Obuv Rossii LLC	Trade	100%	100%
Westfalika M LLC*	Trade, manufacturing	—	100%
Peshekhod LLC	Trade	100%	100%
Obuvrus LLC	Trade	100%	100%
MFO LLC*	Trade	—	100%
OBUV ROSSII LLC	Manufacturing	100%	100%
R&D Center Modified Polymers LLC**	Research and development in natural sciences and engineering	—	100%
Integra LLC*	Trade	—	100%
MiraStil LLC*	Trade	—	100%
ModernShoes LLC*	Trade	—	100%
Trade House Rossita LLC*	Trade	—	100%
StilMarket LLC*	Trade	—	100%
Dion LLC*	Trade	—	100%
Design Studia LLC	Trade	100%	100%
NKO Platezhny Standard LLC	Financial transactions	100%	100%
MKK Arifmetika LLC	Financial transactions	100%	100%
EvaLink LLC***	Manufacturing	100%	—

* In 2018, the company completed reorganization through merger with Obuv Rossii LLC.

** On 2 July 2018, R&D Center Modified Polymers LLC completed reorganization through merger with Obuv Rossii LLC.

*** On 5 June 2018, EvaLink LLC was established.

The Group shareholder structure as at 31 December 2018 and 2017 was as follows:

Shareholder	2018		2017	
	Number of shares	Ownership, %	Number of shares	Ownership, %
A.M. Titov	56,528,000	50.000	49,691,802	43.953
Shares controlled by CARIO HOLDINGS CORP. (BVI)	17,664,900	15.625	17,664,900	15.625
Shares controlled by the Group's management	2,561,048	2.265	2,561,048	2.265
Free float	36,302,052	32.110	43,138,250	38.157
	113,056,000	100	113,056,000	100

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PJSC OR

Notes to the consolidated financial statements (continued)

1. General information (continued)

1.2. Business environment in the Russian Federation

The Group operates in the Russian Federation that displays certain characteristics of an emerging market.

Russian tax, currency and customs legislation continues to evolve and is subject to varying interpretations and changes, which can occur frequently.

The Russian economy continued to be negatively impacted by persistent political tension in the region and international sanctions imposed against Russia.

On 17 December 2018, the Central Bank of the Russian Federation (CBR) increased its key interest rate by 0.25 percentage point to 7.75% p.a. The decision was made proactively and is aimed at mitigation of inflation risks that remain high, especially in the short-term perspective. There is still an uncertainty in respect of further developments in the external environment, as well as effect of higher VAT on prices and inflation expectations.

Risk balance remain shifted towards pro-inflation risks, especially in the short-term horizon. There is still a high uncertainty in respect of further developments in the external environment, as well as their effect on prices of financial assets.

Possible cash outflows from the emerging countries and geopolitical factors may result in higher volatility on financial markets and affect the currency exchange rate and inflation expectations.

Management of the Group believes that these changes will not have a material effect on its operations, because the Group has been cooperating with suppliers from Russia and countries that have not imposed any sanctions (e.g., China).

The Group decided to expand its footwear production to mitigate foreign currency and import-related risks, as well as to reduce international business uncertainties and dependence on external markets.

These financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The actual impact of the future business environment may differ from management's assessment.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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PJSC OR

Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below.

All values in the financial statements are rounded to the nearest thousand except where otherwise indicated.

2.2. Basis of consolidation

The Group started preparing the consolidated financial statements in 2013. The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (Note 1) as at 31 December 2018.

Subsidiaries are entities controlled, directly or indirectly, by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss, as well as every component within other comprehensive income, are attributable to owners of the parent company and the Group even if that results in a deficit balance.

Translation of the original Russian version

PJSC OR

Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.2. Basis of consolidation (continued)

All intra-group assets and liabilities, equity, income, expenses and cash flows resulting from transactions within the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- ▶ Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- ▶ Derecognizes the cumulative translation differences recorded in equity;
- ▶ Recognizes the fair value of the consideration received;
- ▶ Recognizes the fair value of any investment retained;
- ▶ Recognizes any surplus or deficit in profit or loss;
- ▶ Reclassifies the share of the parent company in the components previously recognized in other comprehensive income to profit or loss or retained earnings in accordance with specific IFRS requirements as if the Group disposed respective assets or liabilities.

Business combination and goodwill

Business combination is accounted for using the acquisition method at the acquisition date, which is the date when the Group gains control over an entity.

The Group measures goodwill at the acquisition date as:

- ▶ The fair value of the consideration transferred; plus
- ▶ The recognized amount of any non-controlling interests in the acquire; plus
- ▶ In a business combination achieved in stages, of fair value of previously held equity interest in the acquire; less
- ▶ Net amount (usually measured at fair value) of the identifiable assets acquired and the liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

The consideration transferred does not include amounts relating to previous settlements. Such amount are recognized in profit or loss.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.2. Basis of consolidation (continued)

Any contingent consideration for the acquiree is recognized at fair value at the acquisition date. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. Otherwise, all subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill on an acquisition of a subsidiary is included in intangible assets.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses relating to goodwill cannot be reversed. Where the impairment loss recognized in respect of a cash-generating unit exceeds the carrying amount of its goodwill, the exceeding amount is allocated pro rata to all other assets, however, the allocated amount shall not be less than the fair value of these assets.

Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

2.3. Going concern

These consolidated financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations in the foreseeable future and will be able to realize its assets and meet its liabilities in the normal course of business.

2.4. Functional and presentation currency

These consolidated financial statements are presented in the national currency of the Russian Federation – Russian ruble (“RUB”), which is the functional currency of the Group.

2.5. Summary of accounting policies

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the group companies in their functional currency at the spot rate effective at the date when the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at foreign exchange spot rate of functional currency, ruling at the reporting date. Differences arising on settlement or translation of monetary items are taken to profit or loss.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as of the date when the fair value was determined. The gain or loss arising on restatement of non-monetary items is treated in line with the principles on recognizing of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Financial instruments

Financial assets – initial recognition and measurement

Financial assets of the Group comprise as follows:

- ▶ Loans issued (cash loans to individuals, loans to related and non-related parties);
- ▶ Receivables (trade receivables from wholesale customers, trade receivables from retail customers, other receivables and receivables from related parties);
- ▶ Cash and cash equivalents (cash on hand, cash at banks).

The Group determines the classification of its financial assets at initial recognition.

Financial assets regulated by IFRS 9 are classified as recorded at:

- ▶ Amortized cost;
- ▶ Fair value through other comprehensive income;
- ▶ Fair value through profit or loss.

Classification of financial assets depends on the following:

- (a) The Group's business model for managing the assets; and
- (b) Characteristics of financial assets related to contractual cash flows.

Financial assets of the Group are measured at *amortized cost* if both of the following conditions are fulfilled:

- (a) The business model is aimed at obtaining contractual cash flows; and
- (b) The contractual cash flow represents solely payments of principal and interest on the principal amount outstanding.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Financial assets of the Group are measured at *fair value through other comprehensive income* if both of the following conditions are fulfilled:

- (a) The aim of the business model is reached both through obtaining contractual cash flows and through sale of financial assets, and
- (b) The contractual cash flow represents solely payments of principal and interest on the principal amount outstanding.

In all other cases, the financial assets are measured *at fair value through profit or loss*.

Initial measurement of loans issued

The Group initially recognizes loans at the date when they are issued.

At initial recognition, loans issued are recognized at fair value plus any directly attributable transaction costs.

Initial measurement of receivables

The Group initially recognizes receivables on the date that they are originated.

At initial recognition, trade receivables are measured at the transaction cost.

Financial assets – derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Financial assets – impairment

The Group recognizes an allowance for expected credit losses on financial assets measured at:

- ▶ Amortized cost;
- ▶ Fair value through other comprehensive income.

Credit loss is the present value of the difference between:

- (a) Contractual cash flows that are due to the Group under the contract; and
- (b) Cash flows the Group expects to obtain.

Measurement of expected credit losses reflects probability-weighted amount determined by estimating a range of possible results considering a time value of money.

The Group uses simplified approach to form an allowance for expected credit losses in the amount equal to life-time expected credit losses in respect of its trade and other receivables, cash and equivalents.

Financial liabilities – initial recognition and measurement

Financial liabilities of the Group comprise as follows:

- ▶ Loans and borrowings received (bond loans, bank loans, borrowings from related and non-related parties);
- ▶ Accounts payable (trade accounts payable, other accounts payable).

The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities within the scope of IFRS 9 are classified as follows:

- ▶ Financial liabilities at amortized cost;
- ▶ Financial liabilities at fair value through profit or loss;
- ▶ Other financial liabilities.

The Group initially recognizes financial liabilities on the date when they are originated.

Financial liabilities at amortized cost are initially recognized at fair value less directly attributable transaction costs.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The effective interest rate amortization is included in finance costs in the income statement.

A financial liability is derecognized in the consolidated statement of financial position when the obligation under the liability is discharged or canceled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and their net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction of transaction costs.

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

- ▶ Using recent arm's length market transactions;
- ▶ Reference to the current fair value of another instrument that is substantially the same;
- ▶ Discounted cash flow analysis or other valuation models.

Analysis of fair value of financial instruments is presented in Note 26.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks, cash in transit and at stores, short-term deposits with an original maturity of three months or less and credit card payments to be received during next 24 hours.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

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 carried at the amount of proceeds received, less any attributable costs of the issuance.

Equity instruments are classified either as liabilities or equity based on the substance of the contractual arrangements.

Dividends are recognized as liabilities in the period in which they are declared by the decision of the general meeting of participants and are payable in accordance with the legislation. Dividends are disclosed in the financial statements 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.

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment and borrowing costs for long-term construction projects, if the recognition criteria are met.

Significant restoration or modernization of property, plant and equipment are capitalized and depreciated over the useful life of the respective asset. All other repairs and maintenance are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is accrued to write off the cost or revaluation of assets using the straight-line method over its estimated useful life as follows:

Buildings	7-46 years
Machinery and equipment, office equipment	2-28 years
Vehicles	3-10 years
Retail space equipment	3-7 years
Other property, plant and equipment	2-26 years

Where an item of property, plant and equipment comprises several components having different useful lives, such components are accounted for as separate items of property, plant and equipment.

Retail equipment is depreciated over the specified estimated useful life except as where in-store equipment is planned to be totally upgraded before the end of its useful life. In such circumstances, residual value of retail equipment is depreciated over its remaining useful life which is equal to the period to complete the upgrade.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

A previously recognized item of property, plant and equipment or any significant component thereof is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Expected useful lives of intangible assets are adopted as follows:

Trademarks	50 years
Exclusive right for software and developments	15 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Leased assets

Leases where the Group assumes substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the respective leased assets are not recognized in the Group's consolidated statement of financial position.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Inventories

Inventories are carried at the lower of acquisition cost and net realizable value.

Supplier rebates which are not reimbursement of direct, incidental or identified costs to promote the goods, are eliminated from the cost of inventories.

The Group allocates part of its transportation costs incurred during the reporting period to non-realized inventories as at the end of the reporting period.

Transportation to the central distribution warehouse of the Group and to retail outlets is expensed to cost of sales. Other costs related to warehousing and storage are expensed as incurred and recognized in selling and administrative expenses.

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

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets, non-current assets classified as held for sale and tax prepayments are tested for impairment at each of the reporting dates. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into a smaller group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units (group of units) are allocated to the non-current assets of such unit (group of units) in proportion to the balance value of assets of such unit (group of units).

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, less accumulated depreciation or amortization, if no impairment loss had been recognized.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Employee benefits

Salaries paid to employees are recognized as expenses for the reporting period.

The Group makes contributions to the state pension and insurance funds. The Group does not have any employer-sponsored benefit plans.

Provisions

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

The amount recognized as a provision represents the best estimate of costs to settle the obligation at the reporting date, given the risks and uncertainties related to 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.

The Group's provisions represent warranties. The Group accrues the respective provision for warranties. Such expenses are recognized at the date of selling the respective goods in the amount of expenses assessed by management to cover respective obligations.

Recognition of revenues from sale of goods

The Group accounts for the contract with the customer when all of the following criteria are met:

- ▶ The parties to the contract have approved the contract and are committed to perform their respective obligations;
- ▶ The Group can identify each party's right regarding the goods or services to be transferred;
- ▶ The Group can identify the payment terms for the goods or services to be transferred;
- ▶ The contract has commercial substance (i.e. risks, timing or the amount of the Group's future cash flows are expected to change as a result of the contract); and
- ▶ It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of the amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due. If the consideration is variable, the amount of consideration to which the Group will be entitled may be less than the price stated in the contract because the Group may offer the customer a price concession.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to the customer, excluding amounts collected on behalf of third parties. The consideration in a contract may include fixed amounts, variable amounts, or both.

The Group acts as a principal under contracts providing for non-monetary compensation as it maintains control over the goods or services before they are delivered to the customer. The Group recognized revenue in gross amount of consideration it expects to receive in exchange for goods or services, when discharging the contractual obligations (or as soon as it discharges the contractual obligations).

Where the contract contains variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer. Variable consideration can arise as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Revenues from intra-group sales of goods are eliminated for the purposes of the consolidated financial statements.

The Group recognizes retail revenue upon transfer to buyers.

Revenue from sale of gift certificates is recognized by the Group at the moment of exchanging the gift certificate to the goods. The amounts received by the Group from sale of gift certificates are recognized as deferred revenue.

The Group has also used modified application and does not recognize time component of installments as interest income due to a short installment period.

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received reduce the total lease expense over the term of the lease. Lease income is taken to other income.

Lease payments under finance lease are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of comprehensive income.

Finance income and expense

Finance income comprises interest income on funds invested and loans calculated based on the effective interest rate (including finance income from installment sales) and gain on disposal of financial instruments.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Finance expense comprises interest expense on loans calculated based on the effective interest rate, recognized loss from impairment of financial assets and loss from disposal of financial instruments.

Income tax

Income tax expense comprises current and deferred taxes.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax liabilities are not recognized in respect of the following:

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

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reviewed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a group entity may not be set off against taxable profits and current tax liabilities of other group entities. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

Unified tax on imputed income (UTII)

Before 30 June 2017, certain legal entities within the Group applied special tax regime, according to which unified tax on imputed income was assessed on certain operations. Such tax is calculated using tax rates established for one square meter of retail trade areas. Revenue of legal entities applying special tax regime is not subject to the value added tax ("VAT") and therefore VAT is not separated from the revenue.

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Notes to the consolidated financial statements (continued)

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of accounting policies (continued)

Starting from 1 July 2017, certain companies of the Group ceased to comply with the qualifying criteria of such regime. Therefore, they applied general tax regime, where the revenue is subject to VAT and in the statement of comprehensive income the revenue is presented net of VAT.

Value added tax and other taxes

Value added tax (VAT) on the goods sold is payable to the state budget. VAT paid on purchase of goods and services is generally recoverable against VAT related to sales revenue upon receipt of the VAT invoice.

VAT related to sales and purchases which have not been settled at the reporting date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as assets and liabilities. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Other taxes payable include tax liabilities except for income tax and VAT accrued in accordance with adopted or substantially adopted laws and repaid by the end of the reporting period.

New retail stores pre-opening costs

New retail stores pre-opening costs which do not qualify for capitalization under IAS 16 *Property, Plant and Equipment* are expensed when incurred. Pre-opening costs comprise lease and utilities payments and other operating expenses.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating leases – Group as a lessee

The Group entered into lease agreements with third parties for premises. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties, and so accounts for the agreements as operating leases, except for agreements accounted for as finance leases.

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Notes to the consolidated financial statements (continued)

3. Significant accounting judgments, estimates and assumptions (continued)

3.2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property, plant and equipment

Property, plant and equipment is depreciated over expected useful lives as disclosed in Note 2 above. Useful lives are reviewed at the end of the year and adjusted where necessary.

Net realizable value of inventories

Management analyzes trading balances to identify options to sell inventories at their carrying value or above plus cost to sell. Such analysis comprises identification of slow-selling inventories. Identification suggests analysis of historical data and current operating plans for respective inventories, industry trends and consumer preferences.

If the carrying amount of inventories exceeds its net realizable value, management writes such inventories to their net realizable value.

In case actual results differ from management estimates concerning sales of inventories at carrying amount or below, management will have to adjust the carrying amount of inventories.

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is subject to frequent changes. Tax authorities are able to claim for such transaction or accounting method for which it had no any claims before. As at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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Notes to the consolidated financial statements (continued)

3. Significant accounting judgments, estimates and assumptions (continued)

3.2. Estimates and assumptions (continued)

Fair value of financial instruments at initial recognition

In the course of its business, the Group has transactions with related parties, including provision of loans on terms which may differ from market terms. In accordance with IFRS 9, financial instruments are initially recognized at fair value. Where no active market exists, professional judgments are used to determine whether transactions were made at market rates. Judgments are based on prices in comparable unrelated party transactions and analysis of effective interest rate.

4. New standards, interpretations and amendments to existing standards and interpretations

The Group adopted IFRS 9 *Financial Instruments*, which became effective in respect of annual periods beginning on 1 January 2018.

The nature and effect of changes resulted from adoption of the standard are disclosed below.

In 2018, the Group adopted some other amendments to the standards and interpretations, which had no effect on its consolidated financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

The Group is a first-time adopter of IFRS 9 *Financial Instruments*, which requires a restatement of the previously issued financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Group has adopted IFRS 9 starting 1 January 2018 and made no adjustments to comparative information for 2017.

a) *Classification and measurement*

Loans and trade receivables are held for collecting contractual cash flows and are expected to give rise to cash flows in the form of payments of principal and interest only.

The Group analyzed the features of the contractual cash flows from these instruments and concluded that such instruments qualify to be measured at amortized cost in accordance with IFRS 9. Therefore reclassification is not necessary.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

b) Impairment

IFRS 9 requires that the Group record expected credit losses for 12 months or expected credit losses for the entire effective period with regard to all loans and trade receivables.

The Group applied a simplified approach and recorded lifetime expected credit losses on receivables.

c) Hedge accounting

As the Group does not use hedge accounting, application of IFRS 9 requirements to hedge accounting had no effect on its financial statements.

The cumulative effect of applying IFRS 9 on the consolidated statement of financial position was RUB 47,255 thousand with accumulated effect on retained earnings of RUB 37,804 thousand that included a deferred tax asset of RUB 9,451 thousand:

- 1) The Group applied a simplified approach to recognizing expected credit losses on receivables. The Group used the allowance matrix based on its historical experience for incurred credit losses adjusted for expected factors specific to borrowers and changes in the economy. As at 1 January 2018, the Group recognized an additional allowance in the amount of RUB 45,322 thousand.
- 2) An allowance for other financial assets was estimated based on the counterparties' credit ratings and taking into account historical credit loss experience and forecasts. As at 1 January 2018, the Group recognized an additional allowance in the amount of RUB 595 thousand.
- 3) Cash and cash equivalents of the Group are exposed to a credit risk based on external credit ratings of banks and financial institutions. As at 1 January 2018, the Group recognized an allowance in the amount of RUB 1,338 thousand.

Line	Amount at 31 December 2017 IAS 39	Effect of application of new standard	Commentary reference	Amount at 1 January 2018 IFRS 9
Deferred tax assets	197,209	9,451		206,660
Trade and other receivables	2,947,618	(45,322)	[1]	2,902,296
Other current financial assets	1,498,702	(595)	[2]	1,498,107
Cash and cash equivalents	2,168,814	(1,338)	[3]	2,167,476
Total assets	19,640,909	(37,804)		19,603,105
Net effect on equity	12,014,003	(37,804)		11,976,199

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that 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 (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If the entity enters into several transactions related to making or receiving prepayment, it should determine transaction dates for each instance of making or receiving prepayment. The interpretation has no significant impact on the Group's consolidated financial statements.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments have no significant effect on the consolidated financial statements of the Group.

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

The IASB issued amendments to IFRS 2 *Share-based Payments* that address the following three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three aspects and other criteria are met. The accounting policy of the Group in terms of cash-settled share-based payments is in line with an approach described in the amendments. In addition, the Group is not involved in share-based payment transactions providing for net settlements of withholding tax obligations and has not modified the terms and conditions of share-based payment transactions. Therefore, these amendments do not have any significant impact on the Group's consolidated financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

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

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

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

The amendments clarify that venture capital or similar entities should decide to measure investment in associates and joint ventures at fair value through profit or loss, separately for each investment at initial recognition. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

This election is made separately for each investment entity associate or joint venture, at the later of the date on which:

- (a) The investment entity associate or joint venture is initially recognized;
- (b) The associate or joint venture becomes an investment entity; and
- (c) The investment entity associate or joint venture first becomes a parent.

These amendments have no significant effect on the consolidated financial statements of the Group.

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

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were eliminated because they have now served their intended purpose. These amendments have no effect on the consolidated financial statements of the Group.

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

IFRS 16 Leases

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

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRS 16 Leases (continued)

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

IFRS 16, which becomes effective for annual periods beginning on or after 1 January 2019, requires that lessors and lessees provide a more detailed disclosures as compared with IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach. The Group elects to use the exemptions provided by the standard on leases for which the lease terms end within 12 months as at the date of initial application, and leases for which the underlying asset is of low value.

Due to adoption of IFRS 16, operating profit of the Group, as well as its interest expenses will slightly increase. This results from a revised procedure for recording expenses under arrangements, which used to be classified as operating lease in accordance with IAS 17.

Reconciliation between operating lease liabilities disclosed in accordance with IAS 17 as at 31 December 2018 discounted at average borrowing rate and lease liabilities recognized in accordance with IFRS 16 as at 1 January 2019 are as follows:

Future minimum lease payments under operating leases as at 31 December 2018 (Note 25)	8,705
Average weighted borrowing rate the Group uses as a lessor	11.06%
Discounted future minimum lease payments under operating leases as at 31 December 2018 (Note 25)	8,407
Effect of estimating maturities of leases	100,028
Lease liabilities as at 1 January 2019	108,435

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, (IFRS 17), a comprehensive new financial reporting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on the general model with the following additions:

- ▶ Certain modifications related to insurance contracts with direct participation features (variable compensation method);
- ▶ Simplified approach (based on premium distribution) related mainly to short-term contracts.

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

- ▶ Whether the entity considers uncertain tax interpretations separately;
- ▶ The assumptions that the entity makes with regard to review of tax interpretations by tax authorities;
- ▶ How the entity determines taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates;
- ▶ How the entity considers changes in facts and circumstances.

The entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply this interpretation when it becomes effective. The Group does not expect that the new requirements will have an effect on its consolidated financial statements as it operates in one tax jurisdiction.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Amendment to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding” (the SPPI test) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2019 with early application permitted. These amendments have no significant effect on the consolidated financial statements of the Group.

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

The amendments address the inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group intends to apply these amendments when they become effective. These amendments have no significant effect on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. These amendments clarify that if a plan amendment, curtailment or settlement occurs during the reporting period, the entity is required to:

- ▶ Determine current service cost applicable to the remaining part of the period after the plan amendment, curtailment or settlement, based on the actuarial assumptions used for the revaluation of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event;
- ▶ Determine the net interest applicable to the remaining part of the period after the plan amendment, curtailment or settlement with the use of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event; and the discount rate used to remeasure this net liability (asset) under the defined benefit plan.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (continued)

The amendments also clarify that the entity is to determine firstly the past service cost or gain/loss on settlement, not taking into consideration the impact of the asset ceiling. Such amount is recognized in profit or loss. Then the entity must determine the impact of the asset ceiling after the plan amendment, curtailment or settlement. Change in this impact, except for amounts included in the net interest is recognized in other comprehensive income.

These amendments are applied to the plan amendment, curtailment or settlement occurred on the date of or after the first annual period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the consolidated financial statements of the Group as it does not have post-employment benefits.

Amendments to IAS 28: Long-Term Investments in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term investments in an associate or a joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term investments). This clarification is important as it implies that the expected credit losses model is applied to such long-term investments in IFRS 9.

The amendments also clarify that, in applying IFRS 9, an entity does not take into account any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments are effective retrospectively for annual periods beginning on or after 1 January 2019 with early application permitted. Since the Group does not have such long-term investments in an associate or a joint venture, these amendments will not have significant impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include the following:

IFRS 3 Business Combinations

The amendments clarify that if the entity obtains control over the business that is a joint operation, it must apply requirements towards business combinations achieved in stages, including the revaluation of previously existing interests in assets and liabilities of a joint operations at fair value. Simultaneously, the acquirer must remeasure all the previously existing interest in joint operations.

The entity must apply these amendments to business combinations, the date of which coincides with or occurs after the first annual period beginning on or after 1 January 2019, with early application permitted. These amendments will be applied to the Group's future business combinations.

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Notes to the consolidated financial statements (continued)

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IFRS 11 Joint Arrangements

A party that participates in (but does not have joint control over a joint operation) may obtain joint control over joint operations that comprise the activities defined as business in IFRS 3. The amendments clarify that in such cases the previously held interests in this joint operation are not remeasured.

The entity must apply these amendments to transactions, which provide for obtaining joint control, and the date of which coincides with or occurs after the first annual period beginning on or after 1 January 2019, with early application permitted. Currently, these amendments are not applicable to the Group, however, they can be applicable to respective transactions in future.

IAS 12 Income Taxes

Amendments clarify that income tax consequences of dividends are to a greater extent related to past operations or events that generated the distributable profits than to distributions among owners. Therefore, an entity must recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating past operations or events.

An entity must apply these amendments for annual periods beginning on or after 1 January 2019, with early application permitted. On initial application of these amendments, an entity must apply them to income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with the amendments, the Group does not expect any significant effect on its consolidated financial statements.

IAS 23 Borrowing Costs

Amendments clarify that an entity must record specific borrowings related to the purchase of a qualifying asset, received as part of general borrowings, when almost all works required to prepare this asset for its intended use or sale are completed.

An entity must apply these amendments to borrowing costs incurred on or after the beginning of the annual period in which an entity first applies these amendments. An entity must apply these amendments for annual periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with the amendments, the Group does not expect any significant effect on its consolidated financial statements.

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Notes to the consolidated financial statements (continued)

5. Revenue

	2018	2017
Revenue from retail	6,659,736	7,077,542
Revenue from wholesale	3,380,602	2,223,682
Gains on issuance of cash loans	1,514,145	1,500,243
Total	11,554,483	10,801,467

In the reporting period, the Group sold goods, contractual payment for which provided for fulfillment of the counterparties' liabilities in cash or non-cash form. In 2018, goods in amount of RUB 2,411,528 thousand (net of VAT) were settled under barter transactions (2017: RUB 350,002 thousand (net of VAT)).

6. Cost

	2018	2017
Cost of sales	4,255,743	4,525,039
Depreciation of property, plant and equipment and amortization of intangible assets	54,456	47,591
Payroll and social charges	45,303	42,026
Material costs	316,808	266,357
Other	93,332	66,980
Total	4,765,642	4,947,993

7. Selling and distribution expenses

	2018	2017
Leases	1,402,383	1,127,363
Payroll and social charges	852,632	616,819
Advertising and marketing expenses	208,579	328,629
Bank fees, cash collection in stores	171,680	133,196
Depreciation of property, plant and equipment and amortization of intangible assets	161,822	166,892
Material costs	107,954	68,908
Warehouse expenses	50,501	51,979
Property insurance	3,325	3,937
Information technologies	1,353	24
Other	94,254	59,230
Total	3,054,483	2,556,977

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Notes to the consolidated financial statements (continued)

8. Administrative expenses

	2018	2017
Allowance for expected credit losses on cash loans (Note 19)	247,477	248,891
Payroll and social charges	212,169	166,175
Allowance for expected credit losses on receivables from retail customers (Note 16)	132,538	262,877
Communication, post	97,938	68,618
Depreciation of property, plant and equipment and amortization of intangible assets	46,831	49,824
Leases	40,802	41,769
Travel expenses	34,821	27,858
Remuneration to members of the Board of Directors	33,421	26,595
Information, advisory, audit and legal fees	32,237	29,847
Taxes other than income tax	23,130	26,153
Material costs	20,224	17,876
Fee and commission expense	18,564	18,252
Allowance for impairment of advances issued (Note 17)	16,502	—
Allowance for expected credit losses on receivables from wholesale customers and other receivables (Note 16)	13,593	—
Allowance for expected credit losses on other financial assets (Note 19)	8,657	—
Allowance for expected credit losses on cash (Note 20)	768	—
Other	11,578	11,204
Total	991,250	995,939

9. Other income and expenses

Other income	2018	2017
Penalties received	161,143	149,910
Lease of premises and motor vehicles	172	—
Claims to suppliers	—	145,082
Agency fee	—	415
Other	9,620	12,962
Other income	170,935	308,369

Penalties received comprise penalties paid by individuals for overdue payments under installment agreements.

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Notes to the consolidated financial statements (continued)

9. Other income and expenses (continued)

Gains on claims to suppliers comprise penalties for failure to comply with contractual delivery terms.

Other expenses	2018	2017
Taxes and other penalties	204,805	14,292
Write-down of goods for resale	46,019	45,210
Foreign exchange difference	14,531	20,809
Agency fee	10,779	—
Loss on disposal of property, plant and equipment	9,709	4,957
Write-down of receivables and advances issued	2,593	13,077
Expenses from transfer of rights to installment payments	2,520	—
Expenses related to leased out items	—	2,898
Other expenses	31,428	35,286
Other expenses	322,384	136,529

10. Finance income and expense

	2018	2017
Finance income		
Interest receivable on loans	50,940	62,631
Total	50,940	62,631
Finance expense		
Interest on loans	421,299	685,455
Interest on bonds	448,995	352,296
Other	—	262
Total	870,294	1,038,013

11. Income tax

	2018	2017
Current income tax	(478,586)	(305,190)
Deferred income tax	38,084	118,254
Total	(440,502)	(186,936)

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Notes to the consolidated financial statements (continued)

11. Income tax (continued)

The taxation charge for the year is different from the amount that would have been received when applying the statutory income tax rate to the net profit before income tax. Reconciliation between the theoretical income tax calculated at the statutory rate of 20% applicable for 2018 and 2017, and the actual income tax expense recorded by the Group in the consolidated statement of comprehensive income is provided below:

	2018	2017
Profit before tax	1,772,305	1,497,016
Theoretical tax at the rate of 20%	(354,461)	(299,403)
Effect of UTII on income tax	–	15,884
Effect from recognition of transaction costs for issuance of equity as a decrease in share premium	–	101,488
Effect from a change in unrecognized deferred tax assets	(7,755)	37,540
Effect from non-deductible expenses	(78,286)	(42,445)
Total	(440,502)	(186,936)

Differences between the value of assets and liabilities recorded in the consolidated financial statements and their value for tax purposes give rise to certain temporary differences. Tax effect of changes in these temporary differences is recorded at the rate of 20%.

Tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2018, 2017 and 2016 is as follows:

	31 December 2016	As stated in profit or loss	31 December 2017	Effect of adopting IFRS 9	As stated in profit or loss	31 December 2018
Deferred tax asset						
Other financial assets	10,525	(10,525)	–	–	–	–
Accounts receivable	27,649	10,611	38,260	9,064	(18,287)	29,037
Inventories	50,747	13,825	64,572	–	57,776	122,348
Provisions	292	1,214	1,506	–	3,163	4,669
Trade and other payables	1,805	591	2,396	–	(1,869)	527
Tax losses	–	101,566	101,566	–	1,409	102,975
Other assets	–	–	–	387	153	540
Netting	(18,604)	–	(11,091)	–	–	11,006
Total deferred tax asset	72,414	117,282	197,209	9,451	42,345	271,102
Deferred tax liability						
Property, plant and equipment	(46,746)	16,897	(29,849)	–	13,568	(16,281)
Intangible assets	(3,297)	67	(3,230)	–	68	(3,162)
Financial assets	(2,166)	(15,992)	(18,158)	–	(17,897)	(36,055)
Netting	18,604	–	11,091	–	–	(11,006)
Total deferred tax liability	(33,605)	972	(40,146)	–	(4,261)	(66,504)
Total net deferred tax asset	38,809	118,254	157,063	9,451	38,084	204,598

The aggregate temporary differences associated with investments in subsidiaries for which a deferred tax liability was not recognized amounted to RUB 7,405,561 thousand (2017: RUB 6,605,257 thousand). The Group considered that retained earnings of its subsidiaries would not be distributed in the foreseeable future.

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Notes to the consolidated financial statements (continued)

12. Earnings per share

For the years ended 31 December 2017 and 2018, earnings per one share were based on annual net profit and average weighted number of outstanding ordinary shares during the year.

Earnings per share for the years ended 31 December 2018 and 2017 were calculated as follows:

	2018	2017
Profit for the year attributable to ordinary shareholders	1,331,803	1,310,080
Weighted average number of ordinary shares, thousand	113,056	78,675
Basic and diluted earnings per share, RUB	11.780	16.652

The Group has no potential dilutive equity instruments.

13. Property, plant and equipment

Property, plant and equipment as at 31 December 2018 and 2017 comprised the following:

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Retail space equipment	Other property, plant and equipment	Construction in progress	Total
Carrying amount at 1 January 2018	39,743	604,332	449,636	9,441	451,533	21,613	248,568	1,824,866
Cost								
Balance at the beginning of the year	39,743	703,421	535,520	30,488	856,374	45,032	248,568	2,459,146
Additions	–	–	–	–	–	–	455,954	455,954
Commissioning	–	31,381	34,230	1,528	235,689	14,154	(316,982)	–
Disposals	–	–	(2,260)	(6,397)	(95,473)	(223)	(10,010)	(114,453)
Balance at the end of the year	39,743	734,802	567,490	25,619	996,590	58,963	377,440	2,800,647
Accumulated depreciation								
Balance at the beginning of the year	–	(99,089)	(85,884)	(21,047)	(404,841)	(23,419)	–	(634,280)
Depreciation charge	–	(28,251)	(56,225)	(2,426)	(150,922)	(11,786)	–	(249,610)
Depreciation disposal	–	–	2,020	5,853	93,797	124	–	101,794
Balance at the end of the year	–	(127,340)	(140,089)	(17,620)	(461,966)	(35,081)	–	(782,096)
Carrying amount at 31 December 2018	39,743	607,462	427,401	7,999	534,624	23,882	377,440	2,018,551

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13. Property, plant and equipment (continued)

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Retail space equipment	Other property, plant and equipment	Construction in progress	Total
Carrying amount at 1 January 2017	40,112	598,811	503,211	13,013	450,118	20,391	283,887	1,909,543
Cost								
Balance at the beginning of the year	40,112	671,268	520,804	30,488	742,243	35,386	283,887	2,324,188
Additions	–	–	–	–	–	–	210,150	210,150
Commissioning	389	39,194	14,807	–	163,282	10,541	(228,213)	–
Disposals	(758)	(7,041)	(91)	–	(49,151)	(895)	(17,256)	(75,192)
Balance at the end of the year	39,743	703,421	535,520	30,488	856,374	45,032	248,568	2,459,146
Accumulated depreciation								
Balance at the beginning of the year	–	(72,457)	(17,593)	(17,475)	(292,125)	(14,995)	–	(414,645)
Depreciation charge	–	(27,375)	(68,328)	(3,572)	(158,957)	(8,884)	–	(267,116)
Depreciation disposal	–	743	37	–	46,241	460	–	47,481
Balance at the end of the year	–	(99,089)	(85,884)	(21,047)	(404,841)	(23,419)	–	(634,280)
Carrying amount at 31 December 2017	39,743	604,332	449,636	9,441	451,533	21,613	248,568	1,824,866

Depreciation of property, plant and equipment is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 46,422 thousand, RUB 161,474 thousand and RUB 41,411 thousand, respectively (2017: RUB 47,591 thousand, RUB 166,544 thousand and RUB 47,032 thousand, respectively). In 2018, capitalized depreciation amounted to RUB 303 thousand (2017: RUB 5,949 thousand). Capitalized depreciation for previous periods recognized as cost of goods sold in 2018 amounted to RUB 7,948 thousand (2017: RUB 0).

14. Intangible assets

	Goodwill	Trademarks	Software	Other	Total
Carrying amount at 1 January 2018	–	17,753	19,526	2,709	39,988
Cost					
Balance at the beginning of the year	–	19,041	24,470	2,709	46,220
Additions	–	–	6,781	–	6,781
Disposals	–	(49)	–	–	(49)
Balance at the end of the year	–	18,992	31,251	2,709	52,952
Accumulated amortization					
Balance at the beginning of the year	–	(1,288)	(4,944)	–	(6,232)
Amortization charge	–	(522)	(5,246)	(86)	(5,854)
Amortization disposal	–	6	–	–	6
Balance at the end of the year	–	(1,804)	(10,190)	(86)	(12,080)
Carrying amount at 31 December 2018	–	17,188	21,061	2,623	40,872

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Notes to the consolidated financial statements (continued)

14. Intangible assets (continued)

	Goodwill	Trademarks	Software	Other	Total
Carrying amount at 1 January 2017	124	17,128	14,412	2,709	34,373
Cost					
Balance at the beginning of the year	124	18,055	16,577	2,709	37,465
Additions	–	986	7,893	–	8,879
Disposals	(124)	–	–	–	(124)
Balance at the end of the year	–	19,041	24,470	2,709	46,220
Accumulated amortization					
Balance at the beginning of the year	–	(927)	(2,165)	–	(3,092)
Amortization charge	–	(361)	(2,779)	–	(3,140)
Balance at the end of the year	–	(1,288)	(4,944)	–	(6,232)
Carrying amount at 31 December 2017	–	17,753	19,526	2,709	39,988

Amortization of intangible assets is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 86 thousand, RUB 348 thousand and RUB 5,420 thousand, respectively (2017: RUB 0, RUB 348 thousand and RUB 2,792 thousand, respectively).

15. Inventories

	2018	2017
Raw materials and supplies	143,005	95,788
Work in progress	10,751	30,441
Finished goods and goods for resale	9,989,002	6,318,443
Total	10,142,758	6,444,672

Expenses on write-down of finished goods and goods for resale to net realizable value amounted to RUB 30,569 thousand (2017: RUB 19,091 thousand).

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Notes to the consolidated financial statements (continued)

16. Trade and other receivables

	2018	2017
Trade receivables from wholesale customers	769,860	218,487
Allowance for expected credit losses from wholesale customers	(4,700)	–
Carrying amount	765,160	218,487
Other receivables	438,804	299,208
Allowance for expected credit losses on other receivables	(39,385)	–
Carrying amount	399,419	299,208
Trade receivables from retail customers	2,915,691	3,237,022
<i>Neither past due nor impaired</i>	<i>1,670,744</i>	<i>2,092,279</i>
<i>Past due 1 to 90 days</i>	<i>53,932</i>	<i>118,294</i>
<i>Past due 91 to 540 days</i>	<i>269,239</i>	<i>350,500</i>
<i>Past due over 540 days</i>	<i>921,776</i>	<i>675,949</i>
Allowance for expected credit losses from retail customers	(919,673)	(815,562)
Carrying amount	1,996,018	2,421,460
Receivables from related parties (Note 24)	2,930	8,463
Allowance for expected credit losses on receivables from related parties (Note 24)	(75)	–
Carrying amount	2,855	8,463
Total	3,163,452	2,947,618

Trade receivables from wholesale customers and other receivables are denominated in Russian rubles and are normally settled within 12 months. Trade receivables of wholesale customers and other receivables are interest free.

Trade receivables from retail customers are denominated in Russian rubles and arise on sales with deferred payments. Terms of installment range from one to ten months. Trade receivables from retail customers are subject to commission ranging from 0% to 20% from the purchase amount depending on the terms of special offers effective at the certain date.

Movement in allowance for expected credit losses are as follows:

	2018		2017	
	Receivables from retail customers	Receivables from wholesale customers and other receivables	Receivables from retail customers	Receivables from wholesale customers and other receivables
At 1 January	815,562	–	561,021	–
Effect of adoption of IFRS 9	14,755	30,567	–	–
Charge (Note 8)	132,538	13,593	262,877	–
Utilization	(43,182)	–	(8,336)	–
At 31 December	919,673	44,160	815,562	–

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Notes to the consolidated financial statements (continued)

17. Advances issued

	2018	2017
Advances issued for delivery of goods	4,900,444	3,760,416
Allowance for impairment of advances issued	(16,502)	–
Advances issued to related parties	214	288,244
Other advances issued	190,353	60,365
Total	5,074,509	4,109,025

Advances present prepayments for delivery of goods from producers, as well as advances issued under the barter transactions (exchange agreements) with wholesale counterparties. The Group expects that these advances will be settled by future deliveries during 2019. Average repayment term is 6-11 months.

As at 31 December 2018, advances that arose under the barter transactions amounted to RUB 1,632,859 thousand (2017: RUB 1,467,195 thousand).

Movements of allowance for impairment are as follows:

	2018	2017
At 1 January	–	–
Charge (Note 8)	16,502	–
Utilization	–	–
At 31 December	16,502	–

18. Advances for construction in progress

Advances for construction in progress comprise prepayments for construction work and supply of production and trading equipment. As at 31 December 2018, the advances amounted to RUB 48,026 thousand (RUB 180,925 thousand).

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Notes to the consolidated financial statements (continued)

19. Other financial assets

	2018	2017
Loans issued to third parties	86,845	120,016
Allowance for expected credit losses on other financial assets	(9,822)	–
Carrying amount	77,023	120,016
Cash loans to individuals	1,750,963	1,450,471
<i>Neither past due nor impaired</i>	<i>841,083</i>	<i>688,841</i>
<i>Past due 1 to 90 days</i>	<i>64,557</i>	<i>64,305</i>
<i>Past due 91 to 540 days</i>	<i>221,158</i>	<i>268,087</i>
<i>Past due over 540 days</i>	<i>624,165</i>	<i>429,238</i>
Allowance for expected credit losses on cash loans	(696,808)	(578,573)
Carrying amount	1,054,155	871,898
Interest on cash loans receivable	1,173,226	1,051,608
<i>Neither past due nor impaired</i>	<i>60,377</i>	<i>59,418</i>
<i>Past due 1 to 90 days</i>	<i>25,585</i>	<i>30,545</i>
<i>Past due 91 to 540 days</i>	<i>206,071</i>	<i>255,878</i>
<i>Past due over 540 days</i>	<i>881,193</i>	<i>705,767</i>
Allowance for expected credit losses on cash loans	(878,357)	(790,414)
Carrying amount	294,869	261,194
Loans to related parties	71	335,973
Carrying amount	71	335,973
Total	1,426,118	1,589,081

Loans issued to third parties are denominated in Russian rubles and mature from 1 to 3 years. They bear interest rates ranging from 9.1% to 14% (2017: from 10.6% to 14%). Loans issued to third parties are secured by property collateral.

Cash loans issued to individuals comprise RUB-denominated unsecured amounts of less than RUB 50 with no collateral and with maturities ranging from 1 to 12 months. Interest rate on such cash loans ranges from 25.55% to 766.5% p.a. and mainly depends on the amount of the cash loan (2017: from 25.55% to 766.5%) and its maturity.

Movement in allowance for expected credit losses are as follows:

	2018		2017	
	Cash loans to individuals	Other financial assets	Cash loans to individuals	Other financial assets
At 1 January	1,368,987	–	1,135,067	–
Effect of adoption of IFRS 9	(570)	1,165	–	–
Charge (Note 8)	247,477	8,657	248,891	–
Utilization	(40,729)	–	(14,971)	–
At 31 December	1,575,165	9,822	1,368,987	–

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Notes to the consolidated financial statements (continued)

20. Cash and cash equivalents

	2018	2017
Cash on hand	38,897	37,718
Cash at bank accounts	343,510	249,696
Cash deposits with banks	155,700	1,881,400
Allowance for expected credit losses on cash	(2,106)	–
Total	536,001	2,168,814

Cash at bank accounts comprise cash at current bank accounts that carry no interest.

In 2018, cash deposits were placed for the period of up to 1 month with the interest rates ranging from 5.25% to 7.5% p.a. (2017: for the period of up to 1 month with the interest rates ranging from 6.40% to 9.55% p.a.).

Movement in allowance for expected credit losses are as follows:

	2018	2017
At 1 January	–	–
Effect of adoption of IFRS 9	1,338	–
Charge (Note 8)	768	–
Utilization	–	–
At 31 December	2,106	–

21. Equity

Share capital

As at 31 December 2017 and 2018, share capital of PJSC OR comprises 113,056,000 shares with the nominal value of RUB 100 each.

Additional paid-in capital

	2018	2017
At 1 January	(5,715,802)	(6,904,204)
Issue of shares	–	1,695,840
Transaction costs for issuance of equity	–	(507,438)
At 31 December	(5,715,802)	(5,715,802)

Dividends

In 2018, the Group declared dividends to its shareholders for 2017 in the amount of RUB 262,290 thousand (2017: RUB 7,741 thousand). As at 31 December 2018, the Group has no dividends payable.

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Notes to the consolidated financial statements (continued)

22. Interest-bearing loans and borrowings

Long-term loans and borrowings	2018	2017
Bank loans	4,388,694	3,490,850
Bonds	599,763	2,689,238
Total	4,988,457	6,180,088
Short-term loans and borrowings	2018	2017
Bank loans	1,546,727	220,002
Bonds	2,391,622	500,141
Loans from organizations	1,159	658
Total	3,939,508	720,801

Bank loans are denominated in Russian rubles and bear interest rates ranging from 9.68% to 10.56% p.a. (2017: from 9.68% to 16% p.a.). Long-term bank loans mature in 2020-2023.

A bond issued in 2016 (stock-exchange bonds with identification number 4B02-06-16005-R dated 21 March 2016) is represented by 500 bonds with the nominal value of RUB 2,000 thousand each and matures on 22 March 2021. Coupon is paid quarterly during the entire maturity term. As at 31 December 2018, the coupon rate was 13.8% p.a. (2017: 13.8%). The effective rate was 14.52% p.a.

A bond issued in 2017 (stock-exchange bonds with identification number 4B02-07-16005-R dated 23 March 2016) is represented by 500 bonds with the nominal value of RUB 2,000 thousand each and matures on 20 January 2022. Coupon is paid quarterly during the entire maturity term. As at 31 December 2018, the coupon rate was 13.8% p.a. (2017: 13.8%). The effective rate was 14.35% p.a.

The bond (stock-exchange bonds with identification number 4B02-07-16005-R dated 21 March 2016) provides for an offer dated 25 October 2019 allowing the bondholders to demand early redemption of the bonds in the amount of RUB 200,000 thousand.

A bond issued in 2017 (stock-exchange bonds with identification number 4B02-01-16005-R dated 20 May 2013) is represented by 1,500,000 bonds with the nominal value of 1 each and matures on 15 July 2020. Coupon is paid semi-annually during the entire maturity term. As at 31 December 2018, the Group purchased bonds amounting to RUB 400,000 thousand (31 December 2017: RUB 400,000 thousand). The coupon rate was 15% p.a. The effective rate was 13.52% p.a.

The bond (stock-exchange bonds with identification number 4B02-01-16005-R dated 20 May 2013) provides for an offer dated 22 July 2019 allowing the bondholders to demand early redemption of the bonds in the amount of RUB 1,100,000 thousand.

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Notes to the consolidated financial statements (continued)

22. Interest-bearing loans and borrowings (continued)

As at 31 December 2018, the Group has unrealized credit limits of RUB 1,317,887 thousand (31 December 2017: RUB 2,726,000 thousand).

For more details on maturity profile of loans and borrowings refer to Note 26.

Pledges

As at 31 December 2018, property, plant and equipment, as well as goods for resale pledged as collateral under the loans received amounted to RUB 930,829 thousand and RUB 0, respectively (2017: RUB 975,262 thousand and RUB 1,013,049 thousand, respectively).

23. Trade and other payables

	2018	2017
Trade payables	92,757	255,121
Payables to employees	55,183	51,889
Other payables	185,046	71,351
Payables to related parties	3,488	1,174
Total	336,474	379,535

24. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include key management personnel, entities controlled by management personnel and other related parties.

The following table provides the total amount of transactions with related parties and respective balances:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Advances issued to related parties	Payables to related parties
2018					
Entities where key management participates	5,682	7,959	2,930	39,889	3,124
Allowance for expected credit losses on receivables from related parties	—	—	(75)	—	—
Other related parties	—	11,697	—	214	364
Total	5,682	19,656	2,855	40,103	3,488

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Notes to the consolidated financial statements (continued)

24. Related party transactions (continued)

	Sales to related parties	Purchases from related parties	Receivables from related parties	Advances issued to related parties	Payables to related parties
2017					
Entities where key management participates	12,685	7,796	8,463	2,669	988
Key management personnel	–	–	–	285,556	–
Other related parties	3,343	11,826	–	19	236
Total	16,028	19,622	8,463	288,244	1,224

Sales to related parties primarily included sales of goods and provision of services.

Terms and conditions of related party transactions

Related parties may enter into transactions which unrelated parties might not, and the terms, conditions and amounts of those may differ from the terms, conditions and amounts of transactions between unrelated parties. Balances with related parties outstanding as of the end of the year were unsecured; respective settlements were made in cash. No guarantees were provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group made an allowance for expected credit losses on receivables from related parties of RUB 75 thousand (2017: RUB 0). The Group assesses whether there are any indicators of impairment in each financial year by analyzing the financial position of the respective related party and conditions existing on the market where such related party operates.

Loans issued to and received from related parties are detailed below:

	Loans issued to related parties	Loans received from related parties	Interest income	Interest expense
2018				
Entities where key management participates	–	–	3,955	–
Key management personnel	71	–	–	87
Other related parties	–	–	–	36
Total	71	–	3,955	123

	Loans issued to related parties	Loans received from related parties	Interest income	Interest expense
2017				
Entities where key management participates	37,296	–	3,791	–
Key management personnel	298,677	–	29,214	–
Total	335,973	–	33,005	–

In 2018, loans were issued to related parties at interest rates ranging from 0% to 11% p.a. (2017: from 0% to 14%). Loans issued to related parties as at 31 December 2018 mature in 2019.

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Notes to the consolidated financial statements (continued)

24. Related party transactions (continued)

Compensation to key management personnel of the Group

As at 31 December 2018, key management personnel comprised ten top-managers and members of the Board of Directors (31 December 2017: eight). In 2018, compensation paid to the key management personnel amounted to RUB 68,517 thousand (2017: RUB 48,172 thousand). The amount of compensation included payroll, bonuses, paid vacations, payments for serving on the management bodies and other short-term payments.

25. Commitments and contingences

Operating lease commitments – Group as lessee

The Group has concluded a number of lease agreements in respect of retail property, warehouse and office premises. The lease term under these agreements varies from one to five years.

As at 31 December 2018 and 2017 future minimum lease payments under non-cancellable leases are as follows:

	2018	2017
Less than 1 year	8,591	8,521
From 1 to 5 years	114	294
Total	8,705	8,815

Litigations

In the course of its business activity, the Group is exposed to various legal actions and complaints. While there are inherent uncertainties and the outcome of those litigations cannot be reliably predicted, the Group's management believes that these issues will not significantly affect the Group's financial position or annual performance.

As at 31 December 2018, the Group's management is unaware of any significant litigations, suits or claims against the Group, that could result in potential losses.

In the Russian Federation, tax returns remain open for review and tax audits during a three-year period. Even if the tax authorities have already carried out an on-site tax audit or audited any tax return for the current year, an additional tax audit is possible during such three-year period.

Management believes that the Group has paid or accrued all taxes that are applicable. For taxes where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

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Notes to the consolidated financial statements (continued)

25. Commitments and contingencies (continued)

Litigations (continued)

Russian legislation governing business operations is constantly changing. Management's interpretation of legislation as applied to the Group's activities may be challenged by the relevant regional or federal authorities. Recently, the tax authorities have been taking a more assertive position in their interpretation of legislation. As a result, the approaches to calculation of taxes that have not been challenged by tax authorities in the past may be challenged during future tax audits. As a rule, tax audits by the tax authorities may cover three years preceding the reporting year. Under certain circumstances, reviews may cover longer periods. Based on its interpretation of the tax legislation, management of the Group believes that all applicable taxes had been accrued. Nevertheless, tax authorities may apply a different interpretation of applicable tax legislation, which may have a significant effect on the consolidated financial statements of the Group.

The Group also identified possible contingent liabilities for the three-year period ended 31 December 2018. According to management, possible risks under these tax issues, if they arise, will not exceed RUB 394,422 thousand (31 December 2017: RUB 92,320 thousand).

26. Financial risk management objectives and policies

Financial function of the Group analyzes risks related to financing of the Group's operations. The purposes of addressing financial risks comprise mitigation of liquidity gaps, lower weighted average cost of financing of operations and improvement of financial flows within the Group.

The Group is exposed to market risk, foreign currency risk, credit risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are also subject to four types of risk: interest rate risk, foreign currency risk, commodity price risk, and other price risks, such as equity risk.

Interest rate risk

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.

The Group is not exposed to interest rate risk because loans issued by the Group bear fixed interest rates.

Generally, the Group receives loans and borrowings on a fixed rate basis and does not use any hedging instruments to manage its interest risk.

There are no loans with a floating interest rate in the Group's loan portfolio. Thus, income and expenses as well as the operating cash flows are primarily independent from changes in market interest rates.

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Notes to the consolidated financial statements (continued)

26. Financial risk management objectives and policies (continued)

Market risk (continued)

A significant share of the Group loan portfolio is taken by three bonds in the amount of RUB 2,991,385 thousand (31 December 2017: RUB 3,189,379 thousand). The interest rate for those loans is fixed till the offer dates (1 April 2019, 22 July 2019 and 24 October 2019) and may not be unilaterally increased till these dates.

When the interest rates change the Group generally applies various instruments in order to minimize the adverse effect on the Group's financial performance. Those instruments include refinancing, renewal of existing positions and alternative financing. The Group has sufficient open undrawn credit facilities with fixed interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at 31 December 2018 and 2017, the Group did not have any material financial assets and liabilities denominated in foreign currencies.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk arising from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Credit risks related to trade and other receivables are continuously monitored. Where necessary, allowances for expected credit losses are charged. The present value of trade and other receivables, net of allowance for expected credit losses, represents the maximum amount exposed to credit risk with respect to a certain asset.

As at each reporting date, the Group uses the loss allowance matrix to analyze whether it is necessary to recognize impairment and to estimate the expected credit losses. Allowance rates depend on the number of days the payment is overdue and type of accounts receivable with similar loss-origination characteristics (trade accounts receivable from wholesale customers, accounts receivable from related parties, other accounts receivable).

Settlements reflect probability-weighted results, temporary value of money and reasonable and supportable information on past events, current circumstances, forecast economic conditions existing as at the reporting date.

Credit risk is managed at the Group level. Each new wholesale customer is approved by the Group's management.

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Notes to the consolidated financial statements (continued)

26. Financial risk management objectives and policies (continued)

Credit risk (continued)

Credit quality of large wholesale customers is determined by their credit ratings, which are based on analysis of the following characteristics of a counterparty:

- 1) Financial position;
- 2) Creditworthiness;
- 3) Probability of bankruptcy;
- 4) Information from public sources.

Based on the previous experience with such customers and taking into consideration the history of payments during the recent credit crisis, the Group's management determines the risk that such customers will not meet their obligations as remote.

While settlement of receivables depends on economic factors, the Group management believes that the credit risk exposure related to trade and other receivables does not exceed the amount of allowance recorded in the statement of financial position (Note 16).

Credit risk related to retail installment sales is managed by assessing the retail customers' solvency, including their financial position, the history of relations and other factors. Overdue amounts are recovered according to the approved regulation on overdue amounts which provides for engaging the Financial Safety Department and going to court.

Risk exposure under the cash loans program is managed by assessing the credit worthiness of individual borrowers, including reviewing their financial position, the history of relations with the Group and personal details, as well as taking other measures.

Cash and short-term deposits are placed with credit and financial institutions which are considered to have minimal risk of default at the time of placing a deposit or opening an account.

Other financial assets include loans issued to third and related parties. The Group management believes that the credit risk does not exceed the allowance recorded in the financial statement of financial position (Note 19).

The Group neither holds nor issues financial instruments for hedging or resale purposes. Major part of borrowings issued is secured by pledge of property and warranties. Accounts receivable are unsecured. The maximum credit risk exposure is treated as equal to the present value of each financial asset in the statement of financial position as at 31 December as detailed below:

	2018	2017
Cash and cash equivalents	536,001	2,168,814
Short-term trade and other receivables	3,163,452	2,947,618
Other current financial assets	1,362,848	1,498,702
Other non-current financial assets	63,270	90,379
Total	5,125,571	6,705,513

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Notes to the consolidated financial statements (continued)

26. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not have enough assets available for timely settlement of financial liabilities when they fall due.

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases and hire purchase contracts.

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

In order to provide continuous daily control over liquidity the Group established separate operating units within its finance function.

The Budgeting and Financial Analysis Department develops and regularly updates long-term, mid-term and short-term plans of cash flows from operating and financing activities, taking into account the planned retail chain development, increase in the number of stores and seasonal nature of sales. By doing so, the Group is able to accurately determine its liquidity needs in the forecast period. During low liquidity season the Group plans to attract borrowings in order to fulfill its obligations. Due to seasonal nature of sales, the Group attracts borrowings during the low season and settles liabilities during the high season when sufficient revenue proceeds are available.

The Group established the Corporate Finance Department responsible for arranging bank credit facilities and Capital Markets Department responsible for attracting funds using the open financial market instruments. The Corporate Finance Department manages the liquidity risk by providing sufficient open and undrawn credit facilities in several banks and by using short-term bank deposits to accumulate funds for settling major non-current liabilities (bank loans, bonds).

All of the Group's financial liabilities represent non-derivative financial instruments.

The Group assessed the concentration of its debt refinancing risk and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Summary of contractual non-discounted payments under the Group's financial liabilities broken down by maturities of these liabilities is provided in the table below:

At 31 December 2018	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 22)	5,935,421	7,010,126	1,881,034	2,987,324	2,141,768
Bond (Note 22)	2,991,385	3,296,397	2,668,873	627,524	–
Trade payables (Note 23)	92,757	92,757	92,757	–	–
Payables to employees (Note 23)	55,183	55,183	55,183	–	–
Other payables (Note 23)	185,046	185,046	185,046	–	–
Payables to related parties (Note 24)	3,488	3,488	3,488	–	–
Total	9,263,280	10,642,997	4,886,381	3,614,848	2,141,768

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Notes to the consolidated financial statements (continued)

26. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 31 December 2017	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 22)	3,710,852	4,476,837	594,304	2,757,158	1,125,375
Bond (Note 22)	3,189,379	4,064,822	899,614	2,696,397	468,811
Trade payables (Note 23)	255,121	255,121	255,121	–	–
Payables to employees (Note 23)	51,889	51,889	51,889	–	–
Other payables (Note 23)	71,351	71,351	71,351	–	–
Payables to related parties (Note 24)	1,174	1,174	1,174	–	–
Total	7,279,766	8,921,194	1,873,453	5,453,555	1,594,186

The management believes that the carrying amounts of the financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as at 31 December 2018 and 2017 approximate their fair values.

Capital management

The primary objective of the Group's capital management is to ensure that the Group has adequate funds to support the Group operations, to maximize shareholders' value and to ensure sustainable solvency.

The Group's equity comprises its charter/share capital, retained earnings and additional paid-in capital, which also includes share premium. In order to maintain or adjust its capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new shares.

Loans and borrowings include short-term and long-term loans, bonds and payables to suppliers.

In the course of equity management, the Group mainly focuses on its gearing ratio. Acceptable level of the gearing ratio is at least 1:2.

In order to improve its capital structure, the Group initiated an initial public offering resulting in a shift of the gearing ratio to a larger share of equity and lower share of borrowings.

27. Operating segments

For management purposes, the Group is divided into two reportable operating segments:

- 1) Retail trade of footwear, accessories and related goods (sale of goods);
- 2) Issuance of cash loans.

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Notes to the consolidated financial statements (continued)

27. Operating segments (continued)

Management of the Group evaluates performance of its operating segments on the basis of consolidated data prepared in accordance with the International Financial Reporting Standards. The segment performance indicator communicated to management of the Group is EBITDA of the segments, which represents operating earnings before interest, taxes, depreciation and amortization, and group-wide income and expenses.

EBITDA of the reporting segments includes items of income and expenses, which are directly attributable to the segment on a reasonable basis:

- ▶ Revenue;
- ▶ Cost of sales;
- ▶ Selling and distribution expenses;
- ▶ Administrative expenses allocated to segments:
 - ▶ Allowance for expected credit losses on cash loans;
 - ▶ Allowance for expected credit losses on receivables from retail customers;
 - ▶ Allowance for expected credit losses on receivables from wholesale customers;
 - ▶ Allowance for impairment of advances issued;
- ▶ Other income/expenses allocated to segments:
 - ▶ Income/expenses from transfer of rights to installment payments and from cash loans to individuals;
 - ▶ Foreign exchange differences;
 - ▶ Write down of accounts receivable/payable and advances issued;
 - ▶ Penalties received;
 - ▶ Write-off of goods for resale.

The following expenses are not allocated to segments:

- ▶ Other administrative (corporate) expenses, other (corporate) operating income and expenses;
- ▶ Depreciation of property, plant and equipment and amortization of intangible assets;
- ▶ Finance income and expense;
- ▶ Income tax expense.

Assets are not allocated to operating segments and are not subject to analysis by an operating decision-maker.

Analysis of financial information on reporting segments analyzed by management for the years ended 31 December 2018 and 2017 is presented in the table below.

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

27. Operating segments (continued)

Revenue and EBITDA of reporting segments for the year ended 31 December 2018 comprise the following:

2018	Sale of goods	Issuance of cash loans
Revenue		
Revenue from external customers	10,040,338	1,514,145
Cost of sales, selling and administrative expenses	(7,385,621)	(619,489)
Other income (direct)	161,143	–
Other expenses (direct)	(65,663)	–
Segment EBITDA	2,750,197	894,656

Reconciliation of EBITDA reporting segments and net profit for the year ended 31 December 2018 is presented in the table below:

Total EBITDA of segments	3,644,853
<i>Unallocated items by segment:</i>	
Depreciation of property, plant and equipment and amortization of intangible assets	(263,109)
Administrative (corporate) expenses	(543,156)
Other (corporate) income	9,792
Other (corporate) expenses	(256,721)
Finance income	50,940
Finance expense	(870,294)
Income tax expense	(440,502)
Net profit	1,331,803

Revenue and EBITDA of reporting segments for the year ended 31 December 2017 comprise the following:

2017	Sale of goods	Issuance of cash loans
Revenue		
Revenue from external customers	9,301,224	1,500,243
Cost of sales, selling and administrative expenses	(7,229,165)	(573,090)
Other income (direct)	149,910	–
Other expenses (direct)	(79,183)	–
Segment EBITDA	2,142,786	927,153

Translation of the original Russian version

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Notes to the consolidated financial statements (continued)

27. Operating segments (continued)

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2017 is presented in the table below:

Total EBITDA of segments	3,069,939
<i>Unallocated items by segment:</i>	
Depreciation of property, plant and equipment and amortization of intangible assets	(264,307)
Administrative (corporate) expenses	(434,347)
Other (corporate) income	158,459
Other (corporate) expenses	(57,346)
Finance income	62,631
Finance expense	(1,038,013)
Income tax expense	(186,936)
Net profit	1,310,080

28. Subsequent events

In 2019, PJSC OR continues to carry out the consolidation process to strengthen its financial position and obtain more solid status on the market where it operates. Reorganization during the consolidation of Obuv Rossii Group mainly includes merger of subsidiaries of PJSC OR and Obuv Rossii LLC, which comprises several stages and will result in a decrease in the number of legal entities of PJSC OR to seven.

On 22 February 2019, the Group and Promsvyazbank entered into a loan agreement with a debt limit of RUB 3,000 million. The purpose of the loan is to replenish working capital and financial support the day-to-day operations. The loan matures on 30 November 2022.

On 12 March 2019, the Group and PJSC Sberbank entered into a loan agreement with a debt limit of RUB 2,000 million. The purpose of the loan is to replenish working capital and purchase own stock-exchange bonds. The loan matures on 11 March 2022.

On 1 April 2019, stock exchange bonds with identification number 4B02-06-16005-R dated 21 March 2016 in the amount of RUB 1,000,000 thousand were redeemed under an offer provided by a bond.

General Director

A.M. Titov

5 April 2019