

Independent auditor's report  
on the consolidated financial statements of  
*Public Joint-Stock Company OR*  
for the year ended 31 December 2017

*March 2018*

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

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Translation of the original Russian version

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## Independent auditor's report

### Translation of the original Russian version

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

#### *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 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with 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.

## Translation of the original Russian version

### 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

##### *Provisions for cash loans issued to individuals and for trade receivables from retail customers*

The appropriateness of allowance for impairment of cash loans issued to individuals, as well as 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, use of estimates, assumptions and analysis of various factors, including financial position of the counterparty and expected future cash flows.

The use of various assumptions may significantly affect the estimates of the allowances for impairment of cash loans and receivables. Due to these factors, as well as because amounts of cash loans and receivables are significant, assessment of impairment allowances formed a key audit matter.

The Group's management approach towards impairment of financial assets is described in Note 2.5 to the consolidated financial statements.

Our audit procedures included testing of controls over issuing of loans to individuals, as well as analysis of methods used to create allowances for impairment, testing of input data used for calculations, analysis of assumptions the Group used to determine the collective impairment. In the course of our audit procedures, we analyzed consistency of the management assumptions used to assess the economic factors and statistical information on losses incurred and amounts recovered and their compliance with the generally accepted practices and our professional judgment.

We also reviewed the respective disclosures in the consolidated financial statements.

## Translation of the original Russian version

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <p><i>Net realizable value of goods</i></p> <p>Goods and finished goods are recorded in the consolidated financial statements at the lower of acquisition cost and net realizable value. Identification of goods with low probability of sale and allowance for possible impairment form key audit matters as the assessment depends on the management's professional judgment in terms of determining provisioning level for goods, which may be sold at the price significantly lower than their cost or never be sold.</p> <p>Inventories are disclosed in Note 15 to the consolidated financial statements.</p> | <p>Our audit procedures in respect of determining possibility to sell and realizable value of goods included the following:</p> <ul style="list-style-type: none"> <li>▶ testing of efficiency of controls over condition of goods (by attending stock-takings);</li> <li>▶ review of purchase pricing algorithm, including direct cost allocation analysis;</li> <li>▶ comparing realizable value determined at sale of goods in the subsequent period with the carrying amount of inventories;</li> <li>▶ analysis of turnover of goods and identification of no-moving goods;</li> <li>▶ making management inquiries to find out their plans for selling the prior years' collections;</li> <li>▶ review, recalculation and assessment of provisions made, considering the age structure.</li> </ul> |
| <p><i>Impairment of deferred tax asset</i></p> <p>We believe that this issue forms a key audit matter in the current period as the amount of deferred tax assets is significant and the Group's management applied its professional judgment and estimates to assess the recoverability of deferred tax assets that is affected by uncertainty of amount of future taxable profit, tax planning strategies and expiry of the term over which tax losses may be utilized.</p> <p>Deferred tax assets are disclosed in Note 11 to the consolidated financial statements.</p>  | <p>Our audit procedures in respect of recoverability of deferred assets included assessment of forecast future taxable profit prepared by the Group's management based on the budget. We reviewed the assumptions used in forecasts and compared them with existing external data and actual performance indicators of the Group. We also reviewed the respective disclosures in the consolidated financial statements.</p>   |

## Translation of the original Russian version

### *Emphasis of matter*

Without qualifying our opinion on the consolidated financial statements, we draw attention to paragraph 1 *General information* of notes to the consolidated financial statements, which indicates that on 2 October 2017, the Company changed its legal form from an open joint-stock company to a public joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation according the requirements of Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014. We do not express a modified opinion on this matter.

### *Other information included in the Group's annual report*

Other information consists of information included in the annual report of the Group, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The annual report is expected to be presented 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 do 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 specified above when it is provided to us 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, Board of Directors and the Audit Committee for the consolidated financial statements*

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

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

Board of Directors and the Audit Committee are responsible for overseeing the Group's financial reporting process.

## Translation of the original Russian version

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

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

As part of an audit in accordance with International Standards on Auditing, 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 auditors' 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.

## Translation of the original Russian version

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

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

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

A.A. SHLENKIN  
Partner  
Ernst & Young LLC

16 March 2018

### *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: 630110, Russia, Novosibirsk, str. Bogdana Khmel'nitskogo, building 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.



Translation of the original Russian version

PJSC OR

Consolidated statement of comprehensive income

for the years ended 31 December 2016 and 2017

(in thousands of Russian rubles)

|   | Note | 2017             | 2016             |
|---|------|------------------|------------------|
| Revenue   | 5    | 10,801,467       | 9,965,460        |
| Cost of sales   | 6    | (4,947,993)      | (4,106,332)      |
| <b>Gross profit</b>   |      | <b>5,853,474</b> | <b>5,859,128</b> |
| Selling and distribution expenses                                 | 7    | (2,556,977)      | (2,275,995)      |
| Administrative expenses   | 8    | (995,939)        | (1,254,096)      |
| Other income  | 9    | 308,369          | 119,319          |
| Other expenses  | 9    | (136,529)        | (125,482)        |
| Finance income  | 10   | 62,631           | 25,575           |
| Finance expense   | 10   | (1,038,013)      | (1,018,912)      |
| <b>Profit before tax</b>  |      | <b>1,497,016</b> | <b>1,329,537</b> |
| Income tax expense  | 11   | (186,936)        | (146,869)        |
| <b>Net profit for the year</b>                                    |      | <b>1,310,080</b> | <b>1,182,668</b> |
| Other comprehensive income  |      | –                | –                |
| <b>Total comprehensive income for the year</b>                    |      | <b>1,310,080</b> | <b>1,182,668</b> |
| Weighted average number of outstanding ordinary shares (thousand) | 12   | 78,675           | 70,660           |
| <b>Basic earnings per share, RUB</b>                              | 12   | <b>16.652</b>    | <b>16.737</b>    |

General Director

A.M. Titov

16 March 2018

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

Translation of the original Russian version

PJSC OR

Consolidated statement of financial position

as at 31 December 2016 and 2017

(in thousands of Russian rubles)

|  | Note | 31 December<br>2017 | 31 December<br>2016 |
|--|------|---------------------|---------------------|
| <b>Non-current assets</b>                  |      |                     |                     |
| Property, plant and equipment              | 13   | 1,824,866           | 1,909,543           |
| Goodwill and intangible assets             | 14   | 39,988              | 34,373              |
| Other non-current financial assets         | 19   | 90,379              | –                   |
| Advances for construction in progress      | 18   | 180,925             | 175,390             |
| Deferred tax assets                        | 11   | 197,209             | 72,414              |
| <b>Total non-current assets</b>            |      | <b>2,333,367</b>    | <b>2,191,720</b>    |
| <b>Current assets</b>                      |      |                     |                     |
| Inventories                                | 15   | 6,444,672           | 6,035,754           |
| Trade and other receivables                | 16   | 2,947,618           | 2,380,485           |
| Advances issued                            | 17   | 4,109,025           | 1,586,281           |
| Income tax receivable                      |      | 32,653              | 10,536              |
| Other taxes receivable and VAT recoverable |      | 106,058             | 57,038              |
| Other current financial assets             | 19   | 1,498,702           | 1,262,354           |
| Cash and cash equivalents                  | 20   | 2,168,814           | 352,190             |
| <b>Total current assets</b>                |      | <b>17,307,542</b>   | <b>11,684,638</b>   |
| <b>Total assets</b>                        |      | <b>19,640,909</b>   | <b>13,876,358</b>   |
| <b>Equity</b>                              |      |                     |                     |
| Share capital                              | 21   | 11,305,600          | 7,066,000           |
| Additional paid-in capital                 | 21   | (5,715,802)         | (6,904,204)         |
| Retained earnings                          |      | 6,424,205           | 5,121,596           |
| <b>Total equity</b>                        |      | <b>12,014,003</b>   | <b>5,283,392</b>    |
| <b>Long-term liabilities</b>               |      |                     |                     |
| Interest-bearing loans and borrowings      | 22   | 6,180,088           | 3,236,200           |
| Deferred tax liabilities                   | 11   | 40,146              | 33,605              |
| <b>Total long-term liabilities</b>         |      | <b>6,220,234</b>    | <b>3,269,805</b>    |
| <b>Short-term liabilities</b>              |      |                     |                     |
| Interest-bearing loans and borrowings      | 22   | 720,801             | 4,104,509           |
| Trade and other payables                   | 23   | 379,535             | 954,779             |
| Advances received                          |      | 2,630               | 6,408               |
| Current income tax liabilities             |      | 34,743              | 35,192              |
| Deferred revenue                           |      | 2,077               | 2,021               |
| Other taxes payable                        |      | 263,305             | 217,728             |
| Provisions                                 |      | 3,581               | 2,524               |
| <b>Total short-term liabilities</b>        |      | <b>1,406,672</b>    | <b>5,323,161</b>    |
| <b>Total liabilities</b>                   |      | <b>7,626,906</b>    | <b>8,592,966</b>    |
| <b>Total equity and liabilities</b>        |      | <b>19,640,909</b>   | <b>13,876,358</b>   |

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

Translation of the original Russian version

PJSC OR

Consolidated statement of changes in equity  
for the years ended 31 December 2016 and 2017

(in thousands of Russian rubles)

|  | Note | Share capital<br>(Note 21) | Additional paid-in capital<br>(Note 21) | Retained earnings | Total equity      |
|--|------|----------------------------|---|-------------------|-------------------|
| <b>Balance at 31 December 2015</b>             |      | <b>7,066,000</b>           | <b>(6,937,043)</b>                      | <b>3,938,928</b>  | <b>4,067,885</b>  |
| Net profit for the year                        |      | –                          | –                                       | 1,182,668         | <b>1,182,668</b>  |
| <b>Total comprehensive income for the year</b> |      | <b>–</b>                   | <b>–</b>                                | <b>1,182,668</b>  | <b>1,182,668</b>  |
| Contributions from controlling party           |      | –                          | 32,839                                  | –                 | <b>32,839</b>     |
| <b>Balance at 31 December 2016</b>             |      | <b>7,066,000</b>           | <b>(6,904,204)</b>                      | <b>5,121,596</b>  | <b>5,283,392</b>  |
| Net profit for the year                        |      | –                          | –                                       | 1,310,080         | <b>1,310,080</b>  |
| <b>Total comprehensive income for the year</b> |      | <b>–</b>                   | <b>–</b>                                | <b>1,310,080</b>  | <b>1,310,080</b>  |
| Issue of shares                                |      | 4,239,600                  | 1,188,402                               | –                 | <b>5,428,002</b>  |
| Dividends paid                                 |      | –                          | –                                       | (7,471)           | <b>(7,471)</b>    |
| <b>Balance at 31 December 2017</b>             |      | <b>11,305,600</b>          | <b>(5,715,802)</b>                      | <b>6,424,205</b>  | <b>12,014,003</b> |

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

Translation of the original Russian version

PJSC OR

Consolidated statement of cash flows

for the years ended 31 December 2016 and 2017

(in thousands of Russian rubles)

|   | Note       | 2017               | 2016             |
|---|------------|--------------------|------------------|
| <b>Profit before tax for the year</b>   |            | <b>1,497,016</b>   | <b>1,329,537</b> |
| <i>Adjustments</i>  |            |                    |                  |
| Depreciation of property, plant and equipment and amortization of intangible assets       | 12, 13, 14 | 264,307            | 216,974          |
| Changes in the provision for impairment of receivables and other financial assets         | 8          | 511,768            | 864,047          |
| Write-down of goods for resale  | 9          | 45,210             | 46,488           |
| Foreign exchange differences  | 9          | 20,809             | 13,866           |
| Claims of suppliers   | 9          | (145,082)          | –                |
| Finance income  |            | (62,631)           | (25,575)         |
| Finance expense   |            | 1,038,013          | 1,018,912        |
| Loss on disposal of property, plant and equipment   | 13         | 4,957              | 337              |
| Other   | 9          | 29,689             | 16,067           |
| <b>Operating profit before changes in working capital</b>                                 |            | <b>3,204,056</b>   | <b>3,480,653</b> |
| <b>Changes in working capital</b>   |            |                    |                  |
| Increase in trade and other receivables   |            | (836,435)          | (483,858)        |
| Increase in inventories   |            | (470,602)          | (966,663)        |
| Increase in advances issued   |            | (2,383,093)        | (975,772)        |
| Increase/decrease in VAT recoverable  |            | (49,020)           | 153,614          |
| Decrease in trade and other payables  |            | (591,064)          | (55,689)         |
| Increase/decrease in other tax liabilities  |            | 45,577             | (89,778)         |
| Increase in payables to employees   |            | 3,144              | 5,507            |
| Increase in deferred revenue  |            | 56                 | 269              |
| Decrease in advances from customers   |            | (3,753)            | (3,402)          |
| Increase in loans to individuals receivable   |            | (345,563)          | (662,868)        |
| <b>Net cash from / (used in) operating activities before income tax and interest paid</b> |            | <b>(1,426,697)</b> | <b>402,013</b>   |
| Interest paid   |            | (969,533)          | (1,027,475)      |
| Income tax paid   |            | (327,756)          | (162,266)        |
| <b>Net cash used in operating activities</b>  |            | <b>(2,723,986)</b> | <b>(787,728)</b> |
| <b>Investing activities</b>   |            |                    |                  |
| Purchase of property, plant and equipment and intangible assets                           |            | (211,106)          | (469,324)        |
| Proceeds from sale of property, plant and equipment and intangible assets                 |            | 15,245             | 1,597            |
| Loans issued  |            | (926,828)          | (498,267)        |
| Repayment of loans issued   |            | 695,567            | 435,875          |
| Interest received on loans issued   |            | 11,002             | 10,113           |
| Interest received on deposits   |            | 44,499             | 10,288           |
| <b>Net cash used in investing activities</b>  |            | <b>(371,621)</b>   | <b>(509,718)</b> |
| <b>Financing activities</b>   |            |                    |                  |
| Issue of shares   |            | 5,935,440          | –                |
| Expenses related to issue of shares   |            | (507,438)          | –                |
| Proceeds from loans and borrowings  |            | 8,992,716          | 5,844,538        |
| Repayment of loans and borrowings   |            | (9,501,016)        | (4,514,892)      |
| Cash receipt from controlling party   |            | –                  | 32,839           |
| Dividends paid  |            | (7,471)            | –                |
| <b>Net cash from financing activities</b>   |            | <b>4,912,231</b>   | <b>1,362,485</b> |
| <b>Net increase in cash and cash equivalents</b>  |            | <b>1,816,624</b>   | <b>65,039</b>    |
| Cash and cash equivalents at the beginning of the year                                    |            | 352,190            | 287,151          |
| <b>Cash and cash equivalents at the end of the year</b>                                   |            | <b>2,168,814</b>   | <b>352,190</b>   |

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

Translation of the original Russian version

PJSC OR

Notes to the consolidated financial statements

for the year ended 31 December 2017

*(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 2017 were authorized for issue by its General Director A.M. Titov on 16 March 2018.

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 seven 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;
- ▶ All.Go is a trademark for beach, summer, gardening, sport and hiking footwear;
- ▶ Snow Guard is a trademark for outdoor activity clothes.

Translation of the original Russian version

PJSC OR

Notes to the consolidated financial statements (continued)

**1. General information (continued)**

**1.1. Corporate information (continued)**

The Group comprises:

| Entity                           | Principal activity   | 2017   | 2016   |
|----------------------------------|--|--------|--------|
| PJSC OR*                         | Operations management  | Parent | Parent |
| Obuv Rossii LLC                  | Trade  | 100%   | 100%   |
| Westfalika M LLC                 | Trade, manufacturing   | 100%   | 100%   |
| Peshekhod LLC                    | Trade  | 100%   | 100%   |
| Obuvrus LLC                      | Trade  | 100%   | 100%   |
| MFO LLC                          | Trade  | 100%   | 100%   |
| OBUV ROSSII LLC                  | Manufacturing  | 100%   | 100%   |
| R&D Center Modified Polymers LLC | Research and development in natural sciences and engineering | 100%   | 100%   |
| Integra LLC**                    | Trade, financial transactions                                | 100%   | 0%     |
| MiraStil LLC**                   | Trade, financial transactions                                | 100%   | 0%     |
| ModernShoes LLC**                | Trade  | 100%   | 0%     |
| Trade House Rossita LLC**        | Trade  | 100%   | 0%     |
| StilMarket LLC**                 | Trade, financial transactions                                | 100%   | 0%     |
| Dion LLC**                       | Trade, financial transactions                                | 100%   | 0%     |
| Design Studia LLC**              | Trade  | 100%   | 0%     |
| NKO Platezhny Standard LLC       | Financial transactions                                       | 100%   | 100%   |
| MKK Arifmetika LLC***            | Financial transactions                                       | 100%   | 100%   |

\* On 2 October 2017, OJSC OR was renamed into PJSC OR as it acquired status of a public joint-stock company.

\*\* In July 2017, the parent acquired a 100% interest in entities it previously controlled on the basis of an option.

\*\*\* In June 2016, MKK Arifmetika LLC\*\*\*, a subsidiary, was established.

The Group shareholder structure as at 31 December 2017 and 2016 was as follows:

| Shareholder                                     | 2017               |              | 2016              |              |
|---|--------------------|--------------|-------------------|--------------|
|   | Number of shares   | Ownership, % | Number of shares  | Ownership, % |
| A.M. Titov                                      | 49,691,802         | 43.953       | 68,099,152        | 96.376       |
| Shares controlled by CARIO HOLDINGS CORP. (BVI) | 17,664,900         | 15.625       | –                 | 0.00         |
| Shares controlled by the Group's management     | 2,561,048          | 2.265        | 2,560,848         | 3.624        |
| Free float                                      | 43,138,250         | 38.157       | –                 | 0.00         |
|   | <b>113,056,000</b> | <b>100</b>   | <b>70,660,000</b> | <b>100</b>   |

Translation of the original Russian version

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.

Since the beginning of 2017, the Bank of Russia kept the key interest rate at 10.00%, and starting from the second quarter it began to gradually decrease it. During 2017, the key interest rate changed 6 times and declined from 10.00% to 7.75 % by the year-end.

In 2017, monetary policy gradually became less tough mainly due to change in the interest rates. Non-price lending terms remain the main restraining factors as banks still select their borrowers based on a conservative approach and increase amounts of lending amidst the continued higher risks from the borrowers. Recovery of lending market does not result in inflation risks.

Short-term inflation risks have abated. Therefore the balance of inflationary and economic risks has shifted slightly towards the risks to economic growth. The uncertainty over the situation in global financial markets has increased.

The fourth quarter of 2017 saw a slowdown in economic activity. However, some uncertainty remains in the assessments of the reasons behind this slowdown, also due to temporary factors.

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.

**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**

In 2013, the Group completed the development of its organizational and legal structure and, therefore, started preparing the consolidated financial statements. The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (Note 1) as at 31 December 2017.

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.



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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)**

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.

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 acquiree; plus
- ▶ In a business combination achieved in stages, of fair value of previously held equity interest in the acquiree; 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.

## 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)****2.2. Basis of consolidation (continued)**

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

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.

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)**

### **2.5. 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 within the scope of IAS 39 are classified as follows:

- ▶ Financial assets at fair value through profit or loss;
- ▶ Loans and receivables;
- ▶ Held-to-maturity investments;
- ▶ Available-for-sale financial assets;
- ▶ Derivatives designated as hedging instruments in an effective hedge.

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

Financial assets of the Group are represented by loans issued, trade and other receivables, and cash and cash equivalents. All of the above assets are classified to loans and receivables.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

The Group initially recognizes loans and receivables and deposits at the date when they are originated.

**2. Basis of preparation and summary of significant accounting policies (continued)****2.5. Summary of accounting policies (continued)*****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.

***Financial assets – impairment***

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows of a financial instrument, such as changes in arrears or economic conditions that correlate with defaults.

The Group considers evidence of impairment for loans issued and receivables both at the level of individual assets, and an asset portfolio. All individually significant assets are assessed for impairment on an individual basis. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

## 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)**

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing evidence of impairment, the Group reviews historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss for the period and reflected in an allowance account against receivables.

Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***Financial liabilities – initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as follows:

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

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

Financial liabilities of the Group are represented by loans and borrowings, and trade and other receivables. All of the above liabilities are classified to other financial liabilities.

***Other financial liabilities***

Other financial liabilities 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.

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.

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)**

### **2.5. Summary of accounting policies (continued)**

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.

#### **Equity instruments (equity)**

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.

## 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)****2.5. Summary of accounting policies (continued)**

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                                 | 18 to 20 years |
| Machinery and equipment, office equipment | 2 to 5 years   |
| Vehicles                                  | 3 to 7 years   |
| Retail space equipment                    | 3 to 5 years   |
| Other property, plant and equipment       | 2 to 24 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.

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.



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)**

#### **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.

#### **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.



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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)**

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.

**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.

## 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)****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**

In 2016, the Group early adopted IFRS 15 *Revenue from Contracts with Customers*.

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.

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.

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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)**

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.

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.

## 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)****2.5. Summary of accounting policies (continued)***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.

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.

## 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)****2.5. Summary of accounting policies (continued)**

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.

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.

**2. Basis of preparation and summary of significant accounting policies (continued)****2.5. Summary of accounting policies (continued)****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.

**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. Useful lives are reviewed at the end of the year and adjusted where necessary.

**3. Significant accounting judgments, estimates and assumptions (continued)****3.2. Estimates and assumptions (continued)****Impairment of financial assets**

The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes professional judgments as to whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio before decrease will be identified for an individual loan. This evidence may include measurable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on liabilities. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to the loan portfolio assets used to forecast future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

Provision for doubtful debt is based on the historical data related to recoverability of accounts receivable and solvency analysis of the most significant debtors. If the financial position of debtors were to deteriorate, actual write-offs might be higher than expected.

**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 2017, 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 IAS 39, 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 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 9 Financial Instruments*

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

The Group plans to adopt the new standard when it becomes effective. The Group is in the process of quantifying the effect of adoption of IFRS 9 on its consolidated financial statements.

The preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information that will become available to the Group in 2018.

**a) Classification and measurement**

The Group does not expect the adoption of classification and measurement requirements in IFRS 9 to have an impact on its balance sheet or equity.

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 will have to perform a more detailed analysis taking into account all reasonable and justifiable information, including projected information, to determine the degree of impact. The Group continues to assess the impact of the new requirements on its financial statements.

*c) Hedge accounting*

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

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

The amendments address the conflict between 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 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. These amendments do not have any impact on 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 Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments will not have any impact on the consolidated financial statements of the Group as the Group does not make share-based payments.

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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*

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.

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.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

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

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

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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 an investment component (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.

*Transfers of Investment Property – Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application is permitted in all cases, provided that the fact is disclosed. The Group intends to apply these amendments when they become effective. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

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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 2014-2016 cycle (issued in December 2016)***

These improvements include:

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

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

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

The amendments clarify that:

- ▶ An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made 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 should be applied retrospectively and are effective from 1 January 2018, with early application permitted. If an entity applies these amendments for earlier period, it must disclose this fact. These amendments are not applicable to the Group.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

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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 2014-2016 cycle (issued in December 2016) (continued)****IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the 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. Entities are permitted to apply this clarification retrospectively. Alternatively, the entity may apply the clarification prospectively for all assets, expenses and revenues within the scope of the clarification initially recognized on or after:

- (i) The beginning of the reporting period, in which the organization applies this clarification for the first time; or
- (ii) The beginning of the previous reporting period presented as comparative information in the financial statements for the reporting period, in which the entity applies this clarification for the first time.

The interpretation becomes effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted in all cases, provided that the fact is disclosed. Since the Group's current accounting policy is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The interpretation addresses the accounting for income tax when tax 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 intends to apply this clarification when it becomes effective. The Group does not expect that the new requirements will have a significant effect on its financial statements as it operates in one tax jurisdiction.

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Notes to the consolidated financial statements (continued)

**5. Revenue**

|                                 | <b>2017</b>       | <b>2016</b>      |
|---------------------------------|-------------------|------------------|
| Revenue from retail             | 7,077,542         | 7,663,179        |
| Revenue from wholesale          | 2,223,682         | 824,581          |
| Gains on issuance of cash loans | 1,500,243         | 1,477,700        |
| <b>Total</b>                    | <b>10,801,467</b> | <b>9,965,460</b> |

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 2017, fulfilled liabilities in the form of mutual claim offsets totaled RUB 275,569 (net of VAT).

**6. Cost**

|   | <b>2017</b>      | <b>2016</b>      |
|---|------------------|------------------|
| Cost of sales   | 4,525,039        | 3,717,432        |
| Depreciation of property, plant and equipment and amortization of intangible assets | 47,591           | 18,395           |
| Payroll and social charges  | 42,026           | 37,655           |
| Material costs  | 266,357          | 283,294          |
| Other   | 66,980           | 49,556           |
|   | <b>4,947,993</b> | <b>4,106,332</b> |

**7. Selling and distribution expenses**

|   | <b>2017</b>      | <b>2016</b>      |
|---|------------------|------------------|
| Leases  | 1,127,363        | 1,122,515        |
| Payroll and social charges  | 616,819          | 603,843          |
| Advertising and marketing expenses  | 328,629          | 150,510          |
| Depreciation of property, plant and equipment and amortization of intangible assets | 166,892          | 151,546          |
| Bank fees, cash collection in stores  | 133,196          | 83,921           |
| Material costs  | 68,908           | 54,844           |
| Warehouse expenses  | 51,979           | 58,268           |
| Property insurance  | 3,937            | 3,227            |
| Information technologies  | 24               | 16,107           |
| Other   | 59,230           | 31,214           |
| <b>Total</b>  | <b>2,556,977</b> | <b>2,275,995</b> |

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Notes to the consolidated financial statements (continued)

**8. Administrative expenses**

|   | <b>2017</b>    | <b>2016</b>      |
|---|----------------|------------------|
| Provision for other financial assets (Note 19)    | 248,891        | 552,206          |
| Provision for doubtful receivables (Note 16)      | 262,877        | 311,841          |
| Payroll and social charges                        | 166,175        | 139,602          |
| Communication, post                               | 68,618         | 65,146           |
| Depreciation of property, plant and equipment     | 49,824         | 47,033           |
| Leases  | 41,769         | 60,582           |
| Information, advisory, audit and legal services   | 29,847         | 16,880           |
| Travel expenses                                   | 27,858         | 22,502           |
| Remuneration to members of the Board of Directors | 26,595         | –                |
| Taxes other than income tax                       | 26,153         | 11,738           |
| Fee and commission expense                        | 18,252         | –                |
| Material costs                                    | 17,876         | 16,918           |
| Other   | 11,204         | 9,648            |
| <b>Total</b>                                      | <b>995,939</b> | <b>1,254,096</b> |

**9. Other operating income and expenses**

| <b>Other income</b>           | <b>2017</b>    | <b>2016</b>    |
|-------------------------------|----------------|----------------|
| Penalties received            | 149,910        | 110,671        |
| Claims to suppliers           | 145,082        | –              |
| Agency fee                    | 415            | 4,281          |
| Other                         | 12,962         | 4,367          |
| <b>Other operating income</b> | <b>308,369</b> | <b>119,319</b> |

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

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

| <b>Other expenses</b>                             | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|
| Write-down of goods for resale                    | 45,210         | 46,488         |
| Foreign exchange difference                       | 20,809         | 13,866         |
| Taxes and other penalties                         | 14,292         | 4,090          |
| Write-down of receivables and advances issued     | 13,077         | 17,123         |
| Loss on disposal of property, plant and equipment | 4,957          | 337            |
| Expenses related to leased out items              | 2,898          | 3,517          |
| Fee and commission expense                        | –              | 7,219          |
| Other expenses                                    | 35,286         | 32,842         |
| <b>Other operating expenses</b>                   | <b>136,529</b> | <b>125,482</b> |



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Notes to the consolidated financial statements (continued)

**10. Finance income and expenses**

|                              | <b>2017</b>      | <b>2016</b>      |
|------------------------------|------------------|------------------|
| <b>Finance income</b>        |                  |                  |
| Interest receivable on loans | 62,631           | 25,575           |
| <b>Total</b>                 | <b>62,631</b>    | <b>25,575</b>    |
| <b>Finance expense</b>       |                  |                  |
| Interest on loans            | 685,455          | 743,889          |
| Interest on bonds            | 352,296          | 274,988          |
| Other                        | 262              | 35               |
| <b>Total</b>                 | <b>1,038,013</b> | <b>1,018,912</b> |

**11. Income tax**

|                     | <b>2017</b>      | <b>2016</b>      |
|---------------------|------------------|------------------|
| Current income tax  | (305,190)        | (183,838)        |
| Deferred income tax | 118,254          | 36,969           |
| <b>Total</b>        | <b>(186,936)</b> | <b>(146,869)</b> |

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 2017 and 2016, and the actual income tax expense recorded by the Group in the consolidated statement of comprehensive income is provided below:

|   | <b>2017</b>      | <b>2016</b>      |
|---|------------------|------------------|
| <b>Profit before tax</b>  | <b>1,497,016</b> | <b>1,329,537</b> |
| <b>Theoretical tax at the rate of 20%</b>   | <b>(299,403)</b> | <b>(265,907)</b> |
| Effect of UTII on income tax  | 15,884           | 160,609          |
| Effect from recognition transaction costs for issuance of equity as a decrease in share premium | 101,488          | –                |
| Effect from a change in unrecognized deferred tax assets  | 37,540           | (37,540)         |
| Effect from non-deductible expenses   | (42,445)         | (4,031)          |
| <b>Total</b>  | <b>(186,936)</b> | <b>(146,869)</b> |



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Notes to the consolidated financial statements (continued)

**11. Income tax (continued)**

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 2017 and 2016 is as follows:

|                                     | 31 December<br>2015 | As stated in<br>profit or<br>loss | 31 December<br>2016 | As stated in<br>profit or<br>loss | 31 December<br>2017 |
|-------------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
| <b>Deferred tax asset</b>           |                     |                                   |                     |                                   |                     |
| Other financial assets              | 28,787              | (18,262)                          | 10,525              | (10,525)                          | –                   |
| Receivables                         | 28,844              | (1,195)                           | 27,649              | 10,611                            | 38,260              |
| Inventories                         | 10,824              | 39,923                            | 50,747              | 13,825                            | 64,572              |
| Provisions                          | 187                 | 105                               | 292                 | 1,214                             | 1,506               |
| Trade and other payables            | 2,646               | (841)                             | 1,805               | 591                               | 2,396               |
| Tax losses                          | 98                  | (98)                              | –                   | 101,566                           | 101,566             |
| Netting                             | (26,007)            | –                                 | (18,604)            | –                                 | (11,091)            |
| <b>Total deferred tax asset</b>     | <b>45,379</b>       | <b>19,632</b>                     | <b>72,414</b>       | <b>117,282</b>                    | <b>197,209</b>      |
| <b>Deferred tax liability</b>       |                     |                                   |                     |                                   |                     |
| Property, plant and equipment       | (65,421)            | 18,675                            | (46,746)            | 16,897                            | (29,849)            |
| Intangible assets                   | (3,365)             | 68                                | (3,297)             | 67                                | (3,230)             |
| Financial assets                    | (760)               | (1,406)                           | (2,166)             | (15,992)                          | (18,158)            |
| Netting                             | 26,007              | –                                 | 18,604              | –                                 | 11,091              |
| <b>Total deferred tax liability</b> | <b>(43,539)</b>     | <b>17,337</b>                     | <b>(33,605)</b>     | <b>972</b>                        | <b>(40,146)</b>     |
| <b>Total net deferred tax asset</b> | <b>1,840</b>        | <b>36,969</b>                     | <b>38,809</b>       | <b>118,254</b>                    | <b>157,063</b>      |

In 2017, unrecognized deferred tax assets of the Group amounted to nil (2016: RUB 37,517). In 2017, the Group used the entire amount of previously unrecognized deferred tax assets.

The aggregate temporary differences associated with investments in subsidiaries for which a deferred tax liability was not recognized amounted to RUB 6,605,257 (2016: RUB 5,716,770). The Group determined that retained earnings of its subsidiaries would not be distributed in the foreseeable future.

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**12. Earnings per share**

For the years ended 31 December 2016 and 2017, 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 2017 and 2016 were calculated as follows:

|   | 2017          | 2016          |
|---|---------------|---------------|
| Profit for the year attributable to ordinary shareholders | 1,310,080     | 1,182,668     |
| Weighted average number of ordinary shares, thousand      | 78,675        | 70,660        |
| <b>Basic and diluted earnings per share, RUB</b>          | <b>16.652</b> | <b>16.737</b> |

The Group has no potential dilutive equity instruments.

**13. Property, plant and equipment**

Property plant and equipment as at 31 December 2017 and 2016 comprised the following:

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

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Notes to the consolidated financial statements (continued)

**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            |
|---|---------------|-----------------|---|-----------------|------------------------|-------------------------------------|--------------------------|------------------|
| <b>Carrying amount at 1 January 2016</b>    | <b>30,112</b> | <b>578,008</b>  | <b>183,600</b>                            | <b>12,785</b>   | <b>464,747</b>         | <b>24,431</b>                       | <b>515,394</b>           | <b>1,809,077</b> |
| <b>Cost</b>                                 |               |                 |   |                 |                        |                                     |                          |                  |
| <b>Balance at the beginning of the year</b> | <b>30,112</b> | <b>625,128</b>  | <b>204,426</b>                            | <b>30,260</b>   | <b>675,808</b>         | <b>34,640</b>                       | <b>515,394</b>           | <b>2,115,768</b> |
| Additions                                   | –             | –               | –   | –               | –                      | –                                   | 357,433                  | <b>357,433</b>   |
| Commissioning                               | 10,000        | 46,140          | 376,580                                   | 5,952           | 135,124                | 1,100                               | (574,896)                | –                |
| Disposals                                   | –             | –               | (60,202)                                  | (5,724)         | (68,689)               | (354)                               | (14,044)                 | <b>(149,013)</b> |
| <b>Balance at the end of the year</b>       | <b>40,112</b> | <b>671,268</b>  | <b>520,804</b>                            | <b>30,488</b>   | <b>742,243</b>         | <b>35,386</b>                       | <b>283,887</b>           | <b>2,324,188</b> |
| <b>Accumulated depreciation</b>             |               |                 |   |                 |                        |                                     |                          |                  |
| <b>Balance at the beginning of the year</b> | –             | (47,120)        | (20,826)                                  | (17,475)        | (211,061)              | (10,209)                            | –                        | <b>(306,691)</b> |
| Depreciation charge                         | –             | (25,337)        | (42,110)                                  | (4,703)         | (148,932)              | (4,985)                             | –                        | <b>(226,067)</b> |
| Depreciation disposal                       | –             | –               | 45,343                                    | 4,703           | 67,868                 | 199                                 | –                        | <b>118,113</b>   |
| <b>Balance at the end of the year</b>       | –             | <b>(72,457)</b> | <b>(17,593)</b>                           | <b>(17,475)</b> | <b>(292,125)</b>       | <b>(14,995)</b>                     | –                        | <b>(414,645)</b> |
| <b>Carrying amount at 31 December 2016</b>  | <b>40,112</b> | <b>598,811</b>  | <b>503,211</b>                            | <b>13,013</b>   | <b>450,118</b>         | <b>20,391</b>                       | <b>283,887</b>           | <b>1,909,543</b> |

Depreciation of property, plant and equipment is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 47,591, RUB 166,544 and RUB 47,032 respectively (2016: RUB 18,395, RUB 151,198 and RUB 46,370). In 2017, capitalized depreciation amounted to RUB 5,949 (2016: RUB 10,104).

**14. Intangible assets**

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

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Notes to the consolidated financial statements (continued)

**14. Intangible assets (continued)**

|   | Goodwill   | Trademarks    | Software      | Other        | Total         |
|---|------------|---------------|---------------|--------------|---------------|
| <b>Carrying amount at 1 January 2016</b>    | <b>124</b> | <b>17,489</b> | <b>12,347</b> | <b>726</b>   | <b>30,686</b> |
| <b>Cost</b>                                 |            |               |               |              |               |
| <b>Balance at the beginning of the year</b> | <b>124</b> | <b>18,055</b> | <b>13,862</b> | <b>726</b>   | <b>32,767</b> |
| Additions                                   | –          | –             | 2,715         | 1,983        | 4,698         |
| <b>Balance at the end of the year</b>       | <b>124</b> | <b>18,055</b> | <b>16,577</b> | <b>2,709</b> | <b>37,465</b> |
| <b>Accumulated depreciation</b>             |            |               |               |              |               |
| <b>Balance at the beginning of the year</b> | –          | (566)         | (1,515)       | –            | (2,081)       |
| Depreciation charge                         | –          | (361)         | (650)         | –            | (1,011)       |
| <b>Balance at the end of the year</b>       | –          | (927)         | (2,165)       | –            | (3,092)       |
| <b>Carrying amount at 31 December 2016</b>  | <b>124</b> | <b>17,128</b> | <b>14,412</b> | <b>2,709</b> | <b>34,373</b> |

Amortization of intangible assets is included in selling and distribution and administrative expenses in the amount of RUB 348 and RUB 2,792, respectively (2016: RUB 348 and RUB 663).

**15. Inventories**

|                                     | 2017             | 2016             |
|-------------------------------------|------------------|------------------|
| Raw materials and supplies          | 95,788           | 83,641           |
| Work in progress                    | 30,441           | 15,393           |
| Finished goods and goods for resale | 6,318,443        | 5,936,720        |
| <b>Total</b>                        | <b>6,444,672</b> | <b>6,035,754</b> |

Expenses on write-down of finished goods and goods for resale to net realizable value amounted to RUB 19,091 (2016: RUB 2,603).

**16. Trade and other receivables**

|  | 2017             | 2016             |
|--|------------------|------------------|
| Trade receivables from wholesale customers               | 218,487          | 99,813           |
| Trade receivables from retail customers                  | 3,237,022        | 2,684,068        |
| Provision for doubtful receivables from retail customers | (815,562)        | (561,021)        |
| Receivables from related parties (Note 24)               | 8,463            | 7,092            |
| Other receivables  | 299,208          | 150,533          |
| <b>Total</b>   | <b>2,947,618</b> | <b>2,380,485</b> |

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.

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Notes to the consolidated financial statements (continued)

**16. Trade and other receivables (continued)**

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 provision for doubtful receivables:

|                           | 2017           | 2016           |
|---------------------------|----------------|----------------|
| <b>At 1 January</b>       | <b>561,021</b> | <b>249,301</b> |
| Provision charge (Note 8) | 262,877        | 311,841        |
| Reversal of provision     | –              | –              |
| Utilization of provision  | (8,336)        | (121)          |
| <b>At 31 December</b>     | <b>815,562</b> | <b>561,021</b> |

Details of aging analysis of trade and other receivables are shown in the tables below:

|   | Neither past<br>due nor<br>impaired | 1 to<br>30 days | 31 to<br>91 days | Past due<br>92 to<br>540 days | Over<br>540 days | Allowance<br>for<br>impairment |
|---|-------------------------------------|-----------------|------------------|-------------------------------|------------------|--------------------------------|
| <b>31 December 2017</b>                       |                                     |                 |                  |                               |                  |                                |
| Trade receivables from<br>wholesale customers | 218,487                             | –               | –                | –                             | –                | –                              |
| Trade receivables from<br>retail customers    | 2,092,279                           | 64,574          | 53,720           | 350,500                       | 675,949          | (815,562)                      |
| Other receivables                             | 299,208                             | –               | –                | –                             | –                | –                              |
| Amounts due from related<br>parties           | 8,463                               | –               | –                | –                             | –                | –                              |
| <b>Total</b>                                  | <b>2,618,437</b>                    | <b>64,574</b>   | <b>53,720</b>    | <b>350,500</b>                | <b>675,949</b>   | <b>(815,562)</b>               |

|   | Neither past<br>due nor<br>impaired | 1 to<br>30 days | 31 to<br>91 days | Past due<br>92 to<br>540 days | Over<br>540 days | Allowance<br>for<br>impairment |
|---|-------------------------------------|-----------------|------------------|-------------------------------|------------------|--------------------------------|
| <b>31 December 2016</b>                       |                                     |                 |                  |                               |                  |                                |
| Trade receivables from<br>wholesale customers | 99,813                              | –               | –                | –                             | –                | –                              |
| Trade receivables from<br>retail customers    | 1,846,313                           | 50,208          | 53,061           | 355,745                       | 378,741          | (561,021)                      |
| Other receivables                             | 150,533                             | –               | –                | –                             | –                | –                              |
| Amounts due from related<br>parties           | 7,092                               | –               | –                | –                             | –                | –                              |
| <b>Total</b>                                  | <b>2,103,751</b>                    | <b>50,208</b>   | <b>53,061</b>    | <b>355,745</b>                | <b>378,741</b>   | <b>(561,021)</b>               |

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Notes to the consolidated financial statements (continued)

**17. Advances issued**

|  | 2017             | 2016             |
|--|------------------|------------------|
| Advances issued for delivery of goods        | 3,760,416        | 1,537,631        |
| Advances issued to related parties (Note 24) | 288,244          | 2,214            |
| Other advances issued                        | 60,365           | 46,436           |
| <b>Total</b>                                 | <b>4,109,025</b> | <b>1,586,281</b> |

Advances comprise prepayments of delivery of goods from producers to be offset against future deliveries in 2018. Average repayment term is 6-8 months.

**18. Advances for construction in progress**

Advances for construction in progress comprise prepayments for supply of production and trading equipment. As at 31 December 2017, the advances amounted to RUB 180,925 (RUB 175,390).

**19. Other financial assets**

|  | 2017             | 2016             |
|--|------------------|------------------|
| <b>Other non-current financial assets</b>          |                  |                  |
| Loans issued to third parties                      | 81,443           | –                |
| Loans issued to related parties                    | 8,936            | –                |
| Cash loans issued to individuals                   | –                | –                |
| Allowance for cash loans impairment                | –                | –                |
| <b>Total</b>                                       | <b>90,379</b>    | <b>–</b>         |
| <b>Other current financial assets</b>              |                  |                  |
| Loans issued to third parties                      | 38,573           | 17,573           |
| Cash loans issued to individuals                   | 1,450,471        | 1,295,867        |
| Allowance for cash loans impairment                | (578,573)        | (457,949)        |
| Interest on cash loans receivable                  | 1,051,608        | 860,649          |
| Allowance for impairment of interest on cash loans | (790,414)        | (677,118)        |
| Loans issued to related parties                    | 327,037          | 223,332          |
| <b>Total</b>                                       | <b>1,498,702</b> | <b>1,262,354</b> |

Loans issued to third parties are denominated in Russian rubles, bear interest rate from 10.6% to 14% (2016: from 12.5% to 15%) and mature from 1 to 4 years. 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 (2016: from 15.33% to 730%) and its maturity.

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Notes to the consolidated financial statements (continued)

**19 Other financial assets (continued)**

Movements in provision for other financial assets:

|                           | 2017             | 2016             |
|---------------------------|------------------|------------------|
| <b>At 1 January</b>       | <b>1,135,067</b> | <b>582,979</b>   |
| Provision charge (Note 8) | 248,891          | 552,206          |
| Utilization of provision  | (14,971)         | (118)            |
| <b>At 31 December</b>     | <b>1,368,987</b> | <b>1,135,067</b> |

Details of aging analysis of other financial assets are shown in the tables below:

| 31 December 2017                  | Neither past<br>due nor<br>impaired | Past due        |                  |                   |                  | Allowance<br>for<br>impairment |
|-----------------------------------|-------------------------------------|-----------------|------------------|-------------------|------------------|--------------------------------|
|                                   |                                     | 1 to<br>30 days | 31 to<br>91 days | 92 to<br>540 days | Over<br>540 days |                                |
| Loans issued to third parties     | 120,016                             | –               | –                | –                 | –                | –                              |
| Cash loans issued to individuals  | 688,841                             | 28,987          | 35,318           | 268,087           | 429,238          | (578,573)                      |
| Interest on cash loans receivable | 59,418                              | 9,349           | 21,196           | 255,878           | 705,767          | (790,414)                      |
| Loans issued to related parties   | 335,973                             | –               | –                | –                 | –                | –                              |
|                                   | <b>1,204,248</b>                    | <b>38,336</b>   | <b>56,514</b>    | <b>523,965</b>    | <b>1,135,005</b> | <b>(1,368,987)</b>             |

| 31 December 2016                  | Neither past<br>due nor<br>impaired | Past due        |                  |                   |                  | Allowance<br>for<br>impairment |
|-----------------------------------|-------------------------------------|-----------------|------------------|-------------------|------------------|--------------------------------|
|                                   |                                     | 1 to<br>30 days | 31 to<br>91 days | 92 to<br>540 days | Over<br>540 days |                                |
| Loans issued to third parties     | 17,573                              | –               | –                | –                 | –                | –                              |
| Cash loans issued to individuals  | 725,439                             | 28,976          | 31,176           | 243,809           | 266,467          | (457,949)                      |
| Interest on cash loans receivable | 54,064                              | 8,020           | 15,973           | 323,379           | 459,213          | (677,118)                      |
| Loans issued to related parties   | 223,332                             | –               | –                | –                 | –                | –                              |
|                                   | <b>1,020,408</b>                    | <b>36,996</b>   | <b>47,149</b>    | <b>567,188</b>    | <b>725,680</b>   | <b>(1,135,067)</b>             |

**20. Cash and cash equivalents**

|                        | 2017             | 2016           |
|------------------------|------------------|----------------|
| Cash on hand           | 37,718           | 87,195         |
| Cash at bank accounts  | 249,696          | 181,635        |
| Cash deposits at banks | 1,881,400        | 83,360         |
| <b>Total</b>           | <b>2,168,814</b> | <b>352,190</b> |

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

In 2017, cash deposits were placed for the period of up to 1 month with the interest rates ranging from 6.40% to 9.55% p.a. (2016: for the period of up to 1 month with the interest rates ranging from 8% to 10.75% p.a.).

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Notes to the consolidated financial statements (continued)

**21. Equity**

**Share capital**

|                            | thousand       | RUB thousand      |
|----------------------------|----------------|-------------------|
| <b>At 31 December 2016</b> | <b>70,660</b>  | <b>7,066,000</b>  |
| Issue of shares            | 42,396         | 4,239,600         |
| <b>At 31 December 2017</b> | <b>113,056</b> | <b>11,305,600</b> |

As at 31 December 2016, Share capital of OJSC OR is fully paid by shares in subsidiaries and comprises 70,660,000 shares with the nominal value of 100 Russian rubles.

In October 2017, OJSC OR made an initial public offering of shares at the Moscow Exchange and issued 42,396,000 ordinary shares with nominal value 100 Russian rubles each. Placement price amounted to 140 Russian rubles per share, allowing OJSC OR to raise RUB 5,935,440. Difference between raised cash and nominal value of shares of RUB 1,695,840 net of transaction costs for issuance of equity of RUB 507,438 is recorded as a share premium of RUB 1,188,402 in the additional paid-in capital.

**Additional paid-in capital**

|  | RUB thousand       |
|--|--------------------|
| <b>At 31 December 2016</b>               | <b>(6,904,204)</b> |
| Issue of shares                          | 1,695,840          |
| Transaction costs for issuance of equity | (507,438)          |
| <b>At 31 December 2017</b>               | <b>(5,715,802)</b> |

As at 31 December 2016, additional paid-in capital of RUB 6,904,204 represents the difference between the nominal value of the share capital and the current value of share capitals of the companies, which were contributed as payment of the share capital at the moment of repayment.

Additional paid-in capital includes contributions from ultimate controlling party for 2017 in the amount of nil (2016: RUB 32,839).

**Dividends**

In February 2017, the Group paid dividends in the amount of RUB 7,741 (2016: nil).



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Notes to the consolidated financial statements (continued)

**22. Interest-bearing loans and borrowings**

| <b>Long-term loans and borrowings</b> | <b>2017</b>      | <b>2016</b>      |
|---------------------------------------|------------------|------------------|
| Bank loans                            | 3,490,850        | 2,237,054        |
| Bonds                                 | 2,689,238        | 999,146          |
| <b>Total</b>                          | <b>6,180,088</b> | <b>3,236,200</b> |

  

| <b>Short-term loans and borrowings</b> | <b>2017</b>    | <b>2016</b>      |
|--|----------------|------------------|
| Bank loans                             | 220,002        | 3,093,530        |
| Bond                                   | 500,141        | 1,010,586        |
| Loans from organizations               | 658            | 393              |
| <b>Total</b>                           | <b>720,801</b> | <b>4,104,509</b> |

Bank loans are denominated in Russian rubles and bear interest rates ranging from 9.68% to 16% p.a. (2016: from 12.75% to 16% p.a.). Long-term bank loans mature in 2019-2022.

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 each and matures on 22 March 2021. Coupon is paid quarterly during the entire maturity term. As at 31 December 2017, the coupon rate was 13.8% p.a. (2016: 13.8%). The effective rate was 14.51% 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 each and matures on 20 January 2022. Coupon is paid quarterly during the entire maturity term. As at 31 December 2017, the coupon rate was 13.8% p.a. The effective rate was 14.34% p.a.

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. As at 31 December 2017, the Group purchased bonds amounting to RUB 400,000. Coupon is paid semi-annually during the entire maturity term. As at 31 December 2017, the coupon rate was 15% p.a. The effective rate was 10.7% p.a.

As at 31 December 2017, the Group has undrawn credit lines of RUB 2,726,000 (31 December 2016: RUB 748,215).

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

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Notes to the consolidated financial statements (continued)

**22. Interest-bearing loans and borrowings (continued)**

**Pledges**

As at 31 December 2017, property, plant and equipment, as well as goods for resale, pledged as collateral under the loans received, amounted to RUB 975,262 and RUB 1,013,049 (2016: no collateral).

**23. Trade and other payables**

|                             | 2017           | 2016           |
|-----------------------------|----------------|----------------|
| Trade payables              | 255,121        | 852,242        |
| Payables to employees       | 51,889         | 48,745         |
| Other payables              | 71,351         | 38,712         |
| Payables to related parties | 1,174          | 15,080         |
| <b>Total</b>                | <b>379,535</b> | <b>954,779</b> |

**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:

|   | Sales to related parties | Purchases from related parties | Receivables from related parties | Advances issued to related parties | Payables to related parties |
|---|--------------------------|--------------------------------|----------------------------------|------------------------------------|-----------------------------|
| <b>2017</b>                                 |                          |                                |                                  |                                    |                             |
| Entities controlled by management personnel | 12,685                   | 7,796                          | 8,463                            | 2,669                              | 988                         |
| Key management personnel                    | –                        | –                              | –                                | 285,556                            | –                           |
| Other related parties                       | 3,343                    | 11,826                         | –                                | 19                                 | 236                         |
| <b>Total</b>                                | <b>16,028</b>            | <b>19,622</b>                  | <b>8,463</b>                     | <b>288,244</b>                     | <b>1,224</b>                |

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Notes to the consolidated financial statements (continued)

**24. Related party transactions (continued)**

|  | <b>Sales to<br/>related<br/>parties</b> | <b>Purchases<br/>from related<br/>parties</b> | <b>Receivables<br/>from related<br/>parties</b> | <b>Advances<br/>issued to<br/>related<br/>parties</b> | <b>Payables<br/>to related<br/>parties</b> |
|--|---|---|---|---|--|
| <b>2016</b>                                    |   |   |   |   |  |
| Entities controlled by<br>management personnel | 9,246                                   | 81,442  | 5,197   | –   | 15,068                                     |
| Key management personnel                       | 35                                      | –   | 41  | –   | –  |
| Other related parties                          | 1,571                                   | 7,641   | 1,854   | 2,214   | 12   |
| <b>Total</b>                                   | <b>10,852</b>                           | <b>89,083</b>                                 | <b>7,092</b>                                    | <b>2,214</b>  | <b>15,080</b>                              |

Advances issued to key management personnel were intended to purchase goods for the purpose of the product range expansion. In the subsequent period, advances were partially offset against delivery of goods of RUB 250,015 to the Group's warehouses.

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 2017 and 2016, the Group did not record any impairment of receivables from related parties. 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:

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

|  | <b>Loans<br/>issued to<br/>related<br/>parties</b> | <b>Loans<br/>received<br/>from related<br/>parties</b> | <b>Interest<br/>income</b> | <b>Interest<br/>expense</b> |
|--|--|--|----------------------------|-----------------------------|
| <b>2016</b>                                |  |  |                            |                             |
| Entities where key management participates | 41,895   | –  | 6,320                      | –                           |
| Key management personnel                   | 181,437  | –  | 5,904                      | –                           |
| <b>Total</b>                               | <b>223,332</b>                                     | <b>–</b>   | <b>12,224</b>              | <b>–</b>                    |

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## Notes to the consolidated financial statements (continued)

### 24. Related party transactions (continued)

#### Terms and conditions of related party transactions (continued)

In 2017, loans were issued to related parties at interest rates ranging from 0% to 14% p.a. (2016: from 11% to 14% p.a.). Loans issued to related parties as at 31 December 2017 mature in 2018-2019.

#### Compensation to key management personnel of the Group

As at 31 December 2017, key management personnel comprises eight top-managers of the Group (31 December 2016: five). In 2017, compensation paid to the key management personnel amounted to RUB 48,172 (2016: RUB 10,305). 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 six years.

As at 31 December 2017 and 2016 future minimum lease payments under non-cancellable leases are as follows:

|                   | 2017         | 2016         |
|-------------------|--------------|--------------|
| Less than 1 year  | 8,521        | 6,096        |
| From 1 to 5 years | 294          | 1,558        |
| More than 5 years | –            | –            |
| <b>Total</b>      | <b>8,815</b> | <b>7,654</b> |

#### 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 2017, 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 and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

**25. Commitments and contingences (continued)****Litigations (continued)**

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.

The government of the Russian Federation continues to reform the business infrastructure in its transition to a market economy. Therefore, requirements by laws and regulations regulating activities of business companies are rapidly changing. These changes are not always clearly written and subject to varying interpretations; also, authorities are often arbitrary in its enforcement. There are common instances when tax audits and investigations are conducted by authorities that have the power to assess fines and penalties. The Group believes that it has accrued all taxes that are applicable in accordance with its interpretation of tax laws, however the facts described above could lead to additional tax risk. The Group's management estimates the maximum exposure to tax risk as possible (5% to 50% probability) amounting to RUB 92,320 (31 December 2016: RUB 75,000). Management continues to track changes related to these risks and regularly reassesses risks and respective liabilities, provisions and disclosures.

**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.

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## Notes to the consolidated financial statements (continued)

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

#### Market risk (continued)

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.

A significant share of the Group loan portfolio is taken by three bonds in the amount of RUB 3,216,436 (31 December 2016: RUB 2,009,732). The interest rate for those loans is fixed till the offer dates (25 March 2019, 17 July 2019 and 23 January 2020) 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 2017 and 2016, the Group didn't 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.

Customer credit risks related to trade and other receivables are continuously monitored. Where necessary, allowances are created against doubtful debts. The present value of trade and other receivables, net of allowance for impairment of doubtful accounts receivable, represents the maximum amount exposed to credit risk with respect to a certain asset.

Credit risk is managed at the Group level. Generally, the Group doesn't determine credit assessment indicators but evaluates credit worthiness based on the customer's financial position and its previous experience. Each new wholesale customer is approved by the Group's management. The Group's customers are homogeneous in terms of quality of their debt and credit risk exposure. 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 allowance recorded in the financial statement of financial position (Note 16).

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## Notes to the consolidated financial statements (continued)

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

#### Credit risk (continued)

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. Accounts receivable and loans issued 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:

|  | 2017             | 2016             |
|--|------------------|------------------|
| Cash and cash equivalents              | 2,168,814        | 352,190          |
| Short-term trade and other receivables | 2,947,618        | 2,380,485        |
| Other current financial assets         | 1,498,702        | 1,262,354        |
| Other non-current financial assets     | 90379            | –                |
| <b>Total</b>                           | <b>6,705,513</b> | <b>3,995,029</b> |

#### 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.



Notes to the consolidated financial statements (continued)

**26. Financial risk management objectives and policies (continued)**

**Liquidity risk (continued)**

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:

| <b>At 31 December 2017</b>            | <b>Carrying amount</b> | <b>Contractual payments</b> | <b>Less than 1 year</b> | <b>2 years</b>   | <b>3 years and more</b> |
|---------------------------------------|------------------------|-----------------------------|-------------------------|------------------|-------------------------|
| 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                   | –                | –                       |
| <b>Total</b>                          | <b>7,279,766</b>       | <b>8,921,194</b>            | <b>1,873,453</b>        | <b>5,453,555</b> | <b>1,594,186</b>        |

| <b>At 31 December 2016</b>            | <b>Carrying amount</b> | <b>Contractual payments</b> | <b>Less than 1 year</b> | <b>2 years</b>   | <b>3 years and more</b> |
|---------------------------------------|------------------------|-----------------------------|-------------------------|------------------|-------------------------|
| Bank loans (Note 22)                  | 5,330,584              | 5,975,304                   | 3,659,586               | 2,206,822        | 108,896                 |
| Bond (Note 22)                        | 2,009,732              | 2,309,645                   | 1,137,620               | 137,620          | 1,034,405               |
| Trade payables (Note 23)              | 852,242                | 852,242                     | 852,242                 | –                | –                       |
| Payables to employees (Note 23)       | 48,745                 | 48,745                      | 48,745                  | –                | –                       |
| Other payables (Note 23)              | 38,712                 | 38,712                      | 38,712                  | –                | –                       |
| Payables to related parties (Note 24) | 15,080                 | 15,080                      | 15,080                  | –                | –                       |
| <b>Total</b>                          | <b>8,295,095</b>       | <b>9,239,728</b>            | <b>5,751,985</b>        | <b>2,344,442</b> | <b>1,143,301</b>        |

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 2017 and 2016 approximate their fair values mainly due to the short-term maturities of these instruments.



## **26. Financial risk management objectives and policies (continued)**

### **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 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 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.

Comparative information by segment has been restated in these consolidated financial statements to ensure its comparability with the current year.

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 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:
  - ▶ Provision for other financial assets;
  - ▶ Provision for doubtful receivables;

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Notes to the consolidated financial statements (continued)

**27. Operating segments (continued)**

- ▶ Other income/expenses allocated to segments:
  - ▶ Income/expenses from transfer of right to claim on installments receivable 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 expenses;
- ▶ 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 2017 and 2016 is presented in the table below.

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

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

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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:

|   |                  |
|---|------------------|
| <b>Total EBITDA of segments</b>   | <b>3,069,939</b> |
| <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) operating income  | 158,459          |
| Other (corporate) operating expenses  | (57,346)         |
| Finance income  | 62,631           |
| Finance expense   | (1,038,013)      |
| Income tax expense  | (186,936)        |
| <b>Net profit</b>   | <b>1,310,080</b> |

Revenue and EBITDA of reporting segments for the year ended 31 December 2016 comprise the following:

| <b>2016</b>  | <b>Sale of goods</b> | <b>Issuance of cash loans</b> |
|--|----------------------|-------------------------------|
| <b>Revenue</b>                                     |                      |                               |
| Revenue from external customers                    | 8,487,760            | 1,477,700                     |
| Cost of sales, selling and administrative expenses | (6,218,328)          | (858,105)                     |
| Other operating income (direct)                    | 110,671              | –                             |
| Other operating expenses (direct)                  | (77,477)             | –                             |
| <b>Segment EBITDA</b>                              | <b>2,302,626</b>     | <b>619,595</b>                |

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2016 is presented in the table below:

|   |                  |
|---|------------------|
| <b>Total EBITDA of segments</b>   | <b>2,922,221</b> |
| <i>Unallocated items by segment</i>   |                  |
| Depreciation of property, plant and equipment and amortization of intangible assets | (216,974)        |
| Administrative (corporate) expenses   | (343,016)        |
| Other (corporate) operating income  | 8,648            |
| Other (corporate) operating expenses  | (48,005)         |
| Finance income  | 25,575           |
| Finance expense   | (1,018,912)      |
| Income tax expense  | (146,869)        |
| <b>Net profit</b>   | <b>1,182,668</b> |

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Notes to the consolidated financial statements (continued)

## **28. Subsequent events**

In 2018, Obuv Rossii Group plans a reorganization to strengthen its financial position and obtain more solid status on the market where it operates. Reorganization of Obuv Rossii Group mainly includes merger of OJSC OR and Obuv Rossii LLC, which will comprise several stages and will result in the decrease in the number of legal entities of Obuv Rossii Group to six. In accordance with legislative requirements, Obuv Rossii LLC will be a legal successor of all entities, which will merge with Obuv Rossii LLC, in terms of all rights and liabilities.