

O'Key Group S.A.

**Condensed Consolidated Interim Financial
Statements
for the six months ended 30 June 2017**



KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L - 1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of
O'Key Group S.A.
46A, avenue John F. Kennedy
L-1855 Luxembourg

Report of the Réviseur d'Entreprises agréé on the review of condensed consolidated interim financial information

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of O'Key Group S.A. as at 30 June 2017, the related condensed consolidated interim statements of profit and loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial statements"). The Board of Directors is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted, for Luxembourg, by the Institut des Réviseurs d'Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2017 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Luxembourg, 28 August 2017

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



Jean-Manuel Sérís

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Condensed Consolidated Interim Statement of Financial Position as at 30 June 2017

'000 RUB	Note	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Investment property	12	572 542	572 542
Property, plant and equipment	13	46 612 638	48 241 868
Construction in progress	13	3 682 334	3 485 879
Lease rights	14	4 502 611	4 578 535
Intangible assets	15	936 709	893 103
Deferred tax assets	16	1 619 457	1 277 273
Other non-current assets	17	1 812 007	2 002 680
Total non-current assets		59 738 298	61 051 880
Current assets			
Inventories	18	11 542 905	13 706 868
Trade and other receivables	19	3 210 274	5 871 010
Prepayments		1 155 483	958 467
Other current assets		43 217	41 250
Cash and cash equivalents		2 498 080	11 463 467
Non-current assets held for sale	20	597 018	-
Total current assets		19 046 977	32 041 062
Total assets		78 785 275	93 092 942

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2017

'000 RUB	Note	30 June 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity	21		
Share capital		119 440	119 440
Legal reserve		10 597	10 597
Additional paid-in capital		8 555 657	8 555 657
Hedging reserve		(88 242)	(75 329)
Retained earnings		10 380 499	13 324 398
Translation reserve		701 049	720 301
Total equity	21	19 679 000	22 655 064
Non-current liabilities			
Loans and borrowings	23	33 836 868	31 673 078
Deferred tax liabilities	16	650 424	692 091
Other non-current liabilities		138 492	139 304
Total non-current liabilities		34 625 784	32 504 473
Current liabilities			
Loans and borrowings	23	3 200 109	4 465 260
Interests accrued on loans and borrowings	23	209 918	156 870
Trade and other payables	24	20 352 463	32 480 892
Current income tax payable		718 001	830 383
Total current liabilities		24 480 491	37 933 405
Total liabilities		59 106 275	70 437 878
Total equity and liabilities		78 785 275	93 092 942

Condensed Consolidated Interim Statement of Profit and Loss and Other Comprehensive Income for the six months ended 30 June 2017

For the six months ended 30 June

'000 RUB	Note	2017	2016
Revenue	7	85 969 350	83 671 600
Cost of goods sold		(66 531 212)	(65 004 439)
Gross profit		19 438 138	18 667 161
General, selling and administrative expenses	8	(18 318 171)	(17 752 736)
Other operating income and expenses	9	(612 710)	(247 884)
Operating profit		507 257	666 541
Finance income		93 953	211 314
Finance costs		(1 730 043)	(1 770 901)
Foreign exchange (loss)/gain		(257 581)	189 359
Loss before income tax		(1 386 414)	(703 687)
Income tax expense	11	(91 687)	(82 550)
Loss for the period		(1 478 101)	(786 237)
Other comprehensive income/(loss)			
<i>Items that will never be reclassified to profit or loss:</i>			
Exchange differences on translation to presentation currency		(19 252)	(104 764)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Change in fair value of hedges and reclassification from hedging reserve		(16 142)	(7 907)
Income tax on other comprehensive income	11	3 228	1 581
Other comprehensive loss for the period, net of income tax		(32 166)	(111 090)
Total comprehensive loss for the period		(1 510 267)	(897 327)
Loss per share			
Basic and diluted loss per share (RUB)	22	(5.5)	(2.9)

The condensed consolidated interim statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 9 to 32.

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2017

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2016		119 440	10 597	8 903 606	(138 872)	14 757 649	838 547	24 490 967
Total comprehensive income for the period								
Loss for the period		-	-	-	-	(786 237)	-	(786 237)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(104 764)	(104 764)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(7 907)	-	-	(7 907)
Income tax on other comprehensive income	11	-	-	-	1 581	-	-	1 581
Total other comprehensive loss		-	-	-	(6 326)	-	(104 764)	(111 090)
Total comprehensive loss for the period		-	-	-	(6 326)	(786 237)	(104 764)	(897 327)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners		-	-	-	-	-	-	-
Total transactions with owners, recorded directly in equity		-	-	-	-	-	-	-
Balance at 30 June 2016		119 440	10 597	8 903 606	(145 198)	13 971 412	733 783	23 593 640

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2017

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2017		119 440	10 597	8 555 657	(75 329)	13 324 398	720 301	22 655 064
Total comprehensive income for the period								
Loss for the period		-	-	-	-	(1 478 101)	-	(1 478 101)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(19 252)	(19 252)
Change in fair value of hedges and reclassification from hedging reserve		-	-	-	(16 142)	-	-	(16 142)
Income tax on other comprehensive income	11	-	-	-	3 228	-	-	3 228
Total other comprehensive loss		-	-	-	(12 914)	-	(19 252)	(32 166)
Total comprehensive loss for the period		-	-	-	(12 914)	(1 478 101)	(19 252)	(1 510 267)
Contributions by and distributions to owners								
Dividends paid	21	-	-	-	-	(1 465 798)	-	(1 465 798)
Total transactions with owners, recorded directly in equity		-	-	-	-	(1 465 798)	-	(1 465 798)
Balance at 30 June 2017		119 440	10 597	8 555 657	(88 242)	10 380 499	701 049	19 679 000

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2017

'000 RUB	<u>For six months ended 30 June 2017</u>	<u>For six months ended 30 June 2016</u>
Cash flows from operating activities		
Cash receipts from customers	98 152 318	95 360 905
Other cash receipts	272 291	502 183
Interest received	97 003	211 123
Cash paid to suppliers and employees	(101 843 222)	(94 932 335)
Operating taxes	(303 967)	(339 144)
Other cash payments	(86 387)	(26 257)
VAT paid to budget	(704 076)	(504 487)
Income tax paid	(670 429)	(131 025)
Net cash (used in)/from operating activities	<u>(5 086 469)</u>	<u>140 963</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and lease rights (excluding VAT)	(1 334 444)	(3 266 985)
Purchase of other intangible assets (excluding VAT)	(169 161)	(111 932)
Proceeds from sales of property, plant and equipment and intangible assets (excluding VAT)	44 811	910 201
Net cash used in investing activities	<u>(1 458 794)</u>	<u>(2 468 716)</u>
Cash flows from financing activities		
Proceeds from loans and borrowings	5 000 000	8 040 613
Repayment of loans and borrowings	(4 077 815)	(9 109 994)
Interest paid	(1 813 428)	(2 045 877)
Dividends paid	(1 465 798)	-
Other financial payments	(30 850)	(50 778)
Net cash used in financing activities	<u>(2 387 891)</u>	<u>(3 166 036)</u>
Net decrease in cash and cash equivalents	<u>(8 933 154)</u>	<u>(5 493 789)</u>
Cash and cash equivalents at beginning of the period	11 463 467	9 768 130
Effect of exchange rate fluctuations on cash and cash equivalents	(32 233)	(29 310)
Cash and cash equivalents at end of the period	<u><u>2 498 080</u></u>	<u><u>4 245 031</u></u>

1 Background

(a) Organisation and operations

Key Group S. A. (the "Company") is incorporated and domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. These condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "Group"). The main part of the Group is located and conducts its business in the Russian Federation.

The major shareholders of the Group are three individuals, Mr. Korzhev, Mr. Troitsky and Mr. Volchek ("the shareholder group"). They also have a number of other business interests outside of the Group.

As at 30 June 2017 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs").

Related party transactions are detailed in note 29.

The Company's registered address is: Luxembourg 46a, Avenue J.F. Kennedy, 3rd floor, L-1855.

The Group's principal business activity is operation of retail chains in Russia under brand names "O'KEY" and "Da!". As at 30 June 2017, the Group operated 164 stores including 55 discounter stores (31 December 2016: 164 stores including 54 discounter stores) in major Russian cities, including but not limited to Moscow, St.Petersburg, Murmansk, Nizhniy Novgorod, Rostov-on-Don, Krasnodar, Lipetsk, Volgograd, Ekaterinburg, Novosibirsk, Krasnoyarsk, Ufa, Astrakhan and Surgut.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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

(c) Seasonality

The Group experiences seasonal fluctuations in its operations, such as an increase in sales during December, prior to Christmas and the New Year period, and May holidays and a decrease in sales in August, September and February, which follow the summer and winter holiday seasons, respectively. The sale of seasonal products, such as school-related non-food products in August, New Year decorations and gifts in December and household appliances for summer houses from April to September affects the Group's interim results.

As a result, in the middle of the year the Group's stock levels, cash and payables to suppliers decrease compared to year-end.

2 Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 28 August 2017.

(b) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are consistent with those applied by the Group in its annual consolidated financial statements as at and for the year ended 31 December 2016. Adoption of new standards and interpretations effective as of 1 January 2017 did not have a significant effect on the financial position and performance of the Group.

(c) Changes in presentation

Since 31 December 2016 the Group presents lease rights as a separate line item in the consolidated statement of financial position. Previously lease rights were presented as other non-current assets (initial cost of land lease) and intangible assets (lease rights for premises). Comparative information has been re-presented accordingly. The effect of change in presentation on the condensed consolidated interim statement of financial position as at 30 June 2016 and 1 January 2016 was as follows:

As at 30 June 2016

'000 RUB	As previously presented	Effect of change in presentation	Re-presented
As at 30 June 2016	8 652 166	-	8 652 166
Lease rights	-	4 787 532	4 787 532
Other non-current assets	7 362 002	(4 166 700)	3 195 302
Intangible assets	1 290 164	(620 832)	669 332

As at 1 January 2016

'000 RUB	As previously presented	Effect of change in presentation	Re-presented
As at 1 January 2016	8 228 505	-	8 228 505
Lease rights	-	4 847 538	4 847 538
Other non-current assets	6 934 782	(4 188 872)	2 745 910
Intangible assets	1 293 723	(658 666)	635 057

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In these condensed consolidated interim financial statements the fair values have been determined based on the principles, which are consistent with those applied in the consolidated financial statements for the year ended 31 December 2016.

5 Operating segments

The Group is engaged in management of retail stores located in Russian Federation. Although the Group is not exposed to concentration of sales to individual customers, all the Group's sales are in the Russian Federation. As such, the Group is exposed to the economic development in Russia, including the development of the Russian retail industry. The Group has no significant non-current assets outside the Russian Federation.

The Group identified its operating segments in accordance with the criteria set in IFRS 8 *Operating Segments* and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources within the Group.

The Group's chief operating decision maker has been determined as the CEO.

The Group has two reportable segments: O'Key and Da! Each segment has similar format of their stores which is described below:

- O'Key – chain of modern Western European style hypermarkets under the “O'KEY” brand reinforced by O'KEY supermarkets throughout the Russian Federation;
- Da! – chain of discounter stores in Moscow and Central region.

The assortment of goods in each chain is different, and the segments are managed separately. For each of the segments, the CEO of the Group reviews internal management reports at least on a monthly basis.

Within each reportable segment all business components demonstrate similar characteristics:

- the products and customers;
- the business processes are integrated and uniform: the components manage their operations centrally. Purchasing, logistics, finance, HR and IT functions are centralized;
- the components' activities are mainly limited to Russia which has a uniform regulatory environment.

The CEO assesses the performance of the operating segment based on earnings before interest, tax, depreciation and amortization (“EBITDA”) adjusted for one-off items. EBITDA is not defined in IFRS. Other information provided to the CEO is measured in a manner consistent with that in the consolidated financial statements. The accounting policies used for the segment reporting are the same as accounting policies applied for the condensed consolidated interim financial statements.

The segment information for the six months ended 30 June is as follows:

'000 RUB	O'Key		Da!		Total	
	2017	2016	2017	2016	2017	2016
For six months ended 30 June						
External revenue	81 256 384	81 416 443	4 712 966	2 255 157	85 969 350	83 671 600
Inter-segment revenue	-	-	-	30 274	-	30 274
EBITDA	4 608 444	4 576 840	(958 466)	(1 241 143)	3 649 978	3 335 697

Inter-segment revenue relates to a rental agreement between LLC Fresh Market (operator of discounter chain Da!) and LLC O'Key.

A reconciliation of EBITDA to loss for the period is as follows:

For six months ended 30 June

'000 RUB	Note	2017	2016
EBITDA		3 649 978	3 335 697
Loss from disposal of non-current assets	9	(267 798)	(417 745)
Impairment of receivables	9	(345 448)	(20 691)
Depreciation and amortization	8	(2 278 599)	(2 195 123)
Loss from impairment of assets held for sale	9	(149 876)	-
Loss from revaluation of investment property	9	-	(35 597)
Finance income		93 953	211 314
Finance costs		(1 730 043)	(1 770 901)
Foreign exchange (loss)/gain		(257 581)	189 359
Other non-operating expense		(101 000)	-
Loss before income tax		(1 386 414)	(703 687)
Income tax expense	11	(91 687)	(82 550)
Loss for the period		(1 478 101)	(786 237)

6 Subsidiaries

Details of the Company's significant subsidiaries at 30 June 2017 and 31 December 2016 are as follows:

Subsidiary	Country of incorporation	Nature of operations	30 June 2017	31 December 2016
			Ownership/ voting	Ownership/ voting
LLC O'Key	Russian Federation	Retail	100%	100%
JSC Dorinda	Russian Federation	Real estate	100%	100%
LLC O'Key Group	Russian Federation	Managing Company	100%	100%
LLC O'Key Logistics	Russian Federation	Import operations	100%	100%
LLC Fresh Market	Russian Federation	Retail and real estate	100%	100%

7 Revenue

For six months ended 30 June

'000 RUB	2017	2016
Sales of trading stock	81 084 031	78 905 727
Sales of self-produced catering products	3 505 602	3 505 824
Subtotal of retail revenue	84 589 633	82 411 551
Rental income	863 847	781 771
Revenue from advertising services	515 870	478 278
Total revenues	85 969 350	83 671 600

Total revenues comprise sale of goods, rental income from tenants which rent trade area in the Group stores and income from placing advertising in the Group stores.

8 General, selling and administrative expenses**For six months ended 30 June**

'000 RUB	Note	2017	2016
Personnel costs	10	(8 185 243)	(8 359 056)
Operating leases		(2 834 696)	(2 638 288)
Depreciation and amortization	13, 14, 15	(2 278 599)	(2 195 123)
Communication and utilities		(1 785 882)	(1 724 070)
Advertising and marketing		(1 020 712)	(764 311)
Security expenses		(436 807)	(413 174)
Insurance and bank commissions		(398 122)	(347 564)
Repairs and maintenance costs		(590 758)	(530 992)
Operating taxes		(355 241)	(355 420)
Legal and professional expenses		(252 037)	(266 206)
Materials and supplies		(162 752)	(138 576)
Other costs		(17 322)	(19 956)
		(18 318 171)	(17 752 736)

9 Other operating income and expenses**For six months ended 30 June**

'000 RUB	Note	2017	2016
Loss from disposal of non-current assets		(267 798)	(417 745)
Impairment of receivables		(345 448)	(20 691)
Loss from impairment of assets held for sale	20	(149 876)	-
Loss from revaluation of investment property	12	-	(35 597)
Sundry income		150 412	226 149
		(612 710)	(247 884)

Loss from disposal of non-current assets mainly relates to disposal of stores and land plots.

10 Personnel costs

For six months ended 30 June

'000 RUB	2017	2016
Wages and salaries	(5 255 114)	(5 492 792)
Social security contributions	(1 740 160)	(1 769 184)
Employee benefits	(680 195)	(590 806)
Other	(509 774)	(506 274)
Total personnel costs	(8 185 243)	(8 359 056)

11 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies.

Income tax recognised in profit and loss

For six months ended 30 June

'000 RUB	2017	2016
Current tax expense	(472 310)	(177 275)
Deferred tax benefit	380 623	94 725
Total income tax expense	(91 687)	(82 550)

Income tax recognised directly in other comprehensive income

For six months ended 30 June

'000 RUB	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Exchange differences on translating to presentation currency	(19 252)	-	(19 252)	(104 764)	-	(104 764)
Change in fair value of hedges and reclassification from hedging reserve	(16 142)	3 228	(12 914)	(7 907)	1 581	(6 326)
	(35 394)	3 228	(32 166)	(112 671)	1 581	(111 090)

Reconciliation of effective tax rate:

For six months ended 30 June

'000 RUB	2017	2016
Loss before income tax	(1 386 414)	(703 687)
Income tax at applicable tax rate (20%)	277 283	140 737
Effect of income taxed at different rates	(23 002)	(3 614)
Tax effect of items which are not deductible for taxation purposes:		
Inventory shrinkage expenses	(57 614)	(71 269)
Other non-deductible expenses	(46 062)	(85 599)
Tax withheld on dividends received from subsidiaries	(176 660)	(59 212)
Adjustments to current income tax for previous periods	(56 140)	(3 593)
Other items	(9 492)	-
Income tax expense for the period	(91 687)	(82 550)

12 Investment property

'000 RUB	Investment property
Investment properties at fair value as at 1 January 2016	564 000
Expenditure on subsequent improvements	35 597
Loss from revaluation of investment property	(35 597)
Investment properties at fair value as at 30 June 2016	564 000
Investment properties at fair value as at 1 January 2017	572 542
Expenditure on subsequent improvements	-
Loss from revaluation of investment property	-
Investment properties at fair value as at 30 June 2017	572 542

As at 1 January 2016 and 2017 the fair value of investment property has been determined by independent appraisers. The fair value of investment property as at 30 June 2016 and 30 June 2017 was updated by the Group applying the income approach (level 3 fair value based on inputs to valuation technique used).

There were no significant changes in assumptions used for determination of fair value of investment property as at 30 June 2017 compared to 1 January 2017.

Fair value of investment property as at 30 June 2017 and 30 June 2016 did not significantly change as compared to 1 January 2017 and 1 January 2016, respectively.

13 Property, plant and equipment

'000 RUB	Note	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Cost or deemed cost</i>							
Balance at 1 January 2016		4 839 188	32 413 643	6 918 148	14 346 880	6 694 671	65 212 530
Additions		26 050	-	-	976 288	2 252 592	3 254 930
Transfers		-	2 488 137	863 737	167 941	(3 519 815)	-
Disposals		(6 079)	(3 157)	(256 396)	(1 114 611)	(162 581)	(1 542 824)
Balance at 30 June 2016		4 859 159	34 898 623	7 525 489	14 376 498	5 264 867	66 924 636
Balance at 1 January 2017		5 021 476	38 602 235	7 707 573	15 545 367	3 485 879	70 362 530
Additions		1 406	164 721	-	386 492	1 007 634	1 560 253
Transfers		-	565 737	130 794	100 709	(797 240)	-
Assets classified as held for sale	20	-	(878 239)	-	(128 477)	-	(1 006 716)
Disposals		(54 970)	-	(155 715)	(250 224)	(13 939)	(474 848)
Balance at 30 June 2017		4 967 912	38 454 454	7 682 652	15 653 867	3 682 334	70 441 219

Notes to the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2017
(continued)

'000 RUB	Note	Land	Buildings	Leasehold improvements	Machinery and equipment, Auxiliary facilities and other fixed assets	Construction in progress	Total
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2016		-	(4 650 025)	(1 839 374)	(8 940 398)	-	(15 429 797)
Depreciation for the period		-	(558 675)	(296 305)	(1 147 518)	-	(2 002 498)
Disposals		-	31	35 904	1 072 791	-	1 108 726
Balance at 30 June 2016		-	(5 208 669)	(2 099 775)	(9 015 125)	-	(16 323 569)
Balance at 1 January 2017		-	(6 265 941)	(2 365 988)	(10 002 854)	-	(18 634 783)
Depreciation for the period		-	(659 339)	(323 540)	(1 053 325)	-	(2 036 204)
Assets classified as held for sale	20	-	195 363	-	64 459	-	259 822
Disposals		-	-	32 015	232 903	-	264 918
Balance at 30 June 2017		-	(6 729 917)	(2 657 513)	(10 758 817)	-	(20 146 247)
<i>Net book value</i>							
At 1 January 2016		4 839 188	27 763 618	5 078 774	5 406 482	6 694 671	49 782 733
At 30 June 2016		4 859 159	29 689 954	5 425 714	5 361 373	5 264 867	50 601 067
At 1 January 2017		5 021 476	32 336 294	5 341 585	5 542 513	3 485 879	51 727 747
At 30 June 2017		4 967 912	31 724 537	5 025 139	4 895 050	3 682 334	50 294 972

Depreciation expense of RUB 2 036 204 thousand has been charged to general, selling and administrative expenses (six months ended 30 June 2016: RUB 2 002 498 thousand).

Security

Carrying amount of stores pledged as collateral for loans and borrowings is RUB 2 495 385 thousand as at 30 June 2017 (31 December 2016: RUB 2 529 768 thousand).

14 Lease rights

Lease rights consist of initial cost of land lease and premises. Lease rights include purchase price and costs directly attributable to the acquisition of lease rights for land plots and premises.

Lease rights are amortised over the period of the lease: 49-51 years for land leases and 8-19 years for leases of premises.

Movements in the carrying amount of lease rights were as follows:

'000 RUB	Note	2017	2016
	3		re-presented
<i>Cost</i>			
Balance at 1 January		6 024 760	6 287 182
Additions		-	36 000
Disposals		-	(135 006)
Balance at 30 June		6 024 760	6 188 176
<i>Amortisation and impairment losses</i>			
Balance at 1 January		(1 446 225)	(1 439 644)
Amortisation charge		(75 924)	(92 960)
Disposals		-	131 960
Balance at 30 June		(1 522 149)	(1 400 644)
Net book value		4 502 611	4 787 532

Amortisation of RUB 75 924 thousand has been charged to general, selling and administrative expenses (six months ended 30 June 2016: RUB 92 960 thousand).

15 Intangible assets

'000 RUB	Note	Software	Other intangible assets	Total
<i>Cost</i>	3			re-presented
Balance at 1 January 2016		1 093 006	128 155	1 221 161
Additions		116 492	16 983	133 475
Disposals		(160 230)	(3 774)	(164 004)
Balance at 30 June 2016		1 049 268	141 364	1 190 632
Balance at 1 January 2017		1 409 198	148 409	1 557 607
Additions		200 055	9 455	209 510
Transfers		574	(574)	-
Disposals		(143)	(2 017)	(2 160)
Balance at 30 June 2017		1 609 684	155 273	1 764 957
<i>Amortization and impairment losses</i>				
Balance at 1 January 2016		(558 077)	(28 027)	(586 104)
Amortization for the period		(89 287)	(10 379)	(99 666)
Disposals		160 230	4 240	164 470
Balance at 30 June 2016		(487 134)	(34 166)	(521 300)
Balance at 1 January 2017		(618 525)	(45 979)	(664 504)
Amortization for the period		(152 605)	(13 866)	(166 471)
Transfers		(124)	124	-
Disposals		115	2 612	2 727
Balance at 30 June 2017		(771 139)	(57 109)	(828 248)
<i>Carrying amounts</i>				
At 1 January 2016		534 929	100 128	635 057
At 30 June 2016		562 134	107 198	669 332
At 1 January 2017		790 673	102 430	893 103
At 30 June 2017		838 545	98 164	936 709

Amortization and impairment charge

Amortization of RUB 166 471 thousand has been charged to general, selling and administrative expenses (six months ended 30 June 2016: RUB 99 666 thousand).

16 Deferred tax assets and liabilities**(a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Investment property	-	994	-	-	-	994
Property, plant and equipment	184 588	173 210	(965 877)	(974 315)	(781 289)	(801 105)
Construction in progress	-	-	(263 009)	(267 198)	(263 009)	(267 198)
Intangible assets	-	-	(130 826)	(126 179)	(130 826)	(126 179)
Other non-current assets	87 313	-	-	(101 467)	87 313	(101 467)
Inventories	424 636	602 017	(16 560)	(1 510)	408 076	600 507
Trade and other receivables and payables	597 727	615 767	(535 813)	(577 189)	61 914	38 578
Long-term investments	6 613	6 613	-	-	6 613	6 613
Tax loss carry-forwards	1 580 241	1 234 439	-	-	1 580 241	1 234 439
Tax assets/(liabilities)	2 881 118	2 633 040	(1 912 085)	(2 047 858)	969 033	585 182
Set off of tax	(1 261 661)	(1 355 767)	1 261 661	1 355 767	-	-
Net tax assets/(liabilities)	1 619 457	1 277 273	(650 424)	(692 091)	969 033	585 182

Deferred tax asset on tax losses carried forward relates to discounter chain. The Group considered long-term profit forecast for discounter chain and believes that future taxable profits will be available against which the tax losses can be utilized.

(b) Unrecognised deferred tax liability

As at 30 June 2017 a temporary difference of RUB 23 005 757 thousand (31 December 2016: RUB 23 979 879 thousand) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

17 Other non-current assets

'000 RUB	30 June 2017	31 December 2016
Long-term prepayments to entities under control of shareholder group	922 319	894 175
Prepayments for non-current assets	578 292	769 210
Long-term deposits to lessors	311 396	339 295
	1 812 007	2 002 680

Long-term prepayments to entities under control of shareholder group represent prepayments for rent of hypermarkets for the period until 2034. Related party transactions are detailed in note 29.

18 Inventories

'000 RUB	30 June 2017	31 December 2016
Goods for resale	11 504 384	13 370 212
Raw materials and consumables	512 185	700 673
Write-down to net realizable value	(473 664)	(364 017)
	11 542 905	13 706 868

Due to write-off and discount given for obsolete and slow moving goods for resale, the Group tested the related stock for write-off and also wrote down the related inventories to their net realizable value, which resulted in decrease of carrying value of stock by RUB 473 664 thousand as at 30 June 2017 (31 December 2016: RUB 364 017 thousand). The write down to net realizable value was determined applying the percentages of discount on sales and write-off of slow moving goods to the appropriate ageing of the goods. The percentages of discount were based on the management's best estimate following the experience of the discount sales.

The write-down is included in cost of goods sold.

19 Trade and other receivables

'000 RUB	30 June 2017	31 December 2016
Trade receivables	345 005	545 464
VAT receivable	218 207	1 562 138
Prepaid taxes other than income tax	214 876	132 565
Prepaid income tax	100 242	14 282
Bonuses receivable from suppliers	2 085 716	3 081 243
Other receivables	246 228	535 318
	3 210 274	5 871 010

20 Non-current assets held for sale

In April 2017 the Group closed low-performing store relating to “O’Key” segment and plans to sell this store. The store is available for immediate sale and the efforts to sell the property are commenced. The sale is expected within 12 months after reporting date. As a result, the building and the trading equipment are presented as a non-current assets held for sale in the condensed consolidated interim statement of financial position as at 30 June 2017.

An impairment loss of RUB 149 876 thousand on measurement of the assets held for sale at the lower of its carrying amount and its fair value less costs to sell has been recognised in other expenses (see note 9). The fair value measurement for assets held for sale has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

The Group used market and income approaches for determining fair value. Both approaches resulted in similar fair value of assets held for sale. Under income approach an estimate was made of annual net operating income which is mainly based on annual net rent rate of RUB 6 635 per sq. m. and expected occupancy of 83.3% for the next year and 100% since the second year. Discount rate of 12.1% was applied to discount future cash flows.

Fair value of non-current assets held for sale amounted to RUB 597 018 thousand as at 30 June 2017.

21 Equity

As at 30 June 2017 the Group’s subscribed share capital of RUB 119 440 thousand (EUR 2 691 thousand, 31 December 2016: EUR 2 691 thousand) is represented by 269 074 000 shares (31 December 2016: 269 074 000 shares) with a par value of 0.01 EUR each.

The Rouble value of the subscribed capital is determined with application of RUB/EUR historical exchange rate as at the date of each equity transaction.

In accordance with Luxembourg Company Law, the Company is required to transfer a minimum of 5% of its net profits for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. During six months ended 30 June 2017 there were no transfers to legal reserve from net profits.

There were no movements in additional paid-in capital during six months ended 30 June 2017.

In January 2017 the Group paid interim dividends to shareholders in the amount of RUB 1 465 798 thousand (USD 24 666 thousand).

22 Loss per share

The calculation of basic loss per share for six months ended 30 June 2017 was based on the loss attributable to ordinary shareholders of RUB 1 478 101 thousand (six months ended 30 June 2016 loss: RUB 786 237 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000 (six months ended 30 June 2016: 269 074 000), calculated as shown below. The Company has no dilutive potential ordinary shares.

For six months ended 30 June

	<u>2017</u>	<u>2016</u>
<i>Number of shares</i>		
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for six months ended 30 June	<u>269 074 000</u>	<u>269 074 000</u>

23 Loans and borrowings

'000 RUB	30 June 2017	31 December 2016
<i>Non-current liabilities</i>		
Secured bank loans	1 250 000	2 500 000
Unsecured bank facilities	22 343 750	23 000 000
Unsecured bonds	10 243 118	5 243 118
Unsecured loans from related parties	-	929 960
	33 836 868	31 673 078
<i>Current liabilities</i>		
Secured bank loans	1 250 000	2 500 000
Unsecured bank facilities	656 250	1 000 000
Unsecured bonds	385 141	962 410
Unsecured loans from related parties	905 868	-
Unsecured loans from third parties	2 850	2 850
Loans and borrowings	3 200 109	4 465 260
Unsecured bonds interest	209 890	146 904
Interests accrued on loans	28	9 966
Interests accrued on loans and borrowings	209 918	156 870
	3 410 027	4 622 130

As at 30 June 2017 loans and borrowings with a carrying value of RUB 2 500 000 thousand (31 December 2016: RUB 5 000 000 thousand) were secured by property, plant and equipment.

During six months ended 30 June 2017 the Group issued bonds in the amount of RUB 5 000 000 thousand which expire after 4 years in 2021.

The Group monitors compliance with loan covenants on an ongoing basis. Where non-compliance is unavoidable in managements' view, the Group requests waiver letters from the banks before the period-end, confirming that the banks shall not use its right to demand early redemption.

At 30 June 2017 and for the six months then ended the Group complied with all loan covenants.

As at 30 June 2017 the Group had RUB 16 600 000 thousand (31 December 2016: RUB 15 800 000 thousand) of undrawn, committed borrowing facilities available in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

24 Trade and other payables

'000 RUB	30 June 2017	31 December 2016
Trade payables	17 624 573	29 374 499
Advances received	267 057	350 816
Taxes payable (other than income tax)	954 821	1 085 381
Payables to staff	1 224 573	1 339 925
Deferred income	62 696	99 489
Interest rate swap payables	146 372	147 019
Other current payables	72 371	83 763
	20 352 463	32 480 892

25 Non-cancellable operating leases

Non-cancellable operating lease rentals are payable as follows:

'000 RUB	30 June 2017	31 December 2016
Less than one year	3 655 978	3 771 246
Between one and five years	13 594 711	14 239 837
More than five years	28 619 323	30 089 728
	45 870 012	48 100 811

26 Capital commitments

The Group has capital commitments to acquire property, plant and equipment amounting to RUB 1 596 734 thousand as at 30 June 2017 (31 December 2016: RUB 1 078 308 thousand).

27 Contingencies**(a) Legal proceedings**

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the management is of the opinion that no material losses will be incurred in respect of claims outstanding.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the Group's tax positions based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. In addition to tax liabilities recognised in these condensed consolidated interim financial statements, the Group is exposed to uncertain tax positions for which no provision has been made because management has assessed that additional payments are not probable. However, the interpretations of the relevant authorities could differ. If the authorities would be successful in enforcing their interpretations, the maximum unrecognised exposures approximate RUB 2 736 million as at 30 June 2017.

28 Financial instruments and risk management

(a) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 4. Fair value of Group's financial assets and liabilities approximates their carrying amounts.

(b) Fair value hierarchy

Group's derivative financial assets and liabilities comprise interest rate swap which is carried at fair value. Fair value of swap was determined based on observable market data (Level 2 fair value), including forward interest rates. The Group has no financial assets and liabilities measured at fair value based on unobservable inputs (Level 3 fair value). Group's bonds are listed on the Moscow Exchange. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

29 Related party transactions**(a) Control relationships**

The major shareholders of the Group are three individuals, Mr. Korzhev, Mr. Troitsky and Mr. Volchek (“the shareholder group”).

(b) Transactions with management**(i) Management remuneration**

Key management received the following remuneration during the period, which is included in personnel costs (see note 10):

For the six months ended 30 June

'000 RUB	2017	2016
Salaries and bonuses	144 068	191 536
Social security contributions	5 609	3 607
Long-service bonus	104 748	2 641
	254 425	197 784

As at 31 December 2016 the Group revised list of employees included in key management personnel. Comparative information for the six months ended 30 June 2016 was represented to reflect current structure of key management personnel.

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group. The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Trade receivables
	Six months ended 30 June 2017	Six months ended 30 June 2016	30 June 2017	31 December 2016
Services provided:				
Other related parties	830	15 311	-	94
	830	15 311	-	94

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) *Expenses*

'000 RUB	Transaction value	Transaction value	Prepayments	Prepayments
	Six months ended 30 June 2017	Six months ended 30 June 2016	30 June 2017	31 December 2016
Lease of premises				
Other related parties	(416 204)	(400 620)	944 935	921 195
Including:				
Rental fee	(357 974)	(332 453)	-	-
Reimbursement of utilities	(32 368)	(34 522)	-	-
Reimbursement of other expenses	(25 862)	(33 645)	-	-
Other services received:				
Other related parties	(668)	(1 894)	(3)	2 143
Finance costs:				
Other related parties	(17 588)	(41 923)	-	-
	(434 460)	(444 437)	944 932	923 338

All outstanding balances with related parties, except for prepayments for operating leases, are to be settled in cash within six months of the reporting date. None of the balances are secured.

Outstanding balance of RUB 944 932 thousand as at 30 June 2017 comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 969 451 thousand and current liabilities for rent of hypermarkets in the amount of RUB 24 519 thousand. Long-term part of prepayments amounting to RUB 922 319 thousand is disclosed in note 17. Terms of the leases are such that the Group pays rentals which include the reimbursement of all operating expenses related to these hypermarkets and nearby leased areas and a certain percentage of the Group's retail revenue from the operation of these hypermarkets.

Interest costs on loans from related parties amounted to RUB 17 588 thousand for the year ended 30 June 2017 (six months ended 30 June 2016: RUB 41 923 thousand) and were recorded as finance costs in profit or loss.

(d) Loans

'000 RUB	Repayment	Repayment	Outstanding balance	Outstanding balance
	For six months ended 30 June		30 June 2017	31 December 2016
	2017	2016		
Loans received:				
Other related parties	-	-	(905 868)	(929 960)

The loans from other related parties bear interest at 8% per annum and are payable in 2018.

(e) Pricing policies

Related party transactions are not necessarily based on market prices.

30 Events subsequent to the reporting date

On 10 July 2017 fire took place in Moscow shopping mall Rio where hypermarket O'key is located. Fire damage is in a process of estimation. Carrying amount of trade equipment and trading stock relating to this store amounted to RUB 303 367 thousand as at 30 June 2017 which represents maximum amount of damage. Actual damage is expected to be lower. Insurance limit amounts to RUB 779 049 thousand.