X5 Retail Group N.V.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

01 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2018 the Group operated a retail chain of 14,431 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2017: 12,121 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"), with the following number of stores:

	31 December 2018	31 December 2017
"Perekrestok" – Supermarket		
Central FD	449	389
Volga FD	119	107
North-western FD	98	65
Ural FD	42	40
Southern FD	43	28
Northern Caucasus	9	9
TOTAL	**760**	**638**
"Pyaterochka" – Proximity stores		
Central FD	5,279	4,607
Volga FD	3,676	3,038
North-western FD	1,552	1,333
Ural FD	1,120	951
Southern FD	1,174	841
Siberian FD	479	277
Northern Caucasus	242	178
TOTAL	**13,522**	**11,225**
"Karusel" – Hypermarket		
Central FD	39	37
Volga FD	25	24
North-western FD	18	18
Ural FD	6	8
Southern FD	5	5
Northern Caucasus	1	1
TOTAL	**94**	**93**
"Perekrestok Express" – Express	**55**	**165**
TOTAL STORES	**14,431**	**12,121**

As at 31 December 2018 the principal shareholder exerting significant influence over the Company is CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 31 December 2018 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 21).

In 2018 X5 Retail Group N.V. has issued a liability statement as mentioned in article 403 sub 2 of Book 2 of the Dutch Civil Code regarding its subsidiary X5 Finance B.V. In compliance with these and other conditions as included in article 403, the financial statements of the X5 Finance B.V. for the year ended 31 December 2018 will be prepared on a condensed basis and will not be audited.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union and with Part 9 Book 2 of the Dutch Civil Code.

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

On 19 March 2019, the Management Board authorised the consolidated financial statements for issue. Publication is on 20 March 2019.

2.2 Basis of consolidation

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

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

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

2.3 Foreign currency translation and transactions

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.4 Segment reporting

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.6 Investment property

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

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Transfers are made to (or from) investment property only when there is a change in use. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 40-50 years.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Fair value determined for the disclosure purposes (Note 11) represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The measurement is classified in level 3 of the fair value hierarchy.

2.7 Intangible assets

(a) Goodwill

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

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

(b) Lease rights

Lease rights represent:

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

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

(c) Brand and private labels

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

	Useful lives
Private labels	1-8 years

(d) Software and other intangible assets

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

(e) Impairment of intangible assets

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

2.8 Operating leases

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

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

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

2.9 Inventories

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

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

2.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

The Group classifies its financial assets as those to be measured subsequently at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification depends on the financial asset's contractual cash flow characteristics and the business model for managing the financial assets.

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.24 (a) Revenue from contracts with customers.

Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments) is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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 recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(b) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings. For more information refer to Note 2.11 and Note 2.12.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled 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 recognised in the statement of profit or loss.

2.11 Borrowings

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

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

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

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

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the effective interest ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

2.12 Trade and other payables

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

2.13 Cash and cash equivalents

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

2.14 Provisions

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

2.15 Value added tax

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

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

2.16 Employee benefits

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

2.17 Share-based payments

Employee stock plan

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

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.18 Share capital

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

2.19 Dividends

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

2.20 Treasury shares

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

2.21 Earnings per share

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

2.22 Taxes

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

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

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

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

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

2.23 Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 33.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.24 Income and expense recognition

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

(a) Revenue from contracts with customers

The Group is in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents) acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of goods and services is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods.

The Group has loyalty points programmes, which allow customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

(b) Cost of sales

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

02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(c) Interest income and expense

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

(d) Selling, general and administrative expenses

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

2.25 Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.26 Impairment of non-current assets other than goodwill

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

2.27 Fair value of assets and liabilities at the acquisition date

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

2.28 Indemnification asset

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

2.29 Offsetting of financial assets and financial liabilities

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

03 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12.

Identifying a business combination

The Group enters into transactions to acquire integrated set of assets and operations of retail stores. The Group determines whether such transactions represent a business combination or assets acquisitions. The Group treats such transactions as business combinations when the integrated set of activities and assets acquired is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the Group. In making this judgment the Group considers whether it acquired inputs and processes applied to the inputs that have ability to create output. All acquisitions of assets and operations of retail stores occurred in 2018 and 2017 were treated by the Group as business combinations.

Litigations

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

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 34).

Deferred tax assets and liabilities

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

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

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

Property, plant and equipment

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

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. The Group performs assets impairment testing (Note 10). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2018 the Group recognised an impairment loss in the amount of RUB 4,117 (year ended 31 December 2017: a net impairment loss in the amount of RUB 5,311).

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CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Investment property

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

The Group periodically assesses whether there is any indication that investment property may be impaired. The Group performs assets impairment testing (Note 11). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2018 the Group recognised a net impairment gain in the amount of RUB 72 (year ended 31 December 2017: a net impairment gain in the amount of RUB 1,007).

Lease rights

The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of such lease rights is based on the estimate of the market rates of the lease (Note 13). The Group periodically assesses whether there is any indication that lease rights may be impaired. The Group performs assets impairment testing (Note 13). The Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2018 the Group recognised a net impairment gain in the amount of RUB 36 (year ended 31 December 2017: a net impairment gain in the amount of RUB 178).

Inventories of goods for resale provisions

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

Revenue recognition – Loyalty programmes

The Group estimates the amount of obligations related to customer loyalty programmes by allocating transaction price to loyalty points based on the standalone selling price of the points. The standalone selling price of the points is reduced for the expected amount of the points that will expire unredeemed.

The Group estimates the stand-alone selling price of the loyalty points awarded under loyalty programmes. The stand-alone selling price of the loyalty points issued is calculated by multiplying to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated monthly and the liability for the unredeemed points is adjusted accordingly. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any product eligible for redemption divided by number of points required).

Points issued under the loyalty programmes normally expires in twelve months from their recognition. However due to periodic changes in customer redemption patterns estimates of the stand-alone selling price are subject to significant uncertainty.

Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2018, the estimated liability for unredeemed points was 1,489 (31 December 2017: RUB 1,665).

Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and other receivables are written-off if past due for more than 3 years and are no subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 16.

Brand and private labels

The Group periodically assesses whether there is any indication that brand and private labels may be impaired. The Group performs assets impairment testing of brands with indefinite useful lives at least annually (Note 13). The Group estimates the recoverable amount of the asset and if it is less than the carrying amount an impairment loss is recognised in the consolidated statement of profit or loss. For the year ended 31 December 2018 the Group recognised impairment in the amount of RUB Nil (year ended 31 December 2017: RUB Nil).

04 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2018. Standards, Interpretations and amendments other than those described below effective 1 January 2018 did not have a material impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group currently does not apply hedge accounting due to the absence of hedging relationships.

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. As a result of the change in accounting policy financial assets were classified as those to be measured subsequently at amortised cost and with no need for retrospective adjustments due to absence of changes in classification of assets measured at amortised cost. The Group has applied IFRS 9 retrospectively (full retrospective approach), with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables. The provision under IFRS 9 did not differ significantly from the provision assessed under previous accounting policy and the Group did not make retrospective adjustments.

For other financial assets the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

As a result of IFRS 9 adoption the Group changed presentation of its consolidated statement of profit or loss by reclassification of net impairment losses on financial assets of RUB 501 out of selling, general and administrative expenses, where these losses were included in previous periods (2017: RUB 230). The Group also amended comparative information in the consolidated statement of profit or loss to reflect this change.

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ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it is applied to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transition provisions of IFRS 15 the Group has elected full retrospective method of adoption. There are no significant changes from application of IFRS 15 except for the following reclassifications of deferred revenue and advances received from customers to contract liabilities described below.

The following table shows the reclassification adjustments recognised for each individual line item as a result of IFRS 15 adoption.

	31 December 2017 as originally presented	IFRS 15 Reclassification adjustments	31 December 2017 as restated
Consolidated statement of financial position			
Long-term deferred revenue	5	(5)	–
Short-term deferred revenue	1,701	(1,701)	–
Provisions and other liabilities	70,757	(114)	70,643
Long-term contract liabilities	–	5	5
Short-term contract liabilities	–	1,815	1,815

	2017 as originally presented	IFRS 15 Reclassification adjustments	2017 as restated
Consolidated statement of cash flows			
Increase in other accounts payable	9,374	(9,374)	–
Increase in other accounts payable and contract liabilities	–	9,374	9,374

	1 January 2017 as originally presented	IFRS 15 Reclassification adjustments	1 January 2017 as restated
Consolidated statement of financial position			
Long-term deferred revenue	8	(8)	–
Short-term deferred revenue	282	(282)	–
Provisions and other liabilities	48,742	(107)	48,635
Long-term contract liabilities	–	8	8
Short-term contract liabilities	–	389	389

The Group operates loyalty points programmes, which allow customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to adoption of IFRS 15, loyalty programmes offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative standalone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programmes were insignificantly different from the previous accounting policy. The deferred revenue related to these loyalty points programmes was reclassified to Contract liabilities.

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

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
Amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*	1 January 2019*
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019*
Amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*	1 January 2019*
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020*
Amendment to IFRS 3 *Business Combinations*	1 January 2020*
Amendments to IAS 1 and IAS 8 – *Definition of Material*	1 January 2020*
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*	1 January 2019
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021*

* Subject to EU endorsement.

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, the Group will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

The Group will make a transition to IFRS 16 using the modified retrospective approach. Under this approach the prior year figures will not be adjusted and both lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16.

For leases previously classified as an operating lease applying IAS 17 at the date of transition to IFRS 16 the Group will measure these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. For leases previously classified as an operating lease applying IAS 17 the Group at the date of transition to IFRS 16 will on a lease-by-lease basis measure right-of-use assets at either:

(i) Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the Group's applicable incremental borrowing rate at the date of transition to IFRS 16; or

(ii) An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of transition to IFRS 16.

The Group has elected to use the following practical expedients proposed by the standard:

- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 will only be applied to contracts that were previously classified as leases;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component;
- Lease payments for contracts with a duration of 12 months or less for the classes of underlying assets other than land and buildings will continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term.

IFRS 16 will have a material effect on components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations of the Group. The analysis performed on the initial application of

04 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

the standard indicates that the amount of lease liabilities and right-of-use assets that will be probably recognised as a result of the transition falls in the range of 410 - 460 bln RUB. The difference between the amount of lease liability and right-of-use assets will be reflected as a decrease in equity. Annual operating lease expenses and associated non-lease charges, which would have been recognised under existing accounting standards, will be replaced by depreciation and interest expense, which is higher on an initial stage of a lease decreasing over its term, so that a material impact on profit before tax is expected in the year of transition.

As disclosed in Note 34 at 31 December 2018 the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

05 SEGMENT REPORTING

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

The following significant operating functions are decentralised by formats:

- Category management, including purchasing, pricing, assortment management, promotion management;
- Distribution centres logistics;
- Development function.

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

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

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

The segment information for the year ended 31 December 2018, comparative figures for earlier periods and reconciliation of EBITDA to profit for the year is provided as follows:

Year ended 31 December 2018	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate centre	Total
Revenue	**1,200,457**	**232,490**	**92,458**	**7,132**	–	**1,532,537**
EBITDA	**92,910**	**15,550**	**4,423**	**(235)**	**(5,020)**	**107,628**
Depreciation, amortisation and impairment						**(49,474)**
Operating profit						**58,154**
Finance cost, net						**(18,667)**
Net foreign exchange result						**(447)**
Profit before income tax						**39,040**
Income tax expense						**(10,398)**
Profit for the year						**28,642**
Capital expenditure	60,863	16,869	3,914	5	2,017	**83,668**
31 December 2018						
Inventories	88,923	16,609	10,063	395	–	**115,990**

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

06

SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2018 and 31 December 2017 are as follows:

			Ownership (%)	
Company	Country	Nature of operations	31 December 2018	31 December 2017
Agrotorg LLC	Russia	Retailing	100	100
Trade House PEREKRIOSTOK JSC	Russia	Retailing	100	100
Agroaspect LLC	Russia	Retailing	100	100
X5 Nedvizhimost CJSC	Russia	Assets holding company	100	100
KOPEYKA-MOSCOW Ltd.	Russia	Retailing	100	100
Krasnoborskoe LLC	Russia	Assets holding company	100	100
PEREKRESTOK HOLDINGS Ltd.	Gibraltar	Holding company	100	100
PEREKRIOSTOK-2000 LLC	Russia	Assets holding company	100	100
ALPEGRU RETAIL PROPERTIES Ltd.	Cyprus	Assets holding company	100	100
Beta Estate LLC	Russia	Assets holding company	100	100
SPEAK GLOBAL Ltd.	Cyprus	Assets holding company	100	100
X5 FINANSE LLC	Russia	Bond issuer	100	100
X5 Finance B.V.	The Netherlands	Bond issuer	100	100
Agro-Avto LLC	Russia	Assets holding company	100	100

07

ACQUISITION OF BUSINESSES

Acquisitions in 2018

In 2018 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

In the year ended 31 December 2018 the acquired businesses contributed revenue of RUB 8,320 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. The businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2018 as though the acquisition date had been the beginning of that period.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 10)	805
Other intangible assets (Note 13)	88
Deferred tax assets (Note 29)	896
Trade, other accounts receivable and prepayments	63
VAT and other taxes receivable	71
Cash and cash equivalents	28
Deferred tax liabilities (Note 29)	(47)
Provisions and other liabilities	(72)
Net assets acquired	**1,832**
Goodwill (Note 12)	4,351
Purchase consideration	**6,183**
Net cash outflow arising from the acquisition	**4,982**

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

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 5,010 and RUB 1,173 as deferred consideration. During 12 months ended 31 December 2018 the Group transferred RUB 9,542 as deferred payments for prior period's acquisitions.

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

Acquisitions in 2017

In 2017 the Group acquired 100% of several businesses of other retail chains in Russian regions.

In the year ended 31 December 2017 the acquired businesses contributed revenue of RUB 8,742 from the date of acquisition. The businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2017 as though the acquisition date had been the beginning of that period.

At 31 December 2017 the Group assigned provisional fair values to net assets acquired, in estimating provisional fair values of acquired assets. In 2018 the Group completed the purchase price allocation, which resulted in the following changes in fair values at the acquisition date:

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 10)	3,246
Other intangible assets (Note 13)	161
Other non-current assets	895
Deferred tax assets (Note 29)	879
Trade, other accounts receivable and prepayments	51
VAT and other taxes receivable	165
Cash and cash equivalents	5
Provisions and other liabilities	(23)
Net assets acquired	**5,379**
Goodwill (Note 12)	10,193
Purchase consideration	**15,572**
Net cash outflow arising from the acquisition	**6,467**

The purchase consideration for the prior period comprised the transfer of cash and cash equivalents of RUB 6,472 and RUB 9,100 as deferred consideration.

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

08

RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2018 are provided below. The ownership structure is disclosed in Note 1.

The following transactions were carried out with related parties:

	Relationship	2018	2017
CTF Holdings S.A.	Entity with significant influence over the Company		
Management services received		128	93
Other	Under control by the entity with significant influence over the Company		
Purchases from related parties		2,482	1,831
Insurance expenses		417	339
Other operating expenses		3	2
Bonuses from related parties		117	66
Other	Other		
Other operating expenses		16	1

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

	Relationship	31 December 2018	31 December 2017
CTF Holdings S.A.	Entity with significant influence over the Company		
Other accounts payable		83	–
Other	Under control by the entity with significant influence over the Company		
Trade accounts payable		394	298
Other accounts payable		1	1
Trade accounts receivable		23	19
Other receivables and prepayments from related parties		50	2

Key management personnel compensation

Key management personnel compensation is disclosed in Note 27.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2018 and 2017, the Group did not record any impairment of receivables relating to amounts owed by related parties.

09

CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank current account – Roubles	2,518	12,120
Cash in transit – Roubles	16,523	11,750
Cash in hand – Roubles	5,327	3,063
Deposits – Euros	–	653
Deposits – US dollars	–	19
TOTAL	**24,368**	**27,605**

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

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

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

Bank	Moody's	Fitch	S&P	31 December 2018	31 December 2017
Alfa-Bank	Ba2	BB+	BB+	945	1,123
Sberbank	Ba1	BBB-	–	1,533	10,978
Russian Regional Development Bank	Ba1/NP	–	–	–	374
Russian Agricultural Bank	Ba2	BB+	–	–	279
Gazprombank	Ba2	BB+	BB+	28	24
Vneshtorgbank	Ba1	–	BBB-	10	–
Other banks				2	14
Cash in transit and in hand				21,850	14,813
TOTAL				**24,368**	**27,605**

10

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress*	Total
Cost							
At 1 January 2017	**207,961**	**31,242**	**38,237**	**11,930**	**25,989**	**10,955**	**326,314**
Additions	–	–	–	–	–	80,783	80,783
Transfers	41,288	11,854	11,745	5,774	10,520	(81,181)	–
Transfers to investment property (Note 11)	(267)	–	–	–	–	–	(267)
Assets from acquisitions (Note 7)	–	27	37	–	91	3,091	3,246
Disposals	(10,016)	(2,790)	(2,446)	(1,046)	(1,942)	(48)	(18,288)
At 31 December 2017	**238,966**	**40,333**	**47,573**	**16,658**	**34,658**	**13,600**	**391,788**
Additions	–	–	–	–	–	72,089	72,089
Transfers	38,185	10,144	11,797	6,372	11,531	(78,029)	–
Transfers to investment property (Note 11)	(986)	–	–	–	–	–	(986)
Assets from acquisitions (Note 7)	452	78	57	–	6	212	805
Disposals	(2,035)	(3,037)	(2,391)	(1,457)	(1,953)	(299)	(11,172)
At 31 December 2018	**274,582**	**47,518**	**57,036**	**21,573**	**44,242**	**7,573**	**452,524**
Accumulated depreciation and impairment							
At 1 January 2017	**(52,623)**	**(11,847)**	**(11,671)**	**(4,441)**	**(12,608)**	**(808)**	**(93,998)**
Depreciation charge	(12,655)	(5,091)	(5,215)	(1,983)	(6,292)	–	(31,236)
Impairment charge	(6,908)	(787)	(747)	(34)	(266)	(130)	(8,872)
Reversal of impairment	3,611	–	–	–	–	(50)	3,561
Transfers	(580)	(12)	3	–	33	556	–
Transfers to investment property (Note 11)	122	–	–	–	–	–	122
Disposals	9,871	2,736	2,413	615	1,922	6	17,563
At 31 December 2017	**(59,162)**	**(15,001)**	**(15,217)**	**(5,843)**	**(17,211)**	**(426)**	**(112,860)**
Depreciation charge	(18,840)	(6,332)	(6,527)	(2,468)	(8,309)	–	(42,476)
Impairment charge	(5,795)	(597)	(489)	–	(131)	(576)	(7,588)
Reversal of impairment	3,303	–	–	49	–	119	3,471
Transfers to investment property (Note 11)	20	–	–	–	–	–	20
Disposals	1,982	2,884	2,332	1,374	1,928	211	10,711
At 31 December 2018	**(78,492)**	**(19,046)**	**(19,901)**	**(6,888)**	**(23,723)**	**(672)**	**(148,722)**
Net book value at 31 December 2018	**196,090**	**28,472**	**37,135**	**14,685**	**20,519**	**6,901**	**303,802**
Net book value at 31 December 2017	**179,804**	**25,332**	**32,356**	**10,815**	**17,447**	**13,174**	**278,928**
Net book value at 1 January 2017	**155,338**	**19,395**	**26,566**	**7,489**	**13,381**	**10,147**	**232,316**

* This category also includes machinery and equipment, refrigerating equipment, vehicles and other items of property, plant and equipment not yet put into use.

Depreciation charge, impairment charge and reversal of impairment were included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2018 and 31 December 2017.

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

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 34). No loans were collateralised by land and buildings including investment property as of 31 December 2018.

Impairment test

At the end of 2018 management performed an impairment test of property, plant and equipment, lease rights and investment property. The approach for determination of the recoverable amount of an asset was different for each class of property, plant and equipment, lease rights and investment property.

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

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

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

Fair value less costs of disposal

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

Value in use

For property, plant and equipment, lease rights and investment property the discounted future cash flow approach is applied and covers a 10-year period from 2019 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan is extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4% to 6.38% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2017: 4% to 7.9%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2018 is used (31 December 2017: 4%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 14.46% (31 December 2017: 13.9%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions. If the revised estimated discount rate consistently applied to the discounted cash flows had been 200 b.p. higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment, investment property and intangible assets by RUB 1,738 (31 December 2017: RUB 1,449), if 200 b.p. lower – increase by RUB 1,620 (31 December 2017: RUB 1,589). If the annual revenue growth rate used in calculations of value in use had been 200 b.p. higher, the Group would need to increase the carrying value of property, plant and equipment, investment property and intangible assets by RUB 2,879 (31 December 2017: RUB 2,765), lower – decrease by RUB 3,904 (31 December 2017: RUB 3,261).

11

INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2018 and 31 December 2017:

	2018	2017
Cost		
Cost at 1 January	**8,916**	**8,684**
Transfer from fixed assets	986	267
Disposals	(510)	(35)
Cost at 31 December	**9,392**	**8,916**
Accumulated depreciation and impairment		
Accumulated depreciation and impairment at 1 January	**(3,428)**	**(4,094)**
Depreciation charge	(219)	(254)
Impairment charge	(64)	(292)
Reversal of impairment	136	1,299
Transfer from fixed assets	(20)	(122)
Disposals	376	35
Accumulated depreciation and impairment at 31 December	**(3,219)**	**(3,428)**
Net book value at 31 December	**6,173**	**5,488**
Net book value at 1 January	**5,488**	**4,590**

Depreciation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2018 and 31 December 2017.

Rental income from investment property amounted to RUB 1,591 (2017: RUB 1,365). Direct operating expenses incurred by the Group in relation to investment property amounted to RUB 686 (2017: RUB 604). There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income.

Management estimates that the fair value of investment property at 31 December 2018 amounted to RUB 9,760 (31 December 2017: RUB 9,701). The fair value was estimated using market approach with key inputs being rent income rates and market value of comparable assets.

Impairment test

At the end of 2018 management performed an impairment test of investment property. The evaluation performed and reasons for it are consistent with the approach for impairment testing of Property, Plant and Equipment (Note 10).

12

GOODWILL

Movements in goodwill arising on the acquisition of businesses at 31 December 2018 and 31 December 2017 are:

	2018	2017
Cost		
Gross book value at 1 January	**156,874**	**146,681**
Acquisition of businesses (Note 7)	4,351	10,193
Gross book value at 31 December	**161,225**	**156,874**
Accumulated impairment losses		
Accumulated impairment losses at 1 January	**(66,598)**	**(66,312)**
Impairment charge	–	(286)
Accumulated impairment losses at 31 December	**(66,598)**	**(66,598)**
Carrying amount at 1 January	**90,276**	**80,369**
Carrying amount at 31 December	**94,627**	**90,276**

Goodwill impairment test

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

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

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

Year ended 31 December 2018	Pyaterochka	Perekrestok	Karusel	Other	Total
Goodwill	74,122	15,955	4,550	–	94,627

Year ended 31 December 2017	Pyaterochka	Perekrestok	Karusel	Other	Total
Goodwill	70,426	15,300	4,550	–	90,276

Value in use

For items of land, buildings and construction in progress the discounted future cash flow approach is applied and covers a 10-year period from 2019 onwards. The Group believes that use of 10 year forecast better reflects expected future cash flows of its cash generating units due to cyclical nature of their renovation expenditures. The future cash flows are based on the current budgets and forecasts approved by the management. For the forecast period, the data of the strategic business plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. One of the main assumptions used for the forecast period is revenue growth being in the range from 4% to 6.38% in accordance with the internal forecasts based on budget and consumer price index projections (31 December 2017: 4% to 7.9%). For the years beyond the forecast period the long term consumer price index forecast of 4% at 31 December 2018 is used (31 December 2017: 4%). The projections are made in the functional currency of the Group's entities, being Russian Rouble, on a pre-tax basis and discounted at the Group pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets (cash-generating units (CGUs)) – 14.46% (31 December 2017: 13.9%). Inflation rates are in line with the consumer price index forecast published by the Ministry of Economic Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

The changes in assumptions applied in the model used for impairment testing do not indicate any trigger for impairment because the fair value less cost of disposal and the value in use are significantly higher than the carrying values of the cash generating unit assets.

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

Impairment test

The recoverable amount of the groups of CGUs calculated exceeds their carrying amounts and therefore no impairment was recognised for them during the year ended 31 December 2018 (year ended 31 December 2017: impairment loss of RUB 286).

13

OTHER INTANGIBLE ASSETS

Other intangible assets comprise the following:

	Brand and private labels	Software and other	Lease rights	Total
Cost				
At 1 January 2017	**17,136**	**10,775**	**12,765**	**40,676**
Additions	–	3,821	437	4,258
Acquisition of businesses (Note 7)	–	–	161	161
Disposals	–	(15)	(82)	(97)
At 31 December 2017	**17,136**	**14,581**	**13,281**	**44,998**
Additions	–	6,178	157	6,335
Acquisition of businesses (Note 7)	–	–	88	88
Disposals	(293)	(70)	(370)	(733)
At 31 December 2018	**16,843**	**20,689**	**13,156**	**50,688**
Accumulated amortisation and impairment				
At 1 January 2017	**(11,790)**	**(4,286)**	**(8,220)**	**(24,296)**
Amortisation charge	(26)	(1,596)	(737)	(2,359)
Impairment charge	–	(174)	(358)	(532)
Reversal of impairment	–	–	536	536
Disposals	–	15	80	95
At 31 December 2017	**(11,816)**	**(6,041)**	**(8,699)**	**(26,556)**
Amortisation charge	(19)	(2,068)	(672)	(2,759)
Impairment charge	–	(11)	(274)	(285)
Reversal of impairment	–	–	310	310
Disposals	293	70	365	728
At 31 December 2018	**(11,542)**	**(8,050)**	**(8,970)**	**(28,562)**
Net book value at 31 December 2018	**5,301**	**12,639**	**4,186**	**22,126**
Net book value at 31 December 2017	**5,320**	**8,540**	**4,582**	**18,442**
Net book value at 1 January 2017	**5,346**	**6,489**	**4,545**	**16,380**

Brand and private labels includes brand “Pyaterochka” with the carrying amount of RUB 4,029 (31 December 2017: RUB 4,029) and brand “Karusel” with the carrying amount of RUB 1,258 (31 December 2017: RUB 1,258).

Amortisation charge, impairment charge and reversal of impairment are included in selling, general and administrative expenses in the consolidated statement of profit or loss for the years ended 31 December 2018 and 31 December 2017.

Impairment test

At the end of 2018 management performed an impairment test of lease rights and brands.

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

Also the Group recognised an impairment of software which was no longer used.

14

INVENTORIES

At 31 December 2018 inventories in the amount of RUB 115,990 were accounted at the lower of cost and net realisable value (31 December 2017: RUB 99,300). Write-off of inventory to net realisable value at 31 December 2018 amounted to RUB 2,274 (31 December 2017: RUB 1,986).

15 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost
31 December 2018	
Assets as per consolidated statement of financial position	
Trade and other receivables excluding prepayments	10,900
Cash and cash equivalents	24,368
TOTAL	**35,268**

	Financial liabilities at amortised cost
31 December 2018	
Liabilities as per consolidated statement of financial position	
Borrowings	207,764
Interest accrued	1,770
Trade, other current and non-current payables excluding statutory liabilities and advances	208,758
TOTAL	**418,292**

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

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

16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2018	31 December 2017
Trade accounts receivable	10,218	11,770
Other receivables	1,780	1,912
Allowance for expected credit losses of trade and other receivables	(1,098)	(1,468)
Total trade and other accounts receivable	**10,900**	**12,214**
Prepayments	3,310	3,567
Advances made to trade suppliers	589	445
Allowance for impairment of prepayments and advances	(627)	(695)
Total prepayments	**3,272**	**3,317**
TOTAL	**14,172**	**15,531**

16 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

The carrying amounts of the Group's trade and other receivables were primarily denominated in Russian Roubles. Trade receivables and other receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Other non-current assets were mainly represented by long-term prepayments for rent in the amount of RUB 7,661 (31 December 2017: RUB 7,375).

Trade receivables

Trade receivables are mainly bonuses from suppliers of goods for resale with a low historic default rate. The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Expected credit loss rate at 31 December 2018	Estimated total gross carrying amount at default 31 December 2018	Expected credit loss 31 December 2018	Expected credit loss rate at 31 December 2017	Estimated total gross carrying amount at default 31 December 2017	Expected credit loss 31 December 2017
Not overdue – 1 month	1.27%	9,422	120	1.21%	10,009	121
1-6 months	25.28%	269	68	4.08%	857	35
6-12 months	67.13%	216	145	35.56%	180	64
Over 1 year	69.13%	311	215	64.64%	724	468
TOTAL		**10,218**	**548**		**11,770**	**688**

Movements on the allowance for expected credit losses of trade receivables were as follows:

	2018	2017
At 1 January	**(688)**	**(912)**
Addition of allowance for expected credit losses	(417)	(235)
Release of allowance for expected credit losses	41	92
Trade receivables written off as uncollectable	516	367
At 31 December	**(548)**	**(688)**

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

Other receivables

The maximum exposure to credit risk at the reporting date was the carrying amount of each class of receivable. The Group did not hold any collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Expected credit loss rate at 31 December 2018	Estimated total gross carrying amount at default 31 December 2018	Expected credit loss 31 December 2018	Expected credit loss rate at 31 December 2017	Estimated total gross carrying amount at default 31 December 2017	Expected credit loss 31 December 2017
Not overdue – 1 month	7.91%	860	68	7.64%	785	60
1-6 months	10.19%	265	27	21.20%	368	78
6-12 months	45.05%	182	82	85.21%	142	121
Over 1 year	78.86%	473	373	84.44%	617	521
TOTAL		**1,780**	**550**		**1,912**	**780**

Movements on the allowance for expected credit losses of other receivables were as follows:

	2018	2017
At 1 January	**(780)**	**(894)**
Addition of allowance for expected credit losses	(437)	(329)
Release of allowance for expected credit losses	312	199
Other receivables written off as uncollectable	355	244
At 31 December	**(550)**	**(780)**

The creation and release of the allowance for expected credit losses have been included in net impairment losses on financial assets in the consolidated statement of profit or loss.

Prepayments and advances made to trade suppliers

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

	2018	2017
At 1 January	**(695)**	**(683)**
Addition of allowance for prepayments and advances to trade suppliers impairment	(438)	(453)
Release of allowance for prepayments and advances to trade suppliers impairment	222	161
Prepayments and advances to trade suppliers written off as uncollectable	284	280
At 31 December	**(627)**	**(695)**

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

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

17 VAT AND OTHER TAXES RECEIVABLE

	31 December 2018	31 December 2017
VAT receivable	9,856	13,924
Other taxes receivable	287	423
TOTAL	**10,143**	**14,347**

18 PROVISIONS AND OTHER LIABILITIES

	31 December 2018	31 December 2017 Restated
Other accounts payable and accruals	18,545	24,725
Accrued salaries and bonuses	19,194	15,386
Accounts payable for property, plant and equipment	13,823	15,228
Taxes other than income tax	16,488	11,804
Advances received	1,773	1,638
Payables to landlords	1,780	1,368
Provisions and liabilities for tax uncertainties (Note 34)	133	494
TOTAL	**71,736**	**70,643**

There were no significant amounts of other payables to foreign counterparties as at 31 December 2018 and 31 December 2017.

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CONTRACT LIABILITIES

	31 December 2018	31 December 2017
Short-term contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,489	1,665
Advances received from wholesales customers	54	41
Advances received from other customers	121	109
TOTAL SHORT-TERM CONTRACT LIABILITIES	**1,664**	**1,815**

Movements in short-term contract liabilities related to loyalty programmes comprise the following:

	2018	2017
At 1 January	**1,665**	**236**
Deferred during the year	1,489	1,665
Recognised as revenue during the year	(1,665)	(236)
At 31 December	**1,489**	**1,665**

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BORROWINGS

The Group had the following borrowings at 31 December 2018 and 31 December 2017:

	Final maturity year*	Fair value		Carrying value	
Current		2018	2017	2018	2017
RUB Bonds X5 Finance series BO-04	2019	5,250	–	4,999	–
RUB Bonds X5 Finance series BO-05		–	5,100	–	4,998
RUB Bonds X5 Finance series BO-06	2019	5,025	–	4,999	–
RUB Bonds X5 Finance series BO-07	2019	5,004	–	5,000	–
RUB Bonds X5 Finance series 001P-01	2019	15,072	–	14,994	–
RUB Bilateral Loans	2019	30,443	53,676	30,443	53,676
Total current borrowings		**60,794**	**58,776**	**60,435**	**58,674**

	Final maturity year*	Fair value		Carrying value	
Non-current		2018	2017	2018	2017
RUB Bonds X5 Finance series BO-04		–	5,243	–	4,996
RUB Bonds X5 Finance series BO-05	2021	410	–	390	–
RUB Bonds X5 Finance series BO-06		–	5,002	–	4,996
RUB Bonds X5 Finance series BO-07		–	5,095	–	4,995
RUB Bonds X5 Finance series 001P-01		–	15,480	–	14,987
RUB Bonds X5 Finance series 001P-02	2020	10,000	10,135	9,990	9,985
RUB Bonds X5 Finance series 001P-03	2020	9,908	–	9,988	–
RUB Eurobond X5 Finance B.V.	2020	20,092	20,490	19,937	19,872
RUB Bilateral Loans	2021	103,254	76,571	107,024	75,791
Total non-current borrowings		**143,664**	**138,016**	**147,329**	**135,622**
TOTAL BORROWINGS		**204,458**	**196,792**	**207,764**	**194,296**

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

In March 2018 the Group issued RUB 10,000 exchange–registered corporate bonds series 001P-03 with 6.95% coupon rate and 2-years oferta (put-option).

In September 2018 the Group successfully passed the oferta on the exchange-registered corporate bonds series BO-05 in the amount of RUB 5.0 bln and bought back RUB 4.6 bln from the issue. For the remaining RUB 0.4 bln the new annual rate for the next 6 semi-annual coupons was fixed at 6.95%.

The weighted average effective interest rate on X5's total borrowings for the year ended 31 December 2018 comprised 8.39% per annum (year ended 31 December 2017: 9.51%).

All borrowings at 31 December 2018 are shown net of related transaction costs of RUB 166 which are amortised over the term of the loans using the effective interest method (31 December 2017: RUB 303). Borrowing costs capitalised for the year ended 31 December 2018 amounted to RUB 314 (for year ended 31 December 2017: RUB 338). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was approximate to weighted average effective interest rate for the period.

Change in total borrowings in amount of RUB 13,468 in 2018 equals to the proceeds from borrowings in amount of RUB 108,054, repayment of borrowings in amount of RUB 94,810 (the Condensed Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 210 and other non-cash changes of RUB 14. Change in total borrowings in amount of RUB 38,263 in 2017 equals to the proceeds from borrowings in amount of RUB 100,780, repayment of borrowings in amount of RUB 62,700 (the Consolidated Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 183.

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt / EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. At 31 December 2018 the Group complied with this covenant and Net Debt / EBITDA was equal to 1.70 (31 December 2017: 1.73).

21 SHARE CAPITAL

As at 31 December 2018 the Group had 190,000,000 authorised ordinary shares (31 December 2017: 190,000,000) of which 67,890,099 ordinary shares were outstanding (31 December 2017: 67,886,748) and 3,119 ordinary shares were held as treasury stock (31 December 2017: 6,470). The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2018 have been paid in the amount of RUB 21,590 during the year ended 31 December 2018 (RUB 318.00 per share).

The Supervisory Board proposed to the General Meeting to distribute in 2019 current year profit in the amount of RUB 25,000 (368.23 RUB per ordinary share) to shareholders.

22 EARNINGS PER SHARE

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

Earnings per share were calculated as follows:

	2018	2017
Profit attributable to equity holders of the parent	28,642	31,394
Weighted average number of ordinary shares in issue	67,888,863	67,885,831
Effect of share options granted to employees, number of shares	4,533	12,944
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,893,396	67,898,775
Basic earnings per share for profit (expressed in RUB per share)	**421.90**	**462.45**
Diluted earnings per share for profit (expressed in RUB per share)	**421.87**	**462.36**

23 REVENUE

	Pyaterochka	Perekrestok	Karusel	Other segments	2018 Total
Revenue from sale of goods through own stores (at a point of time)	1,188,207	229,689	90,818	5,577	1,514,291
Revenue from sale of goods through franchisees (at a point of time)	9,565	1,159	–	–	10,724
Revenue from wholesale of goods (at a point of time)	2,256	1,435	1,442	1,549	6,682
Revenue from other services (over time)	429	207	198	6	840
TOTAL	**1,200,457**	**232,490**	**92,458**	**7,132**	**1,532,537**

	Pyaterochka	Perekrestok	Karusel	Other segments	2017 Total
Revenue from sale of goods (at a point of time)	991,733	182,759	89,302	9,769	1,273,563
Revenue from sale of goods through franchisees (at a point of time)	9,209	4,177	–	–	13,386
Revenue from wholesale of goods (at a point of time)	3,234	1,430	1,161	1,707	7,532
Revenue from other services (over time)	230	135	145	17	527
TOTAL	**1,004,406**	**188,501**	**90,608**	**11,493**	**1,295,008**

24 EXPENSES BY NATURE

	2018	2017
Cost of goods sold	1,116,264	946,044
Staff costs (Note 27)	139,456	114,808
Operating lease expenses	80,745	64,472
Depreciation, amortisation	45,454	33,849
Impairment of non-current assets	4,020	4,586
Other store costs	23,996	20,201
Utilities	33,401	24,976
Net impairment losses on financial assets	501	230
Other	42,839	36,280
TOTAL	**1,486,676**	**1,245,446**

Operating lease expenses included RUB 76,956 (2017: RUB 61,967) of minimum lease payments and contingent rent of RUB 3,789 (2017: 2,505 RUB).

Impairment of prepayments amounted to RUB 216 for the year ended 31 December 2018 (2017: RUB 292).

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

	2018	2017
Statutory audit of financial statements performed by Ernst & Young Accountants LLP	16	12
Other assurance services performed by Ernst & Young Accountants LLP	–	11
Statutory audit of financial statements performed by Other EY Network	47	49
Other assurance services performed by Other EY Network	–	1
Non-audit services by Other EY Network	32	35
TOTAL	**95**	**108**

In addition to the statutory audit of the financial statements the EY member firm in Russia provided non-audit services in the areas of supply chain network design, retail pricing proof, business trainings and tax advisory. The external auditor of the Group is Ernst & Young Accountants LLP.

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LEASE/SUBLEASE AND OTHER INCOME

Lease/sublease and other income consists mainly of the income the Group receives from leasing part of its store space to companies selling supplementary goods and services to customers. The remaining part of other income comprises various kinds of individually insignificant income (for example income from sale of waste, net gain from disposal of property plant and equipment, insurance reimbursements, etc.).

The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease and sublease payments receivable under non-cancellable operating leases were as follows:

	31 December 2018	31 December 2017
Not later than 1 year	2,966	2,769
Later than 1 year and no later than 5 years	2,832	2,161
Later than 5 years	1,691	1,649
TOTAL	**7,489**	**6,579**

The rental income from operating leases recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 amounted to RUB 7,262 (2017: RUB 6,584). The contingent rents recognised in the consolidated statement of profit or loss in the year ended 31 December 2018 amounted to RUB 123 (2017: 113).

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FINANCE INCOME AND COSTS

	2018	2017
Interest expense	17,021	15,533
Interest income	(73)	(59)
Other finance costs, net	1,719	543
TOTAL	**18,667**	**16,017**

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STAFF COSTS

	2018	2017
Wages and salaries	108,753	89,385
Social security costs	30,631	25,352
Share-based payments expense	72	71
TOTAL	**139,456**	**114,808**

Wages and salaries in 2018 included expenses of RUB 2,128 related to the long-term incentive programme (LTI) for key employees, including members of the Management Board, other key management and other key employees (2017: RUB 2,470). In addition to the accrued amount the Group currently assesses the possible additional expenses attributable to the new LTI programme, that are more than remote, but for which no liability is required to be recognised under IFRS, as RUB 619.

Social security costs in 2018 included pension contributions amounted to RUB 20,422 (2017: RUB 16,555).

The number of employees as at 31 December 2018 amounted to 278,399 (31 December 2017: 250,874).

Key management personnel

The Group 'key management personnel' consists of members of the Supervisory Board and Management Board as well as 'other key personnel', i.e. all members of the Executive Board excluding the CEO. The total direct compensation for Executive Board members consists of a base salary, a performance related annual cash incentive (STI) and a performance related long-term cash incentive (LTI); members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

Management Board

The remuneration of the members of the Management Board, which comprises the CEO and the Company Secretary, is determined by the Supervisory Board within the framework of the remuneration policy as approved by the General Meeting of Shareholders. More details about the remuneration policy are included in the "Remuneration" section on pages 221-225.

Base salaries in 2018

In 2018 the Supervisory Board reviewed and approved an adjustment within the total remuneration package of the members of the Executive Board, based on a base salary benchmarking analysis in combination with the introduction of a new long-term incentive plan designed to create greater balance between short- and long-term compensation. Accordingly, in line with compensation levels in peer group companies, Mr. Shekhterman's annual base salary was increased to RUB 70,000,000 (2017: RUB 42,000,000).

As disclosed when Mr. Shekhterman took office in 2015, his reward package does not include a severance entitlement and instead, he shall be entitled to a minimum annual compensation package of USD 4,000,000. Should the minimum annual compensation exceed the total annual remuneration based on fixed and variable components, Mr. Shekhterman shall be entitled to the difference upon completion of his full term as CEO.

Short-term incentive (STI) for 2018

For 2018 the Supervisory Board determined that 50% of the total on-target bonus opportunity for the CEO depends on achieving quantitative financial targets, and 50% on individual performance targets. Financial targets consist of elements related to the Company's operational performance, including EBITDA and return on investment (ROI), with a profitability threshold as a condition for STI payout. For the Company Secretary the STI is based on achievement of individual targets, also with a profitability threshold as a condition for STI payout. The on-target payout as a percentage of base salary is set at a level of 100% for the CEO, and 60% for the Company Secretary. As per 31 December 2018 all financial targets set for the CEO by the Supervisory Board were achieved above target within a 110% outperformance range. The achievement of all performance targets was assessed and determined by the Supervisory Board for each Management Board member individually, as reflected in the table below.

Long-term incentive (LTI)

The 2015-2018 LTI programme came to an end when targets under the second stage of the programme were achieved in 2017. Under the programme's deferred payout mechanism, 50% of the total award under the second stage was paid to participants in 2018, with final deferred payouts in 2019.

The Supervisory Board developed a next generation LTI programme that was approved by the General Meeting of Shareholders in 2018. The new LTI is a cash incentive programme over a three-year period until 31 December 2020, with an extension component of deferred, conditional payouts in order to maintain focus on long-term goals and to provide for an effective retention mechanism. Targets under the new LTI are structured to align the long-term interests of shareholders and management, with a focus on maintaining leadership in terms of revenue and enterprise value multiple relative to competition. The total available fund for all payouts under the new LTI programme is capped at 5% of average EBITDA during the three-year period of the programme. More details on the new LTI can be found in the "Remuneration" section on pages 221-225.

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

Name	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Share based compen-sation[4]	Social security cost[5]	Total
I. Shekhterman	2018	60	59	183	1	44	**347**
	2017	46	36	211	8	43	**344**
F. Lhoëst	2018	20	13	–	–	–	**33**
	2017	18	10	–	–	–	**28**
TOTAL	**2018**	**80**	**72**	**183**	**1**	**44**	**380**
	2017	**64**	**46**	**211**	**8**	**43**	**372**

[1] In 2018 Mr. Shekhterman's annual base salary was increased from RUB 42 million to RUB 70 million. The table reflects actual base salary amounts, including adjustments based on number of days spent on vacation, in accordance with Russian labour law.

[2] Short-term incentives are based on results achieved in 2018 and payable in 2019. The short-term incentive levels are based on full achievement of individual and group targets, resulting in payouts of 103% of base salary for Mr. Shekhterman (31 December 2017: 85%), and 58% of base salary for Mr. Lhoëst (31 December 2017: 55%).

[3] Targets under the second stage of the 2015-2018 LTI programme were achieved by Mr. Shekhterman in 2017. Under the programme's deferred payout mechanism, 50% of the total award under the second stage is payable in 2019.
For Mr. Shekhterman the expense recognised for the long-term incentive reward is composed of three elements: (i) accrual for the period 2018 with respect to the first payout under the second stage of the LTI programme, (ii) accrual for the period 2018 with respect to the second payout under the second stage of the LTI programme and (iii) an accrual based on the probability of achieving the targets under the new long-term incentive programme.

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

[5] For the year ended 31 December 2018 statutory pension contributions amounted to RUB 29 (2017: RUB 28).

27 STAFF COSTS

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

Name	Tranche	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016	Year of vesting	RSUs vested	Value on vesting date[1]	GDRs locked-up as per 31 December 2018[2]	End of lock-up period	RSUs outstanding as per 31 December 2018	RSUs outstanding as per 31 December 2017
I. Shekhterman	4	7,384	–	–	2016	7,384	9	–	2018	–	–
	5	–	15,793	–	2017	15,793	33	15,793	2019	–	–
	6	–	–	11,396	2018	11,396	21	11,396	2020	–	11,396

[1] Vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, vesting date is the immediately following business day (in 2018: 21 May).

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

Supervisory Board

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

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

In addition, all remunerated board members are entitled to:

- Additional compensation for time and expertise dedicated to specific strategic projects for X5, provided that such compensation (i) relates to work of a temporary, one-off nature, performed as an extension of the statutory non-executive duties of the relevant Board member and (ii) is approved in advance by the Supervisory Board -upon recommendation of the Nomination and Remuneration Committee- which will ensure, on a case-by-case basis, that any such engagement shall under no circumstance compromise the independence of the relevant Board member or the Board collectively.
- Equity in the form of Restricted Stock Units (RSUs). The number of RSUs awarded in each given year is based on 100% of the board member's fixed annual remuneration, divided by the average market value[3] of a GDR on the relevant award date. RSU awards are subject to a three-year vesting period and a further twoyear lock-in period. RSU awards to members of the Supervisory Board are not subject to performance criteria, and determined by the General Meeting of Shareholders.

In accordance with these remuneration principles, Mikhail Fridman and Andrey Elinson are not remunerated by the Group. In 2018 the remaining Supervisory Board members received remuneration in cash and an annual award of Restricted Stock Units (RSUs).

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

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

	Base remuneration[1]		Additional remuneration[2]		Share-based compensation[3]	
	2018	2017	2018	2017	2018	2017
S. DuCharme	20	20	–	–	19	14
A. Elinson	–	–	–	–	–	–
M. Fridman	–	–	–	–	–	–
C. Couvreux	41	13	–	–	4	16
P. Musial	12	7	–	–	2	8
G. King	19	17	–	–	16	17
P. Demchenkov	15	12	–	–	9	8
M. Kuchment	7	7	–	13	6	4
K.-H. Holland	4	–	–	–	–	–
N. Shouraboura	4	–	–	–	–	–
TOTAL	**122**	**76**	**–**	**13**	**56**	**67**

[1] The annual membership allowance for independent Supervisory Board members is determined and paid in Euro, as follows: chairman EUR 250,000; members chairing a committee EUR 200,000; members chairing more than 1 committee EUR 250,000 and other members EUR 100,000. In accordance with the remuneration principles for the Supervisory Board, Messrs. Fridman and Elinson were not remunerated. The 2018 allowance for Messrs. Couvreux and Musial include social security payments assessed and paid for the years 2015-2018 in resp. France (RUB 34 million) for Mr. Couvreux and in Poland (RUB 8 million) for Mr. Musial.

[2] Additional cash remuneration for time and expertise dedicated to key strategic projects in 2017.

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

Restricted Stock Units

In 2018 the Annual General Meeting of Shareholders approved that the Supervisory Board members Stephan DuCharme, Pawel Musial, Geoff King, Peter Demchenkov and Michael Kuchment be awarded a number of RSUs with award date 21 May 2018, equal to 100% of the fixed remuneration in 2018 of the relevant Board member, divided by USD 30.00, the average market value of one GDR as of 21 May 2018. The RSUs awarded under tranche 9 will vest on 19 May 2021, followed by a lock-in period ending on 19 May 2023.

When Christian Couvreux and Pawel Musial stepped down from the Supervisory Board on 10 May and 22 June 2018 respectively, the RSU Plan rules on accelerated vesting and release were applied as described in Notes 4 and 5 to the table below.

The number of RSUs awarded and outstanding to the members of the Supervisory Board is shown below. For the calculation of the intrinsic value and further details refer to Note 28.

27 STAFF COSTS

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

Name	Tranche	RSUs awarded in 2014	RSUs awarded in 2015	RSUs awarded in 2016[1]	RSUs awarded in 2017	RSUs awarded in 2018	Year of vesting	RSUs vested	Value on vesting date[2]	Vested GDRs after tax	GDRs locked-up as per 31 December 2018[3]	End of lock-up period	RSUs outstanding as per 31 December 2018	RSUs outstanding as per 31 December 2017
S. DuCharme	7	–	–	25,703	–	–	2019	–	–	–	–	2021	25,703	25,703
	8	–	–	–	9,631	–	2020	–	–	–	–	2022	9,631	9,631
	9	–	–	–	–	9,977	2021	–	–	–	–	2023	9,977	–
C. Couvreux[4]	4	14,768	–	–	–	–	2016	14,768	19	9,747	–	2018	–	–
	5	–	15,793	–	–	–	2017	15,793	33	7,996	–	2018	–	–
	6	–	–	11,396	–	–	2018	11,396	21	5,476	–	2018	–	11,396
	7	–	–	11,424	–	–	2019	7,616	14	3,659	–	2018	–	11,424
	8	–	–	–	6,421	–	2020	2,140	4	1,028	–	2018	–	6,421
P. Musial[5]	4	2,461	–	–	–	–	2016	2,461	3	2,461	–	2018	–	–
	5	–	7,897	–	–	–	2017	7,897	17	5,212	–	2019	–	–
	6	–	–	5,698	–	–	2018	5,698	11	3,762	–	2020	–	5,698
	7	–	–	5,712	–	–	2019	3,808	7	2,714	–	2021	–	5,712
	8	–	–	–	3,210	–	2020	1,070	2	763	–	2022	–	3,210
	9	–	–	–	–	3,991	2021	–	–	–	–	2023	–	–
G. King	6	–	–	13,250	–	–	2018	13,250	25	8,749	8,749	2020	–	13,250
	7	–	–	14,280	–	–	2019	–	–	–	–	2021	14,280	14,280
	8	–	–	–	8,026	–	2020	–	–	–	–	2022	8,026	8,026
	9	–	–	–	–	9,977	2021	–	–	–	–	2023	9,977	–
P. Demchenkov	6	–	–	5,698	–	–	2018	5,698	11	3,762	3,762	2020	–	5,698
	7	–	–	5,712	–	–	2019	–	–	–	–	2021	5,712	5,712
	8	–	–	–	5,618	–	2020	–	–	–	–	2022	5,618	5,618
	9	–	–	–	–	7,982	2021	–	–	–	–	2023	7,982	–
M. Kuchment	7	–	–	5,712	–	–	2019	–	–	–	–	2021	5,712	5,712
	8	–	–	–	3,210	–	2020	–	–	–	–	2022	3,210	3,210
	9	–	–	–	–	3,991	2021	–	–	–	–	2023	3,991	–

[1] In 2016 the RSUs awarded under tranche 7 were awarded in accordance with the amended award schedule, observing the 3 year vesting period prescribed by the RSU Plan.

[2] Vesting date is 19 May of each respective year of vesting. If 19 May falls in a weekend, vesting date is the immediately following business day (in 2018: 21 May).

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

[4] Christian Couvreux stepped down from the Supervisory Board per the AGM on 10 May 2018. As per the RSU Plan rules 8,089 RSUs awarded under tranches 7-8 forfeited as per 21 May 2018, and consequently a total of 21,152 RSUs awarded under tranches 6-8 vested in 2018. After tax, Mr. Couvreux was entitled to immediate release of 27,906 GDRs relating to awards under tranches 4-8.

[5] Pawel Musial stepped down from the Supervisory Board on 22 June 2018. As per the RSU Plan rules 8,035 RSUs awarded under tranches 7-9 forfeited as per 22 June 2018, and consequently a total of 4,878 RSUs awarded under tranches 7-8 vested in 2018. After tax, Mr. Musial was entitled to immediate release of 12,451 GDRs relating to awards under tranches 5-8.

Other key management personnel

Other key management personnel comprises all members of the Executive Board excluding the CEO. In comparison to the previous year two executives were added to the group of 'Other key management personnel', i.e. the Director Strategy and Director Big Data. In accordance with the Remuneration Policy, the total direct compensation of other key management personnel consists of a base salary, a performance-related annual cash incentive (STI) and a performance-related long-term cash incentive (LTI).

Base salaries in 2018

In 2018 the Supervisory Board reviewed and approved an adjustment within the total remuneration package of members of the Executive Board, based on a base salary benchmarking analysis in combination with the introduction of a new long-term incentive plan designed to create greater balance between short- and long-term compensation. Accordingly, in line with compensation levels in peer group companies, and taking into account the adjusted composition of 'Other key management personnel' as referred to above, the aggregate base salary amount of members of the Executive Board (excluding the CEO) increased as reflected in the table below.

Short-term Incentive

For 2018, the Supervisory Board determined that 100% of the total on-target bonus opportunity for leaders of the formats would be based on both financial quantitative and individual performance measures at format level, with thresholds at group level (EBITDA) and at format level (net sales) as a condition for STI payout. Financial performance measures include EBITDA, like-for-like sales and/or return on investment (ROI). For functional leaders the total on-target bonus opportunity depends on financial quantitative and individual performance measures at group level, also with a profitability threshold at group level as a condition for STI payout. The on-target payout as a percentage of base salary is set at a level of 100%. As per 31 December 2018 group financial targets were achieved, whereas financial targets at format level were achieved or partially achieved. The achievement of performance targets was assessed and determined by the Supervisory Board for each executive individually.

Long-term incentive

See footnote no. 3 to the table below.

Expenses recognised for remuneration of other key management personnel:

	Year	Base salary[1]	Short-term incentive[2]	Long-term incentive[3]	Exit payment	Social security cost[4]	Total
Other key management personnel	2018	228	167	235	42	69	**741**
	2017	165	134	414	14	88	**815**

[1] Base salary remuneration reflects the increase in salary for some key management personnel, as well as fluctuation in base salary due to the number of days spent on vacation, in accordance with Russian labor law.

[2] Short-term incentive for performance in the year 2018 (2017) paid in cash in 2019 (2018).

[3] Targets under the second stage of the 2015-2018 LTI programme were achieved by members of the Executive Board in 2017. Under the programme's deferred payout mechanism 50% of the total award under the second stage was paid in 2018, with final deferred payouts in 2019.

The expense recognised for the long-term incentive rewards is composed of three elements: (i) accrual for the period 2018 with respect to the first payout under the second stage of the LTI programme, (ii) accrual for the period 2018 with respect to the second payout under the second stage of the LTI programme and (iii) an accrual based on the probability of achieving the targets under the new long-term incentive programme.

[4] For the year ended 31 December 2018 statutory pension contributions amounted to RUB 45 (2017: RUB 65).

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SHARE-BASED PAYMENTS

Restricted Stock Unit plan

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

During the year ended 31 December 2018, a total number of 35,918 RSUs were awarded under tranche 9 of the RSU Plan and will vest in 2021. In 2018 62,072 RSUs vested. Upon vesting these RSUs were converted into GDRs registered in the participant's name. The GDRs are kept in custody during a two-year lock-in period during which the GDRs cannot be traded. In accordance with the RSU Plan rules the lock-in restrictions do not apply in case of accelerated release of GDRs, if and when a Supervisory Board member ceases to be a member of the Supervisory Board.

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

In total, during the year ended 31 December 2018 the Group recognised expense related to the RSU Plan in the amount of RUB 72 (expense during the year ended 31 December 2017: RUB 71). At 31 December 2018 the equity component was RUB 118 (31 December 2017: RUB 117). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding were as follows:

	2018		2017	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	152,097	1,397.63	155,464	1,030.77
Awarded during the period	35,918	1,858.22	36,116	2,114.26
Vested during the period	(62,072)	1,133.34	(39,483)	608.64
Forfeited during the period	(16,124)	1,752.51	–	–
Outstanding at the end of the period	**109,819**	**1,645.55**	**152,097**	**1,397.63**

29

INCOME TAX

	2018	2017
Current income tax charge	8,923	10,215
Deferred income tax charge	1,475	207
Income tax charge for the year	**10,398**	**10,422**

The theoretical and effective tax rates are reconciled as follows:

	2018	2017
Profit before taxation	39,040	41,816
Theoretical tax at the effective statutory rate*	**7,808**	**8,363**
Tax effect of items which are not deductible or assessable for taxation purposes		
Effect of income taxable at rates different from standard statutory rates	4	(2,716)
Expenses on inventory shortage	200	2,386
Unrecognised tax loss carry forwards for the year	650	557
Deferred tax income arising from the recovery of the deferred tax assets written down in previous periods	–	(85)
Change in deferred tax liability associated with investments in subsidiaries	1,294	1,158
Other non-deductible expense	442	759
Income tax charge for the year	**10,398**	**10,422**

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

As at 31 December 2018 37 Russian subsidiaries of the Group were the members of the CGT (consolidated group of taxpayers) with Agroaspect LLC acting as a responsible CGT member.

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated statement of profit or loss were attributable to the following items for the year ended 31 December 2018:

	31 December 2017	Credited/ (debited) to profit and loss	Deferred tax on business combinations (Note 7)	31 December 2018
Tax effects of deductible temporary differences and tax loss carry forwards				
Tax losses available for carry forward	4,980	(87)	–	4,893
Property, plant and equipment and Investment property	585	(143)	25	467
Other intangible assets	808	(1,078)	871	601
Inventories	1,026	675	–	1,701
Accounts receivable	103	(62)	–	41
Accounts payable	5,092	508	–	5,600
Other	750	(145)	–	605
Gross deferred tax assets	**13,344**	**(332)**	**896**	**13,908**
Less offsetting with deferred tax liabilities	(8,201)	(694)	–	(8,895)
Recognised deferred tax assets	**5,143**	**(1,026)**	**896**	**5,013**
Tax effects of taxable temporary differences				
Property, plant and equipment and Investment property	(10,971)	(371)	(47)	(11,389)
Other intangible assets	(451)	233	–	(218)
Investments into subsidiary	(1,158)	(1,294)	–	(2,452)
Accounts receivable	(837)	132	–	(705)
Accounts payable	(10)	3	–	(7)
Other	(444)	154	–	(290)
Gross deferred tax liabilities	**(13,871)**	**(1,143)**	**(47)**	**(15,061)**
Less offsetting with deferred tax assets	8,201	694	–	8,895
Recognised deferred tax liabilities	**(5,670)**	**(449)**	**(47)**	**(6,166)**

29 INCOME TAX

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

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

Unrecognised deferred tax liability on unremitted earnings of certain subsidiaries amounted to RUB 4,968 (2017: RUB 4,541) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of RUB 4,893 recognised at 31 December 2018 for the carry forward of unused tax losses (31 December 2017: RUB 4,980).

The Group estimated unrecognised potential deferred tax assets in respect of unused tax loss carry forwards at 31 December 2018 of RUB 3,966 (31 December 2017: RUB 3,316).

At 31 December 2018 these unused tax losses in the amount of 1,720 were available for carry forward for a period not less than four years, unused tax losses in the amount of 2,246 have no time restrictions for carry forward.

30 FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from foreign currency denominated assets and liabilities with respect to import purchases. As at 31 December 2018 the Group had trade accounts payable denominated in foreign currency in the amount of RUB 3,071 (31 December 2017: RUB 2,504). As at 31 December 2018 the Group did not have any other significant assets and liabilities denominated in foreign currency and the exposure for the Group was estimated as not significant.

Interest rates risk

As at 31 December 2018 the Group had no floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows were substantially independent of changes in market interest rates.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consisted principally of cash and cash equivalents held in banks, trade and other receivables (Note 9 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group had no significant concentration of credit risk. Cash was placed in financial institutions which were considered at the time of deposit to have low risk of default (Note 9).

The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers and reverse franchise schemes only those counteragents with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there was no significant risk of loss to the Group beyond the allowance already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits were continually monitored and no individual exposure was considered significant.

(c) Liquidity risk

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

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

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

Year ended 31 December 2018	During 1 year	In 1 to 3 years
Borrowings	76,196	158,865
Trade payables	154,873	–
Other financial liabilities	53,342	543
TOTAL	**284,411**	**159,408**

Year ended 31 December 2017	During 1 year	In 1 to 4 years
Borrowings	74,928	146,331
Trade payables	130,766	–
Other financial liabilities	56,707	1,166
TOTAL	**262,401**	**147,497**

At 31 December 2018 the Group had net current liabilities of RUB 120,363 (31 December 2017: RUB 104,902) including short-term borrowings of RUB 60,435 (31 December 2017: RUB 58,674). At 31 December 2018 the Group had available bank credit lines of RUB 341,502 (31 December 2017: RUB 314,838). At 31 December 2018 the Group had RUB registered bonds programme available for issue on MICEX of RUB 15,000 (31 December 2017: RUB 25,000).

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

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

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

31 OPERATING ENVIRONMENT OF THE GROUP

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

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

32 CAPITAL RISK MANAGEMENT

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

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00/4.25 after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. Net debt is calculated as the sum of short-term and long-term borrowings less cash and cash equivalents. Reconciliation of EBITDA to operating profit is performed in Note 5. This ratio is included as covenants into some of Group's loan agreements (Note 20). At 31 December 2018 the Group complied with the requirements under the loan facilities.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Financial assets carried at amortised cost

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

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

Liabilities carried at amortised cost

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

The fair value of bonds traded on the MICEX and the ISE is determined based on active market quotations and amounted to RUB 70,761 at 31 December 2018 (31 December 2017: RUB 66,545). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 70,297 at 31 December 2018 (31 December 2017: RUB 64,829) (Note 20). The fair value of long-term borrowings amounted to RUB 103,254 at 31 December 2018 (31 December 2017: RUB 76,571). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,852 at 31 December 2018. The fair value of short-term borrowings was not materially different from their carrying amounts.

34 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2018, the Group operated 12,553 stores through rented premises (31 December 2017: 10,303 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable (contingent rent). For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments.

The Group entered into a number of cancellable short-term and long-term lease agreements. The expected annual lease payments under these agreements amount to RUB 38,303 (net of VAT) (31 December 2017: RUB 36,860).

Capital expenditure commitments

At 31 December 2018 the Group contracted for capital expenditure for the acquisition of property, plant and equipment and intangible assets of RUB 10,801 (net of VAT) (31 December 2017: RUB 9,830).

34 COMMITMENTS AND CONTINGENCIES

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 31 December 2018.

Taxation environment

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

Russia has transfer pricing rules generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the transfer pricing legislation. Therefore the impact of any potential challenge of the Group's transfer prices is not expected to be significant to the financial conditions and/or the overall operations of the Group.

The concept of beneficial ownership

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

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

Tax residency of legal entities

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

Tax contingencies, commitments and risks

Russian tax legislation does not provide definitive guidance in many areas and continue to evolve. Various legislative acts and regulations are not always clearly written, and their interpretation is subject to discussion by taxpayers, tax authorities, Courts and other regulating bodies.

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

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

In Russia, tax returns remain open and subject to tax audit for a period of up to three years. If an understatement of a tax liability is detected as a result of a tax audit, penalties and fines should be paid. Under a certain conditions a repeated tax audit can be open for the periods already closed, however such cases are not very often.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies not only for the periods open for tax audit but also for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

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

In 2018 the Group made net release of provisions and liabilities for tax uncertainties attributable to income tax and non-income tax risks in amount of RUB 626 including net release of non-income tax provision of RUB 463, income tax provision of RUB 67 with simultaneous release of indemnification asset of RUB 96 .

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

At the same time management has recorded liabilities for income taxes in the amount of RUB 384 (31 December 2017: RUB 389) and provisions for taxes other than income taxes in the amount of RUB 133 at 31 December 2018 (31 December 2017: RUB 494) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 31 December 2016	**898**
Release of provision	(604)
Accrual of provision	1,146
Offset of provision	(557)
Balance at 31 December 2017	**883**
Release of provision	(1,113)
Accrual of provision	487
Offset of provision	260
Balance at 31 December 2018	**517**

35 SUBSEQUENT EVENTS FOR THE GROUP

In February 2019 the Group issued RUB 5 bln exchange-registered corporate bonds series 001P-04 with 8.5% coupon rate and 2.5 years oferta (put-option).

In February 2019 the Group successfully passed the oferta on the RUB 5 bln exchange-registered corporate bonds series BO-07. The new annual interest rate for the next 3 years was fixed at 8.55%.