O'KEY
GROUP OF COMPANIES

Transformation for Excellence

Annual Report 2017

In this Report:

MORE AVAILABLE ONLINE

You can learn about O'KEY Group's strategy, our businesses and performance, approach to governance and risk online, where latest and archived annual and strategic reports are available to view or download.

For further information and a fuller understanding of the results and the state of affairs of the Group, please refer to the full suite of documents at **www.okeyinvestors.ru**

About the Report

This Annual Report 2017 (the 'Report') has been prepared by O'KEY GROUP S.A. ('O'KEY Group', the 'Group', or the 'Company').

This Report discloses information on the implementation of the Group's strategy in 2017, presents the Group's operating and financial results, describes the Group's corporate governance system and corporate social responsibility. The Report has been prepared based on consolidated IFRS financial statements for 2017.

The Report has been prepared based on the information available to the Group as at the time when this Report was prepared, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication date of this Report; however, it does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

This Report includes estimates or forward-looking statements related to operating, financial, economic, social and other measures that can be used to assess the performance of O'KEY GROUP S.A. The Company does not make any representation or warranty that the results anticipated by such forwardlooking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

Overview

OUR VISION

- The best compact hypermarket
- The best value for money discounter

OUR MISSION

- We strive for excellence
- We provide a simple and easy shopping experience
- We aim to create an effective working environment


О'КЕЙ
OUR VALUES
Outstanding results
Impeccable service
Atmosphere of professionalism
Effective team
Innovativeness

About O'KEY Group

O'KEY Group is one of the largest retail chains in Russia. The Group operates two main formats: hypermarkets under the O'KEY brand and discounters under the DA! brand. O'KEY Group opened its first hypermarket in St. Petersburg in 2002 and has shown continuous growth since then. O'KEY is the first Russian food retailer to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of products for home delivery.

KEY FACTS:

- Experienced international management team
- One of the market leaders in St. Petersburg with a strong presence in Moscow and other large cities in Russia
- Strong brand known for the quality of products and best-in-class shopping experience
- Two differentiated formats of modern food retail: hypermarket and discounter formats
- Highly centralised logistics: the Group operates 4 distribution centres across the Russian Federation
- About 23,000 employees

15
years
of history

577.8
of selling space,
K m²

145
total number
of stores

177.5
total Group revenue
in 2017, RUB bn

4
distribution
centres

12.8%
CAGR revenue, growth
in RUB terms (2009-2017)

OUR HISTORY

2002

- **O'KEY GROUP** was founded
- **FIRST O'KEY HYPERMARKET** opened in St. Petersburg
- **OWN PRODUCTION** launched in 2003

2003

- Strategy of establishing **REGIONAL MARKET LEADERSHIP**
- **8 HYPERMARKETS AND 2 SUPERMARKETS** opened in St. Petersburg
- **x15 TIMES** increased selling space to 87 K m²
- **NEW FORMAT** launched **FIRST SUPERMARKET** opened in 2006

2007

- Focus on **EXPANSION** in Russia's key regional markets
- **6 NEW REGIONS**
- **TOP-10** retailer by revenue
- **37** total stores
- **DOUBLED** selling space to >190 K m²

2009

- Emergence as a **ONE OF THE LEADING** national Russian retailers
- **RAPID EXPANSION** in Moscow and key regional markets
- **IPO** on the London Stock Exchange
- **TOP-3** retailer by revenue
- **>100** total stores
- >**550 K m²** selling space

OUR GEOGRAPHY

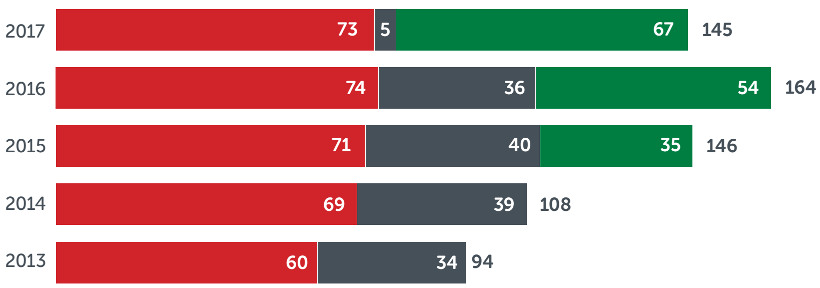
145 total number of stores

73 Hypermarkets

67 Discounter stores

5[1] Supermarkets

Number of stores by format (year end)



1 In 2017, the Company sold a supermarket business consisting of 32 stores. The remaining five supermarkets will be refurbished into compact hypermarkets in 2018.

2015

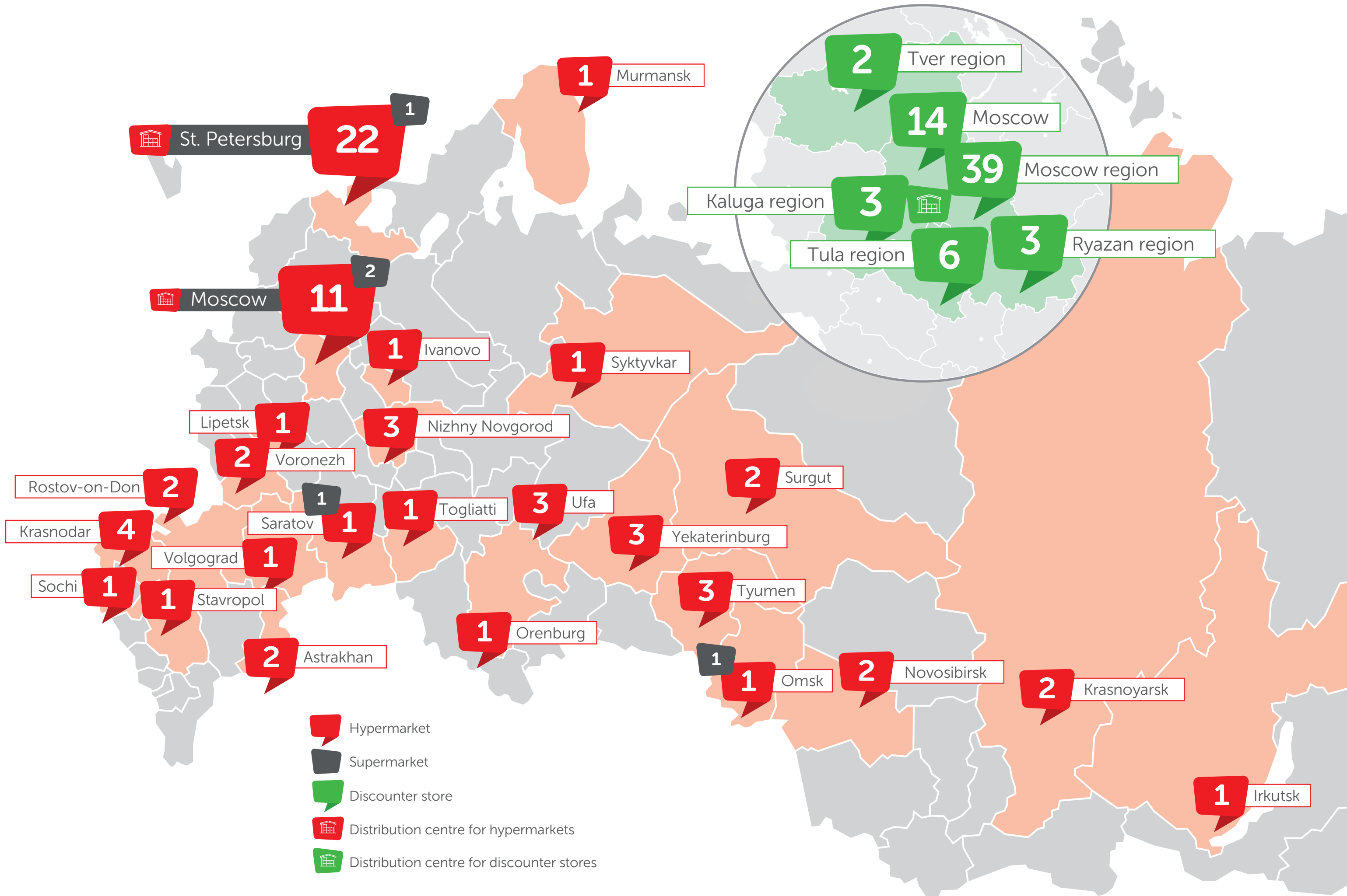
- **ONLINE SALES PLATFORM** launched for market-leading hypermarket
- **STRENGTHENING** of international management team
- **NEW DISCOUNTER FORMAT** under the DA! brand
- **146** total stores
- **>590 K m²** selling space

2016

- **40%** logistics centralisation level
- Presence in **27 REGIONS**
- **MOBILE APP** for iOS and Android launched in 2016
- **164** total stores
- **>600 K m²** selling space

2017

- **STRATEGIC PARTNERSHIP WITH FAMILIA** the leading off-price retailer in Russia
- **O'KEY-AUTO AND 24 HOUR DELIVERY SERVICE** launched for hypermarket segment
- **SALE OF SUPERMARKET BUSINESS** including 32 supermarkets over Russia
- **145** total stores
- **>577 K m²** selling space



Financial & Operational Highlights

FINANCIAL HIGHLIGHTS

Total revenue, RUB bn

2017	177.5
2016	175.5
2015	162.5
2014	151.9
2013	139.5

O'KEY Revenue, RUB bn

2017	167.1
2016	169.7
2015	161.8
2014	151.9
2013	139.5

DA! Revenue, RUB bn

2017	10.4
2016	5.8
2015	0.7

Group EBITDA, RUB bn

2017	9.3
2016	9.3
2015	10.1
2014	11.3
2013	11.0

O'KEY EBITDA, RUB bn

2017	11.4
2016	11.8
2015	11.7
2014	11.3
2013	11.0

DA! EBITDA, RUB bn

2017	-2.0
2016	-2.6
2015	-1.6

OPERATIONAL HIGHLIGHTS

Gross profit, RUB bn

2017	40.4
2016	40.2
2015	38.4
2014	37.2
2013	33.3

Net retail revenue, RUB bn

2017	174.3
2016	172.5
2015	160.3
2014	149.9
2013	137.6

Total selling space, K m²

2017	577.8
2016	622.9
2015	593
2014	552
2013	489

Net profit/loss, RUB bn

2017	3.2
2016	-0.1
2015	1.9
2014	5.2
2013	4.9

Traffic, mln

2017	227.7
2016	226.8
2015	207.4
2014	193.5
2013	185.6

Number of stores

2017	145
2016	164
2015	146
2014	108
2013	94

Highlights of 2017

21 Jan

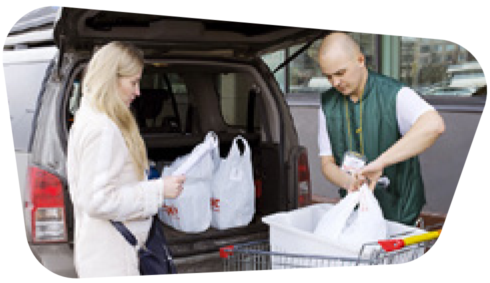
- **O'KEY Group** arranged a fair of locally produced cheese with the support of the Republic of Bashkortostan, State Committee on Trade and Consumer Protection.

1–28 Feb

- **O'KEY Group** in partnership with one of the largest fundraising Charity Foundations Rusfond held a charity event 'Buy a toy – save a child's life' as part of the charity programme 'Kind Purchase'.

2 Mar

- **O'KEY Group** launched O'KEY Auto, a new service within its Online Shopping platform, which allows its customers to have the groceries delivered right to their car.



22 Mar

- **O'KEY Group** announced the appointment of Miodrag Borojevic as its new Chief Executive Officer of the hypermarket & supermarket business.

30 Mar

- Within 3 months, the number of 'ROSBANK O'KEY Mastercard' co-branded credit cards **exceeded 60,000.**

11 Apr

- At the Fourth International **PRIVATE LABEL AWARDS** in 2017 held by IPLS, O'KEY Group received the highest award in the category **'Best private label in Non-food'** in the economy segment and two other nominations in the **'Best private label in Economy segment'** and **'Responsible approach to private label'** categories.

10 May

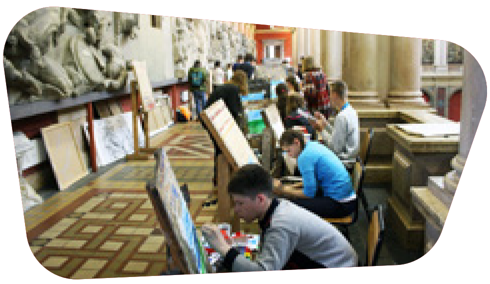
- **O'KEY Group's** River House hypermarket in St. Petersburg passed the certification procedure and received the 'St. Petersburg mark of quality' in the retail category.

26 May

- **O'KEY Group Online Shop** announced 24-hour delivery service of products to Moscow customers.

28 May

- The annual international creative festival for children and youth with disabilities **'Step towards!'** was held in St. Petersburg for the tenth time with the support of O'KEY Group.



10 Jul

- **O'KEY Group** announced a strategic partnership with Familia, the leading off-price retailer in Russia.
- **O'KEY Group** announced the appointment of Ivan Dropuljic as Commercial Operations Director of the hypermarket & supermarket business.

22 Sep

- One of the O'KEY Group hypermarkets received an award in the category **'Best Specialised Retailer in St. Petersburg'** in the XIII annual Golden Hermes contest , conducted with the support of the St. Petersburg City Administration in the urban consumer market.

13 Dec

- O'KEY Group has launched a fundamentally new trading format in Russia. **The first compact hypermarket** with an area of 5 K m^2, comprising special areas for 'ultra fresh' and 'fresh' products, has been opened in Yekaterinburg.

15 Dec

- **O'KEY Group** and X5 Retail Group have reached an agreement for X5 to acquire the supermarkets business currently operating under the O'KEY brand[1].

1 In 2017, the Company sold a supermarket business consisting of 32 stores. The remaining five supermarkets will be refurbished into compact hypermarkets in 2018.

Strategic Report

The Group managed to withstand the challenges of a competitive market environment and achieved strong results that matched our expectations. We continued to implement our business transformation plan by sale of supermarkets business and revamping our focus on the hypermarkets and discounter store segments. We are confident these initiatives will help the Group to fully realise its growth strategy.


ДА!
daily

O'KEY CEO's Statement

DEAR STAKEHOLDERS,

In 2017, the economy demonstrated the first signs of recovery supported by gradual improvement of consumer sentiment. At the same time the competitive environment in retail sector remained strong. Aggressive selling space growth ahead of food retail sales continued to put pressure on the performance of more mature stores.

In 2017, the Group made a strategic decision to focus on its key businesses: hypermarkets under the O'KEY brand where it already has strong footprint, and on the rapidly growing discounters segment under the DA! brand which has proven successful and has significant potential for further growth. The sale of supermarket business completed in 2017 will help the Group to concentrate on these two areas where we see the most promising opportunities for the Group.

The Group's strategy remains centred on ensuring the best shopping experience for our clients. The Group strives to become a destination point for its customers, offering a wide range of opportunities for convenient and high quality shopping.

Throughout the year, the Russian retail market remained highly competitive, encouraging O'KEY to introduce a new commercial model, new marketing initiatives and further product range improvements. One of our priorities in 2017 was to change customer perceptions of our price proposition. Therefore, we put considerable marketing efforts into the promotion of our new commercial model that aims to guarantee the best value for money for our customers. These steps helped O'KEY to reverse the traffic outflow observed in the first half of the year and build strong fundamentals for correcting price perceptions and growing brand loyalty of customers. In addition, we continued to develop our e-commerce platform and significantly improved the functionality of our mobile app and website which enabled us to achieve record online sales in 2017.

We constantly seek out opportunities to increase the efficiency of the hypermarket selling space. With this in mind, we continued to develop the format of compact hypermarkets and signed an agreement for a strategic partnership with Familia, the leading off-price retailer in Russia. This strategic alliance will provide opportunities to grow EBITDA per m^2 by securing additional rent income and boosting customer traffic.

To further streamline our operations, we carried out a restructuring of our head office in 2017 which has made our organisational structure even more transparent and efficient. During the year we worked tirelessly to increase overall operational efficiency and enhance the centralisation rate of our supply chain. The latter improved to almost 60% by the end of 2017 from around 40% a year before.

In 2017, we also strengthened our management team by introducing Ivan Dropuljic as our new Commercial Operations Director. Mr Dropuljic will lead the combined forces of our commercial, marketing, space management and quality control departments. We believe that this level of centralisation in our commercial operations will be highly beneficial for O'KEY's strategic development.

O'KEY employs over 21,000 people, and each member of our team matters. We believe that our strong corporate values, team expertise and strategic vision are integral in securing our success in the years to come.

In 2018, we will continue work for the benefit of all our stakeholders, and I firmly believe that together we are able to achieve all our goals, strengthen our market position and provide our customers with even more moments of unforgettable shopping.

Miodrag Borojevic
CEO of O'KEY

DA! CEO's Statement

DEAR STAKEHOLDERS,

In 2017, DA! achieved solid operating results, leaving us very pleased with the pace of growth. Net retail revenue increased by 81.5% YoY to RUB 10.2 bn. LFL net retail revenue generated by DA! increased by 52.0% YoY, driven by a 34.8% YoY increase in LFL traffic and a 12.7% YoY increase in LFL average ticket. EBITDA generated by DA! improved from negative RUB 2,592 mln (44.9% of sales) in 2016 to negative RUB 2,024 mln (19.5% of sales) in 2017 driven by new store openings and higher LFL sales. In 2017, 13 new stores were opened in Moscow and the Moscow Region, pushing the total number of our discounters to 67 with a total selling space of 46.2 K m^2.

During the year, we put significant effort into improving our value proposition and introduced a large number of high quality private label brand products, many of which are produced exclusively for DA!. At the same time, we continued to exercise close control over the total number of SKUs on our shelves. Having a compact product range carefully tailored to the needs of our customers is integral to the success of our business and enables us to achieve higher turnover per m^2 while maintaining lower in-store operating costs. Ultimately, this enabled us to secure consistent price levels throughout the year and further increase the price gap between DA! and our main competitors.

In 2017, we also focused on building a more positive in-shop environment and improving the overall customer experience. To achieve this, we conducted numerous staff training sessions, ensuring that our employees not only provide the highest level of customer service, but also enjoy their working environment and become drivers of our in-store productivity.

In 2018, we intend to continue with the accelerated expansion of discounters in Moscow and surrounding regions and plan to open up to 30 DA! stores. We are confident that the discounter segment has significant growth potential in the price-sensitive Russian market. I am confident that our strategic approach to delivering the best value-for-money proposition will enable DA! to establish itself among the leading Russian food retailer brands in the near future.

Armin Burger
CEO of DA!

Russia's Food Retail Market

MARKET IN 2017

Having suffered several years of headwinds arising from weak oil prices, interest rate increases and the impact of international sanctions in 2017 Russian economy demonstrated the signs of recovery. Supported by slowing inflation and growing real wages throughout 2016-2017 Russian food retail sales moved to positive territory, posting 4.4% YoY growth in 2017.

Despite the gradual recovery on the macro front, the operating environment remained challenging in 2017. While consumer demand demonstrated modest signs of recovery, and consumer confidence remained healthy overall, the supply-side recorded disproportionate growth owing to the aggressive pursuit of selling space expansion on the part of retailers. According to Infoline, the top 10 retailers added 2.2 mln m2 in additional space in 2017, 15.2% growth YoY, with the three largest retailers accounting for 84% of this growth. The continuous aggressive roll-out of the selling space across top-10 retailers on the one hand remained the key pillar of the double digit net retail revenue growth in 2017, on the other hand continued to dilute the sales density and cannibalise not only competitors stores, but their own store base as well.

As a result of aggressive selling space roll-out, modern trade penetration reached 71% (according Goldman Sachs research) as of the end of the year and is estimated to increase up to 81% in the next several years in line with developed market levels.

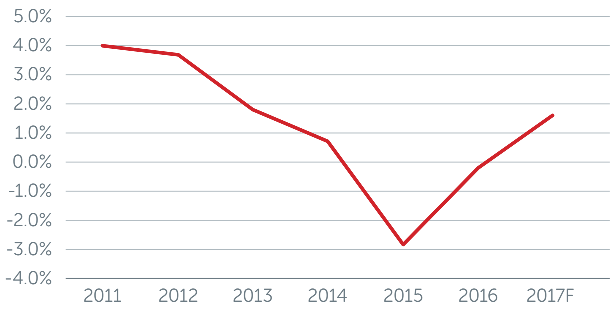
However, the nature of the penetration is rather uneven with one third of Russian territory accounting for 85% of the retail market and quite fragmented with top-5 retailers accounting for around quarter of the market. While the former is the function of the low population density in Russia (one of the lowest in the world) suggesting the potential growth to come from already well-penetrated regions, the latter sets the solid ground for market consolidation around the largest players. This suggest the room for larger players, such as O'KEY, to deliver sustainable growth, using differentiated formats to reach target consumer segments.

Building our strategy around two main formats – compact hypermarkets and discounters – we aim to cover the needs and preferences of all consumer segments.

Striving for efficiency and productivity across all business processes in our compact hypermarkets, we aim to create a distinctive competitive advantage in the food retail market, attracting new customers and increasing customer loyalty by greatly expanding the range of consumer needs that can be met in a single location.

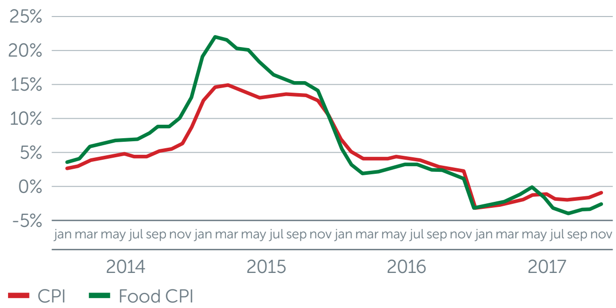
We remain committed to developing a unique for Russia value-for-money discounter concept with an aim to become a destination point. The results demonstrated by the segment in 2017 are very encouraging and we aspire to continue the active store roll-out in 2018.

Real GDP growth, %



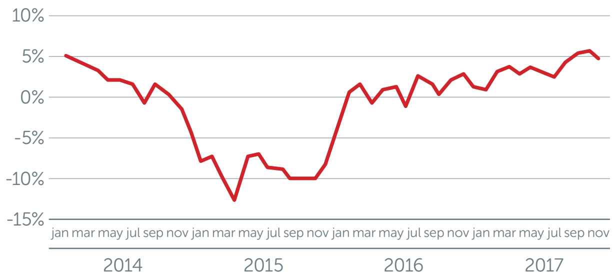
Source: Rosstat

Russia Consumer Price Index 2014-2017, Monthly YoY %



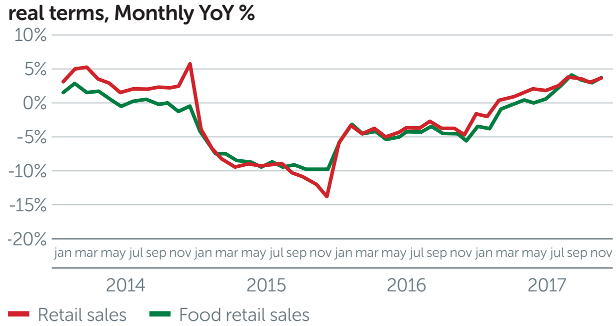
Source: Rosstat

Real Wages 2014-2017, Monthly YoY %



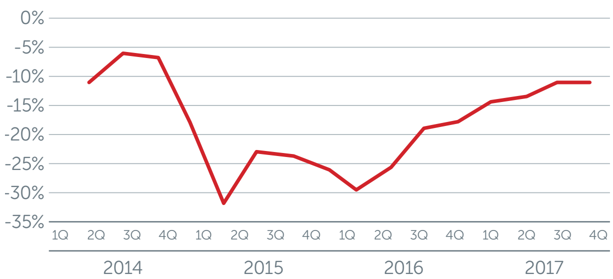
Source: Rosstat

Retail Sales and Food Retail Sales Growth 2014-2017, real terms, Monthly YoY %



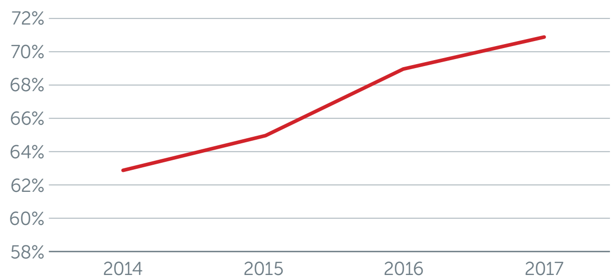
Source: Rosstat

Russia Consumer Confidence Index, 2014-2017, Monthly YoY %



Source: Rosstat

Modern Trade Penetration 2014-2017



Source: Infoline

OUTLOOK

Given official estimates place real GDP growth in Russia in 2018-2019 within the range of 2 to 2.2%, we remain cautiously optimistic on the outlook for the Russian economy. We expect that the marginal recovery of consumer sentiment witnessed in 2017 will continue in 2018, though competitive pressures will continue to weight on the market. Taking into account that the level of modern trade penetration in Russia increased to 71% by the end of the year, we contend that going forward sales densities will tend to decline driven by increasing competition.

While we do see some upside from a recovery in consumer spending through improvement in real wages and slowing inflation, our strategy is based on a more cautious scenario. We believe by investing in our business today to enhance efficiency and ensure price competitiveness alongside our established reputation for quality and service, we will be one of the best-positioned retailers in the Russian marketplace to benefit from market growth opportunities.

Delivering on Our Strategy

The Group's strategy is built around developing a modern food retailer in Russia, operating in hypermarket and discounter formats. Within our strategy, we aspire to deliver the highest quality, best-value proposition and a unique customer experience.

In 2017, the Board of Directors made strategic decision to focus on its key businesses: hypermarkets under the O'KEY brand where it already has strong footprint, and on the rapidly growing discounters under the DA! brand which has proved to be successful and has significant potential for further growth. The sale of the supermarkets business completed in 2017 will help the Group to concentrate on these two niches in order to attain greater efficiency and higher gains for shareholders.

Improve efficiency

PRIORITIES

» Introduce state-of-the-art IT solutions to improve business processes in sales and marketing and in logistics and accounting to realise efficiencies across operations
» Enhance technological platform to support the roll-out of new formats and online channel
» Improve commercial margins by securing better terms with suppliers while maintaining attractive product ranges for customers on store shelves
» Leverage 'Big Data' to better understand our customers and cater to their needs

CHALLENGES

» Provision of sufficient financing
» Employee recruitment and retention
» Supply chain risks
» IT Platform Development
» IT security threats

STAKEHOLDERS ENGAGED

Growth and expansion

PRIORITIES

» Open more than 30 new stores in 2018 in Moscow and surrounding regions

CHALLENGES

» Provision of sufficient financing
» Changing customer expectations
» Economic outlook
» Competitive risks

STAKEHOLDERS ENGAGED

Customers and partners

Shareholders and financial community

O'KEY

Strengthen our presence	Enhance supply chain	Deliver the best value proposition
» Expand our key compact hypermarket format, where shopping becomes a truly enjoyable experience » Ensure the sustainable growth of our hypermarket footprint in regions where we have strong brand leadership » Develop online shopping with a wide range of food and FMCG products with attractive pricing and convenient delivery services	» Optimise the supply chain for every product category and SKU, and implement a smart, end-to-end supply chain with a high level of centralisation » Maintain high shelf availability and optimal inventory levels » Improve efficiency of logistics supporting imports and private label products	» Develop our customer-centric approach enhancing the best customer value proposition » Ensure a truly 'one-stop shop experience' while offering quality products for all wallets » Increase the share of our affordable private label products in total sales » Introduce new products & services which ensure the sustainable growth of our company
» Provision of sufficient financing » Changing customer expectations » Supply chain risks » Competition risks	» Supply chain risks » Changes in working capital » IT Platform Development » IT security threats » Employee recruitment and retention	» Supply chain risks » Changing customer expectations » Economic outlook » Competitive risks

ДА!

Strong private labels	Deliver the best value proposition
» We seek to maintain and enhance a strong portfolio of private label brands » Ensure the best possible quality by carefully selecting our private label producers » Increase the share of private labels in the product range » Offer the most competitive pricing on the market	» We are focused on the creation of a unique value-for-money concept with an aim to becoming a destination point » Offer the highest quality products through daily deliveries of fresh produce to all our stores by our own logistics team » Maintain an excellent shopping experience with the help of our modern design and well-trained personnel » Improve merchandising to offer the most customer-friendly experience
» Changing customer expectations » Supply chain risks	» Changing customer expectations » Supply chain risks » Competition risks

Employees
Government and loca authorities
Local communities
Media

Operational Review


О'КЕЙ
СОЛОМКА
ванильная
О'КЕЙ

Hypermarkets

O'KEY Group Hypermarkets business is a modern Western-European style food retail format, with a passion for quality, best value proposition and the ambition to deliver a unique customer experience.

STRATEGIC PRIORITIES:

- Improve efficiency
- Strengthen our presence
- Enhance supply chain
- Deliver the best value proposition
- Key performance indicators

Number of stores

2017	73
2016	74
2015	71
2014	69
2013	60

Selling space, K m²

2017	524
2016	540
2015	518
2014	503
2013	444

Net retail revenue, %

2017	-1.6%
2016	4.5%
2015	6.9%
2014	10.0%
2013	19.0%

LFL Net retail revenue, %

2017	-3.4%
2016	1.6%
2015	1.1%
2014	0.3%
2013	7.4%

LFL Traffic, %

2017	-5.3%
2016	0.3%
2015	-0.2%
2014	-3.1%
2013	-0.6%

LFL Average ticket, %

2017	2.0%
2016	1.3%
2015	1.3%
2014	3.5%
2013	8.1%

7.3
average store selling space, K m²

46%
owned stores, 54% leased

34 K
average product range, SKU

87%
hypermarkets share in sales 2017

Operationally, in 2017, we remained dedicated to increasing overall efficiency and enhancing our customer value proposition through the introduction of a competitive pricing policy, the implementation of effective marketing initiatives and assortment structure improvement.

PERFORMANCE

In 2017, the net retail revenue of O'KEY decreased by 1.6% to RUB 164,055 mln from RUB 166,814 mln in 2016. LFL net retail revenue fell by 3.2% for the year on the back of a 5.0% decrease in LFL traffic and a 1.9% increase in LFL average ticket. Such results were mainly attributable to falling food inflation in 2017 and growing competitive pressures in the Russian retail segment. Financial performance was also negatively affected in the short-term by the sale of our supermarkets in December 2017 as part of the strategic overhaul of our business model. We are confident, however, that the temporary hit to revenues caused by the sale will be more than offset by the future growth generated by our revamped strategy.

In 2017, O'KEY opened one compact hypermarket in Yekaterinburg which will serve as a reference point for us going forward. The Group also closed two hypermarkets in Cherepovets and Sterlitamak, in line with the ongoing programme of store portfolio optimisation. As a result, the total number of hypermarkets fell from 74 in 2016 to 73 in 2017.

NEW COMMERCIAL MODEL

At the end of 2017, O'KEY launched a new commercial model based upon the principle of providing the best value for money to customers. We have made changes to our promotion strategy, so that it now includes smarter planning of promotional campaigns with the involvement of our key suppliers, as well as a new loyalty programme for our regular customers. The new strategy is supported by changes in the placement of promo-goods in our shops, making better offers closer and more visible to customers.As part of our ambition to provide our customers with clear up-to-date information and to establish a favourable price perception, we significantly changed the layout of our catalogue by introducing vivid information about our most attractive offers and discounts.

RENEWED CONCEPT — COMPACT HYPERMARKETS

In 2017, the Group continued to develop the compact hypermarkets format as the centrepiece of the new generation of O'KEY stores. The compact hypermarket concept is derived from the 'Shop-within-a-shop' zoning principle and at its core features the integration of a broader variety of product and service offerings into larger zones. A prime example would be the inclusion of a 'fresh market' within a hypermarket, which could offer fresh fish, fresh fruit, delicatessen, meat and bakery areas and a comfortable café, all under one roof. This approach accords O'KEY with a distinct competitive advantage in the food retail market. Compact hypermarkets have been shown to attract new customers and increase customer loyalty by meeting a much wider range of shopping demands in each O'KEY store.

LOYALTY PROGRAMME

Our loyalty programme is designed to reward initial customer devotion and provide our cardholders with a sense of worth, encouraging them to make even more purchases at attractive terms.

Originally created as a simple discount programme, it has significantly evolved over the 2016-2017 period to now offer the following benefits to our customers: ongoing collectable loyalty and weekly promotions, special coupons promotions for high seasons, personalised offers for active customers based on their purchase history.

Our loyalty cardholders can rely on O'KEY to remain committed to our mantra of running market-leading promotions and providing multiple options to save on products, offered at the best available price. In 2018, we plan to launch a new points-based loyalty programme.

COOPERATION WITH LEADING OFF-PRICE RETAILER FAMILIA

In 2017, O'KEY signed an agreement to begin a strategic partnership with Familia, the leading off-price retailer in Russia. This project is part of O'KEY's ongoing strategic initiative to enhance efficiency through the creation of a compact hypermarket. This is achieved through leasing selling space to a strategic partner without decreasing the total number of SKUs in the store.

The contract involves a 5-year lease of 1.5 K m² – 2.0 K m² of hypermarket space with the possibility of extension. The cooperation also involves joint marketing campaigns and other activities. It is expected to result in customer traffic growth and additional rent income and consequently will lead to considerable increases in EBITDA and improve profitability.

In the second half of 2017, new Familia stores were opened on the bases of two O'KEY hypermarkets in Yekaterinburg and in Tyumen. Post pilot openings will be extended to further O'KEY stores in other locations in 2018. Additionally, the Group is planning to attract other major retailers to its hypermarkets in order to generate more traffic and further selling space optimisation.

PRIVATE LABEL

We have continued to develop our private labels in order to provide our customers with a wider selection of high quality products at attractive prices. Private label products have proved to be an effective means to increase customer loyalty and enhance our reputation as the best value for money option in the retail market.

In 2017, we worked to enhance our private label assortment by introducing the most interesting and popular products on the market. Overall, we added 720 new SKUs, including 66 re-launched and 654 brand new SKUs. The total share of private label products within the assortment range reached 6.17% in 2017 compared to 5.8% in 2016, while the share of revenue commanded by the main brands 'That's What You Need!' and 'O'KEY' increased from 4.9% to 5.6%.

A key concern of the Group this past year has been in expanding local products, particularly in fresh food categories such as milk and milk products, meat and meat products, fish semi products. By the end of 2017, the number of local private label products reached 187 SKUs.

Throughout 2017, we improved the promotion policy of private label brands to now include advertising campaigns, direct mailing to the customer base and a dedicated section at the e-commerce website. Private label products are also featured in regular catalogues and in dedicated catalogues published twice a year.

Ensuring a stable and high quality of food and non-food products remains a top priority for O'KEY. We continued to improve our specially-designed quality control programme 'Trademark O'KEY – Customers' Guarantee', which includes checking production facilities as well as testing samples in independent and accredited laboratories.

874
'That's What You Need!', SKUs

827
'O'KEY', SKUs

1,700+
under both brands, SKUs

77
are seasonal, SKUs

6.2%
Share of Private label brands in SKUs

5.6%
Share of Private label brands in revenue

This programme has been instrumental in fostering customer loyalty to our own brands and in raising demand in the segment.

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Plans

In the coming years, we intend to focus on private label brands promotion to an even greater degree, with ambitions of doubling the share of private label brands in our SKU portfolio, including non-food categories. In 2018, we are planning to introduce a new exclusive line of O'KEY products – 'O'KEY Selection'.

AWARDS:

- 'Best private label in non-food in the economy segment'
- 'Best private label in the economy segment'
- 'Responsible approach to private label'
- 4th International PRIVATE LABEL AWARDS in 2017 by IPLS

Our own private label products are 20-30% cheaper than branded alternatives of the same quality.

OWN PRODUCTION

O`KEY strives to meet the fast pace of our customer's lives. To this end, every day we offer a wide range of freshly prepared products from our own cookery and bakery. In 2017, we focused on improving and optimising our own production assortment by introducing healthier products.

Delicious homemade cuisine, prepared with modern professional equipment, is the hallmark of any O`KEY hypermarket. Each hypermarket features a complete cycle of product preparation: ordering and receiving raw materials, processing, cutting, pickling, cooking and finally displaying for sale in the retail space.

About two thousand recipes have been developed to meet the needs of our customers.

Every day we offer discounts and promotions, from 'Breakfast in O`KEY' in the morning, to 'Delicious Hour' in the evening.

Each hypermarket has a cafe where our customers can enjoy a cup of coffee or tea and have a snack.

Culinary and bakery products are produced without preservatives, resulting in a short shelf life of up to 18 hours. Unsold products are removed from the shelves at the end of the day as per legislative requirements.

Our cookery and bakery products are included in regularly published O`KEY catalogues, as well as in a dedicated section of the e-commerce website.

130

Cookery, SKUs

Cold starters, salads, soups, grilled and smoked production, meat, poultry, fish and seafood, desserts and sweet dishes, a large selection of drinks.

The range also includes a large selection of semi-finished products.

150

Bakery, SKUs

Wheat and rye-wheat bread, baguettes, pies, donuts, croissants, muffins, cookies, cakes and pastries.

QUALITY AND SAFETY

Servicing customers with the highest quality produce is the primary concern of O`KEY.

The Group has developed a quality management system compliant with the requirements of Russian legislation and elements of the HACCP[1] system. All products undergo strict control at all stages.

The control procedures include risk assessment (safety risks and reputation risks), preliminary quality control measures, periodic assortment monitoring and both internal and external audit of stores and the supply chain.

We believe that developing a clockwork quality management system is a key element of our long-term success as our customers must be fully assured of the quality of products they buy. That's why we continued to enhance our controlling procedures throughout 2017 by implementing the following measures:

» HACCP system in own production goods;
» private label quality assurance procedures;
» new quality standard of fruits and vegetables.

0

The number of food quality and food safety incidents in O'KEY and DA! stores in 2017.

Plans

In 2018, we plan to focus on:

» transition to a new veterinary certification system (new legal requirements);
» transition from mass production to catering service in own production;
» HACCP system improvement and further elimination of food safety risks;
» development of private label quality assurance processes;
» quality assurance of fruits and vegetables, especially those directly imported.

1 Hazard Analysis and Critical Control Points (HACCP) — a systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes that can cause a finished product to be unsafe, and designs measurements to reduce these risks to a safe level.

BUILDING A ROBUST SUPPLY CHAIN

In 2017, we continued to steadily improve our supply chain and streamline associated business processes, reaching a 60% centralisation rate by the year's end.

In line with our corporate strategy, we continued to further develop our supply chain by focusing on efficiency and automation. We aim to build a solid warehouse infrastructure and category management system to enable us to better serve our customers' needs in our regions of operations and to reduce logistics costs to a more competitive level. For this purpose, O'KEY operates one federal and two regional distribution centres, located in Moscow and St. Petersburg, that are responsible for the timely provision of supplies to our stores and for ensuring that requested products are always on the shelves.

Our supply chain management approach, combined with innovative IT-solutions, well-trained and motivated staff, and a carrier fleet hired from the market's largest and most renowned companies enables us deliver fresh product to our stores within 18 hours from the moment of order.

In 2017, we:

» increased the centralisation rate by 20 p.p.;
» optimised replenishment business processes aimed at working capital reduction and improvement of on shelf availability;
» enhanced our demand forecasting capabilities and implemented the Auto-Order function in stores;
» optimised carrier routes and raised order-picking and delivery efficiency.

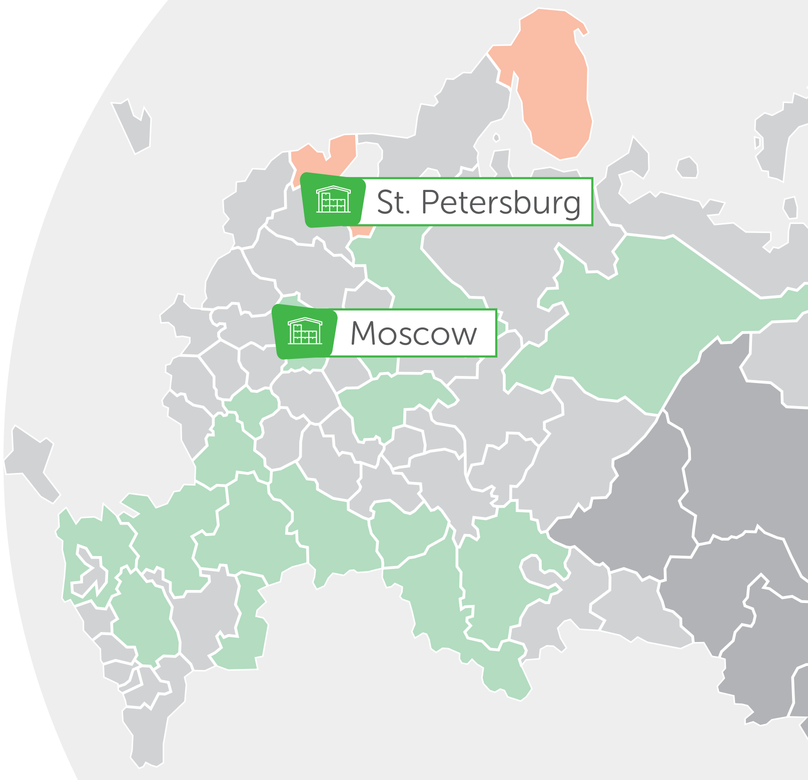
Plans

In 2018, we plan to:

» continue growing the centralisation rate;
» implement IT-systems: Mercury and EGAIS[1];
» master the forecasting and replenishment functions.

Location and Service Areas of O'KEY Distribution Centres (DCs)

Warehouses
Regions of service DC Moscow
Regions of service DC St. Petersburg
Regions with logistics without category Fresh



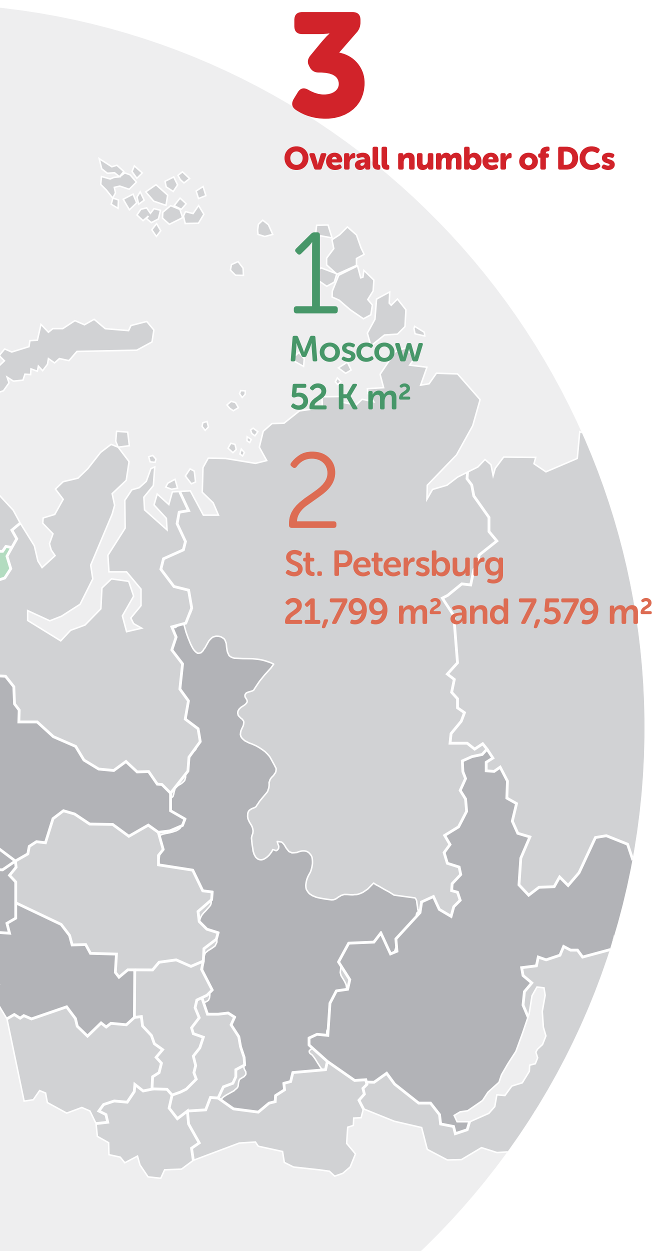
1 EGAIS – national automated information system for the control of alcohol production and distribution.

60%

Centralisation rate compared to 40% in 2016

3

Overall number of DCs



1
Moscow
52 K m²

2
St. Petersburg
21,799 m² and 7,579 m²

IT SOLUTIONS

In O'KEY, we believe that introducing efficient and customer-oriented IT systems and applications is an indispensable part of remaining competitive in the constantly changing retail markets.

To maximise our product availability, increase revenues and eliminate lost sales opportunities, we commenced an extensive project aimed at modernising our entire IT infrastructure, using state-of-the-art IT-solutions and acknowledged software.

In 2017, we:
- launched a successful pilot of a new retail automation platform based on Microsoft Dynamics AXAPTA 2012;
- launched the first pilot of a self-scanning system in one of our Moscow stores, which improves customer experience, increases customer loyalty and stimulates our clients to buy more per visit.

Plans

We aim to run all our business processes on an integrated IT platform which will enable us to achieve our strategic business goals, drive revenues and contribute to further operational cost optimisation.

In 2018, we will continue to roll out Microsoft Dynamics AXAPTA 2012 and JDA software to all stores. This will be supported by the Oracle RPAS platform for our forecasting and supply chain management processes, as well as for assortment planning and price optimisation. Alongside these initiatives, we are working on CRM-solutions which will contribute to our new loyalty programme launch.

As a result, O'KEY will benefit from optimised shelf design and layouts in each of our stores. This will better reflect the needs of our clients and will ensure that the optimal mix of product categories and brands are found on the shelf and in the best location in-store.

ERP	Microsoft Dynamics AXAPTA 2012
Supply Chain	Manhattan WMS Oracle RPAS
Category management	JDA Software[1] Oracle RPAS
Cash Register	Crystal Service Integration
Online Store	IBM Web-Sphere Commerce

1 In the process of implementation.

ONLINE SHOPPING

O'KEY strengthens its leadership in the food retail e-commerce market in Russia. The Group was among the pioneers of food retail e-commerce in Russia and we believe that this 'early start' will give us a distinct competitive advantage in the future as the borders between offline and online shopping blur further, creating a market of omnichannel sales.

In 2017, we saw further evidence that customer appetency has changed over the years. Customers now not only look for quality products, but also desire a unique shopping experience. In order to capitalise on this trend, we have developed our online services and mobile app to provide customers with a wider range of opportunities to enjoy the smart, convenient and memorable shopping experience the Group offers.

Performance

In 2017, O'KEY maintained its position as the market leader among online retailers as a result of the Group's unique competitive advantages. Our online revenue increased by 108% and reached RUB 1.35 bn, while our online customer base doubled to 200,000 people.

In 2017, we harmonised our online and offline pricing policies, ensuring that both offline and online customers are offered the same prices, discounts and promotions. This move means O'KEY is now a fully omnichannel retailer and will help us to provide one of the strongest online offers in the Russian food retail market.

The growing demand for online purchases has directed O'KEY to update most of our online shopping tools to improve operational capacity and capitalise on market trends. We significantly improved the functionality of our mobile app, which includes adapted hero-images, promo catalogues and store location maps among other features. In 2017, more than 30% of orders were made via the mobile app.

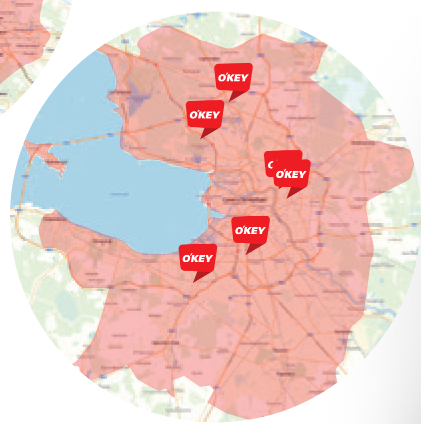
We expanded our delivery zone in 2017 to now include Moscow, St. Petersburg and their satellite regions, and also changed our delivery terms after considering feedback from our customers. Additionally, O'KEY launched another pick-up point in the Primorsky District of St. Petersburg, meaning that by the end of the year we offered five 'click and collect' pick-up points in Moscow and five in St. Petersburg.

In line with our ambition to provide our customers with multiple delivery and pick-up options, this past year O'KEY became the first Russian food retailer to launch a unique drive-through format called 'O'KEY Auto'. In the six months since its inception, the format has proven to be very popular with customers and we intend to extend the programme to other hypermarkets in the mid-term.

Plans

We expect that online shopping in Russia will continue to grow at a fast pace in the coming years and as such the consistent development of our e-commerce business will remain a strategic priority for the Group.

Moscow delivery zone



St. Petersburg delivery zone

>8,000

tonnes delivered compared to 3,800 in 2016

1,000

average amount of orders daily via okeydostavka.ru

OUR MOBILE APP ALLOWS OUR CUSTOMERS TO:

- purchase goods
- use facet search and filters
- use easy templates
- share basket between users
- view promotions
- pay online
- view order history
- view offline catalogues
- find nearest store

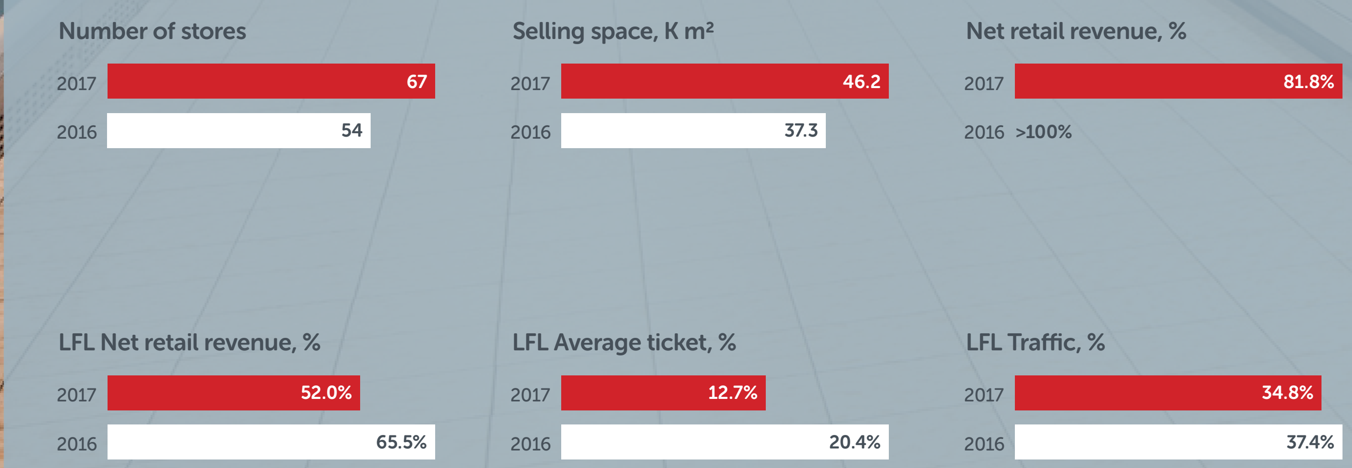
In 2017, GfK ranked O'KEY the 2nd best performing online store in the food retail segment.

Discounters

DA! discounters are a unique store format in Russia, where the lowest prices meet quality assortment that covers the daily needs of every customer. Convenient locations, excellent customer service and exclusive private label products make DA! stores the best choice for smart shoppers looking for the best value for their money.

STRATEGIC PRIORITIES:

- Growth and expansion
- Strong private labels
- The best value proposition

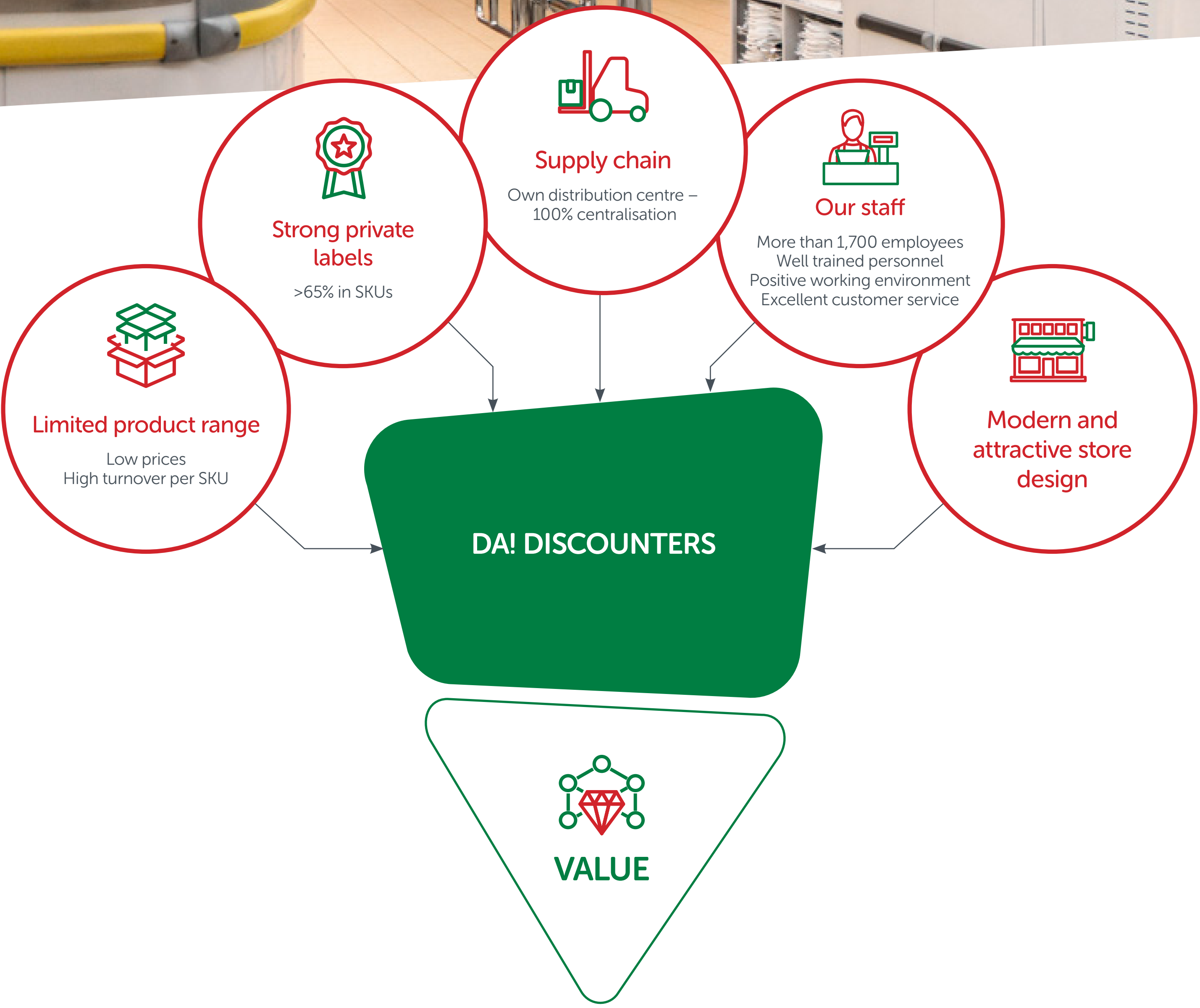


700
average store selling space, m²

6%
discounters share in sales 2017

26%
owned stores, 74% leased

2,250
product range, SKU



OUR CUSTOMERS

PERFORMANCE

In 2017, the net retail revenue of DA! discounters increased by 81.5% to RUB 10,282 mln compared to RUB 5,666 mln in 2016. Average traffic per store per day increased by 30.5%, while average ticket rose by 11.7% and reached 450 RUB by the end of the year.

These strong results were achieved thanks to the significant effort put into diversifying and enhancing our value proposition to customers by improving the assortment mix and overall customer experience. Of note, in 2017, we:

- adapted our product range to the needs of our customers, increasing it to around 2,250 SKU;
- introduced over 180 SKU of private labels;
- maintained a consistent price-level, while our key competitors raised their prices;
- conducted extensive staff-training to increase the quality of customer service.

In 2017, we opened 13 new stores in Moscow and the Moscow Region, therefore increasing the total number of our discounters to 67 and total selling space to 46.2 K m².

OUR PEOPLE

We truly believe that we have an inspired and dedicated team of employees who represent some of the best in their field. Due to our expansion in 2017, the number of employees increased by more than 50% compared to the previous year, as of 31 December 2017, DA! employed 1,772 people. We provide equal opportunities for both male and female employees, almost 60% of all employees are women. We have a very age-diverse talent pool and provide development and career opportunities to all of our employees.

SUPPLY CHAIN

DA! Discounters operate under the principle of 'Every day low price', while maintaining an uncompromisingly high quality of goods. One of the key factors supporting this principle is our supply chain.

All our stores are supplied from our own distribution centre, with a storage capacity of over 55 K m² located 60 km south of Moscow. Short shelf-life and ultra-fresh products are delivered to stores each morning by the time of opening. To ensure maximum freshness, they are not stored in distribution centre, but instead are shipped to stores the very day they arrive to the docks.

Due to the expansion of the sales network and increase of sales per store, in 2017 we significantly optimised the operating procedures of the distribution centre, which has allowed us to process two times more volume in less time when compared to 2016.

PRIVATE LABELS AND OWN PRODUCTION

We constantly seek opportunities to optimise the assortment of our stores, picking up trends and fulfilling the needs and expectation of our customers. We put considerable emphasis on strengthening our private label products, many of which are made by our suppliers exclusively for DA!.

In 2017, we introduced 180 new private labels, which increased the total number of private label SKUs on offer to 900. Our main goal is to further develop and introduce new private label products with an appearance and quality comparable to the most popular brands.

PLANS

In 2018, we plan to open up to 30 new stores. The higher number of operating stores and bigger volumes will allow us to negotiate better prices from suppliers, which in turn should increase commercial margins.

As for the product range, we plan to keep the current number of SKUs at the same level while strengthening our private label offering and further developing our supplier base to ensure that our customers are offered the best quality products.

Management Discussion and Analysis

GROUP PROFIT AND LOSSES

RUB mln	2017	2016	Δ YoY
Total Group revenue	**177,455**	**175,471**	**1.1%**
Gross profit	**40,444**	**40,209**	**0.6%**
Gross profit margin	22.8%	22.9%	(10 bps)
SG&A	**(36,189)**	**(35,764)**	**1.2%**
GS&A as % of revenue	20.4%	20.4%	0 bps
Group EBITDA	**9,335**	**9,253**	**1.0%**
Group EBITDA margin	5.3%	5.3%	0 bps
Net profit/(loss)	**3,167**	**(138)**	**>100%**

REVENUE

In 2017, total Group revenue increased by 1.1% YoY to RUB 177,455 mln while LFL revenue decreased by 1.4% YoY. The LFL revenue dynamics is largely attributable to a 2.2% YoY decrease in LFL customer traffic driven by intensifying competition, and an increase in LFL average ticket by 0.8% YoY affected by falling food inflation. While consumer sentiment has been largely on track to recovery the strong selling space growth ahead of food retail sales continued to put pressure on the performance of more mature stores.

By the end of the reporting period, total selling space decreased by 7.2% to 577,804 m². O'KEY selling space decreased by 9.3% to 531,589 m² and selling space of DA! increased by 25.3% to 46,215 m².

COST OF GOODS SOLD AND GROSS PROFIT

The cost of goods sold as a percentage of revenue increased by 10 bps in 2017 to RUB 137,010 mln. The table below provides the breakdown of cost of goods sold for 2017 and 2016:

RUB mln	2017	% of revenue	2016	% of revenue	Δ YoY
Total revenue	**177,455**		**175,471**	**100.0%**	
Cost of goods sold	**(137,010)**	**77.2%**	**(135,261)**	**77.1%**	**10 bps**
Cost of trading stock (less supplier bonuses)	(129,262)	72.8%	(128,800)	73.4%	(60 bps)
Inventory shrinkage	(3,086)	1.7%	(2,867)	1.6%	10 bps
Logistic cost	(3,834)	2.2%	(2,771)	1.6%	60 bps
Labelling and packaging costs	(828)	0.5%	(824)	0.5%	0 bps
Gross profit	**40,444**	**22.8%**	**40,209**	**22.9%**	**(10 bps)**

In 2017, gross profit increased 0.6% YoY to RUB 40,444 mln while the gross margin remained virtually unchanged YoY at 22.8%. These results were, for the most part, influenced by more favourable purchasing conditions and better customer value proposition across all store formats. The ongoing work on logistics centralisation together with continued expansion of the discounters format during the year, resulted in a logistic cost increase of 60 bps, as percentage of revenue, to RUB 3,834 mln. Improvements are expected in the net logistics costs by the end of 2018, as the centralisation of logistics progresses and its processes become more efficient. Shrinkage costs as a percentage of revenue increased by 10 bps YoY partially affected by one-off write offs.

SELLING, GENERAL AND ADMINISTRATIVE COSTS

The general, selling and administrative expenses as a percentage of revenue remained flat YoY, reflecting the Group's ongoing work on increasing efficiency across all business processes. The table below provides the general, selling and administrative expenses breakdown for 2017 and 2016:

RUB mln	2017	% of revenue	2016	% of revenue	Δ YoY
Personnel costs	(15,619)	8.8%	(16,185)	9.2%	(40 bps)
Operating leases	(5,758)	3.2%	(5,344)	3.0%	20 bps
Depreciation and amortisation	(4,613)	2.6%	(4,550)	2.6%	0 bps
Communication and utilities	(3,525)	2.0%	(3,486)	2.0%	0 bps
Advertising and marketing	(2,116)	1.2%	(1,795)	1.0%	20 bps
Repairs and maintenance	(1,254)	0.7%	(1,183)	0.7%	0 bps
Security expense	(869)	0.5%	(825)	0.5%	0 bps
Insurance and bank commissions	(819)	0.5%	(737)	0.4%	0 bps
Operating taxes	(730)	0.4%	(713)	0.4%	0 bps
Legal and professional expenses	(520)	0.3%	(603)	0.3%	0 bps
Materials and supplies	(329)	0.2%	(302)	0.2%	0 bps
Other costs	(36)	0.0%	(41)	0.0%	0 bps
Total SG&A	**(36,189)**	**20.4%**	**(35,764)**	**20.4%**	**0 bps**

PERSONNEL COSTS

In 2017, personnel costs as a percentage of revenue decreased by 40 bps to 8.8% or by RUB 566 mln YoY. The realised cost savings were, for the most part, attributable to ongoing business processes efficiency increase on both store and head office levels. In 2018, the Group will continue to focus on enhancing the effectiveness of business processes across all store formats.

OPERATING LEASES

Operating lease costs as a percentage of revenue increased by 20 bps YoY to 3.2%. This was primarily attributable to the rollout of discounters in the second half of the year in line with previously announced plans and a revision of lease agreements of two hypermarkets during the year. The operating lease expenses as percentage of revenue are expected to decrease as the discounters continue to gain momentum.

COMMUNICATION AND UTILITIES COSTS

Communication and utilities expenses as a percentage of revenue remained unchanged at 2.0%. The Company aims to continue the work on further optimization of the respective costs and efficiency improvement.

ADVERTISING AND MARKETING EXPENSES

Advertising and marketing expenses as a percentage of revenue increased by 20 bps YoY to 1.2%, while in absolute terms the growth amounted to 17.9% YoY. This YoY increase was primarily driven by continuous work on our customer value proposition and enhancing and implementing a number of marketing initiatives aimed at aligning of our formats price perception with the 'best value for money' concept.

EBITDA

RUB mln	O'KEY		Change, YoY	DA!		Δ YoY
	2017	2016		2017	2016	
Revenue	**167,062**	**169,696**	**(1.6%)**	**10,393**	**5,775**	**80.0%**
EBITDA	**11,359**	**11,845**	**(4.1%)**	**(2,024)**	**(2,592)**	**(21.9%)**
EBITDA margin	6.8%	7.0%	(20 bps)	-	-	-

Group EBITDA increased 1.0% YoY to RUB 9,335 mln with EBITDA margin remaining flat YoY at 5.3%.

EBITDA generated by O'KEY fell 4.1% YoY to RUB 11,359 mln with the margin decreasing by 20 bps to 6.8% primarily on the back of growing competitive pressure and higher logistics costs on the back of aggressive centralization.

EBITDA generated by DA! improved from negative RUB 2,592 mln (44.9% of sales) in 2016 to negative RUB 2,024 mln (19.5% of sales) in 2017 driven by new store openings and higher LFL sales.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation as a percentage of revenue remained flat YoY at 2.6%. In absolute terms, the 1.4% growth YoY was in line with revenue and for the most part triggered by the replacement of old in-store equipment and new store openings.

NET FINANCE COSTS

Whilst net finance costs as percentage of revenue remained unchanged YoY, in absolute terms the increase amounted to 4.6% YoY due to decrease in finance income. The Group's average loan portfolio stayed virtually unchanged YoY.

NET PROFIT

In 2017, net profit amounted to RUB 3,167 mln versus a net loss of RUB 138 mln a year ago. This trend was for the most part underpinned by the gain on the sale of the supermarket business in December 2017. .

CASH FLOW AND WORKING CAPITAL

RUB mln	2017	2016
Net cash (used in)/from operating activities	4,874	11,673
Net cash used in investing activities	(3,365)	(5,413)
Net cash used in financing activities	(5,187)	(4,529)
Net decrease in cash and cash equivalents	(3,678)	1,730
Effect of exchange rate on cash and cash equivalents	(35)	(35)

NET CASH (USED IN)/FROM OPERATING ACTIVITIES

As of 31 December 2017, the Group's working capital, defined as current assets (excluding cash and cash equivalents and short-term investments) less current liabilities (excluding short-term loans), was a negative RUB 4,633 mln compared to negative RUB 12,734 mln as of 31 December 2016. The working capital turnover decrease was primarily attributable to the amendments in the Trade Law and temporary effect from reorganization of the logistics processes which accompany the centralization. As a result, notwithstanding the growth of cash receipts from customers by 1.4% YoY, net cash from operating activities during the reported period amounted to RUB 4,874 mln, while in 2016 the Group reported operating cash of RUB 11,673 mln.

NET CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities declined from RUB 5,413 mln in 2016 to RUB 3,365 mln in 2017 in line with the Group's conservative investment strategy. The consideration received from the sale of supermarket business will be reflected in the Group's consolidated cash flows for 1H 2018.

NET CASH USED IN FINANCING ACTIVITIES

Net cash used in financing activities in 2017 amounted to RUB 5,187 mln. Over the reported period, the Group attracted RUB 7,686 mln of financing through the placement of exchange-traded bonds and made repayments totaling RUB 7,663 mln. In January 2017, the Group distributed a dividend in the amount of RUB 1,466 mln.

DEBT

The Group considers the Net Debt/EBITDA ratio as the principal means for evaluating the impact of the Group's borrowings on its operations. As of 31 December 2017, Net Debt/EBITDA ratio was 3.1x compared to 2.7x at 31 December 2016. We maintain a conservative approach to borrowing and expect Net Debt/EBITDA to be below 3.0x by the end of 2018.

RUB mln	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Total debt	**36,341**	**36,295**	**35,558**
Short-term debt[1]	11,662	4,622	12,000
Long-term debt	24,679	31,673	23,558
Cash&cash equivalents	**7,750**	**11,463**	**9,768**
Net Debt	**28,591**	**24,832**	**25,790**
Net debt/EBITDA	**3.1x**	**2.7x**	**2.6x**

1 Short-term debt includes interest accrued on loans and borrowings.

Corporate Social Responsibility

Customers and partners	Shareholders and financial community	Employees
WHY WE ENGAGE		
The reliable and transparent relationship with our customers and partners forms a vital element of our strategy and drives the Group's performance. As one of the leading Russian retailers, O'KEY aims to sustain this mutually beneficial partnership to ensure progress and promote development in all spheres.	As a publicly listed company, we need to provide open, timely and transparent information to help our investors make informed decisions about our financial and non-financial performance.	Every aspect of our strategy is based on the commitment of our people. Their knowledge, their willingness to work and their satisfaction are the keys to the Group's successful operations. We put an emphasis on creating the conditions for professional and career growth for our people as it strengthens their loyalty to the business.
KEY FOCUS AREAS		
CUSTOMERS » The variety and quality of provided goods » Guarantee of the best price » High level of provided services **PARTNERS** » Reliability of supplies » Mandatory compliance with contract provisions and legal requirements » Rigorous due diligence of all partners to establish their integrity and solvency	» Corporate governance » Financial and non-financial results » Strategy and KPIs » Risks	» Principles of social partnership » Mutual respect and trust that underpin HR Policy » Financial and non-financial incentives » Learning and development opportunities » Health and safety standards
WHAT WE ARE DOING		
» Customer surveys and focus groups » Feedback on call centre » Meetings with (potential) suppliers and business partners » Participation in industry conferences » Conclusion of supply contracts for products and monitoring performance of requirements for counterparties	» Presentations and conference calls between management and the financial community » Website publication of relevant GM/EGM documents » Meetings between management and the financial community, including industry conferences » Investor and analyst site visits » General meetings of shareholders » Press releases on material issues and key Group events	» Implementation of updated HR Policy and Health and Safety Policy » Developing a system of internal communication and feedback » Regular meetings between management and employees » Ensuring safety in the workplace » Implementation of social programmes and financial incentive programmes » Employee satisfaction and employee engagement surveys

O'KEY endeavours to be a significant contributor to the local communities in which we operate, as well as to the Russian economy and society in general. Our stores operate in more than 30 cities and towns across Russia, from large metropolitan areas to smaller towns with under a thousand inhabitants. We employ thousands of people, a responsibility which we take very seriously, as we acknowledge that they and their families depend on us for their livelihoods.

Government and local authorities	Local communities	Media
The Group strictly follows industry standards and complies with all laws and regulations. O'KEY aims to establish and maintain stable and constructive relations with national and local government authorities based on the principles of accountability, good faith and mutual benefit.	The development of the Group needs to be supported by the local communities wherever it operates. A better quality of life for our people and local communities, established through our social and cultural projects, contributes to regional social and economic development and ensures the sustainability of our operations, helping us fulfil our commitments as an industry leader.	The Group needs accurate and timely coverage by the various media channels when disclosing its financial and operational results, key external and internal events, community activities and participation in industry conferences, etc. The adequate perception of O'KEY and its strategy by all stakeholders is mutually beneficial for the Group and its target audiences.
» Reporting to regulators » Taxation » Implementing local community development projects and social projects » Maintaining a dialogue with government authorities on current legislative and regulatory issues » Corporate philanthropy	» Environmental safety » Social infrastructure development and modernisation » Supporting cultural events » Supporting vulnerable population groups	» Accurate media coverage of the Group's strategic messages, corporate events and news » Getting feedback from society and media » Maintaining the relationship with stakeholders at all levels
» Information disclosure and reporting » Dialogue with government authorities on legislative and regulatory issues » Participation in workshops and expert panels » Implementation of joint projects » Local community development	» Meetings with representatives of local communities » Economic, environmental and social initiatives » Publications in local media » Public hearings » Maintaining contact with NGOs	» Press releases on material issues and key events » Interviews with management » Press tours and press conferences

Our Employees[1]

The HR policy of O'KEY is focused on the recruitment and retention of qualified and promising employees. The basic priorities of the Company are centred around increasing the productivity of our personnel and providing customers with the highest level of service. We strive to create an effective working environment for our employees and ensure they have the opportunity to develop both personally and professionally.

The mission of our HR strategy is to create an atmosphere conducive to improving competitiveness through the efficient management of human capital.

As part of our HR strategy we are concerned with the following objectives:
- building a strong brand of O'KEY as an employer in Russia;
- creating a working culture of involvement and high-performance;
- formation of an efficient organisational structure;
- formation of an efficient management team;
- recruitment and retention of talent;
- system management of turnover.

In 2018, we will continue to work on strengthening O'KEY's brand as we develop the corporate culture and projects aimed at improving the Company's efficiency.

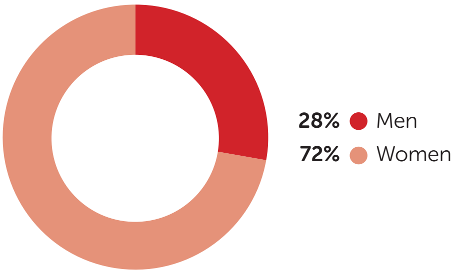
OUR TEAM IN NUMBERS

CEO announced a strategic focus on developing the Group's efficiency through continuous improvement and modernisation at the corporate conference under the slogan 'The Company's result is my responsibility'. In 2017, a new organisational structure was developed for the stores and the headoffice, based on the functional diagnostics. The new structure excludes duplicate functions, which decreased the cost of the labour compensation fund, increased the efficiency of processes and brought clarity to the responsibilities of employees.

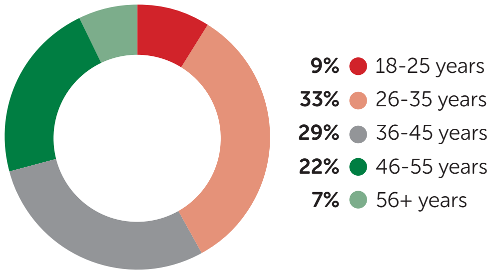
In 2017, staff numbers were optimised as part of a deal that sold the Group's supermarket business. A significant number of employees have since been employed in the stores of the buying company, with the remainder transferred to other O'KEY divisions. Owing to the efficient efforts aimed at optimising the quantity of staff and an accomplished deal, the total number of personnel decreased by 12.5% year-on-year and amounted to around 21, 000 persons.

1 Information in this section is provided for O'KEY company only and does not include the business of discounters.

Breakdown of personnel by gender identity, %



Breakdown of personnel by age, %

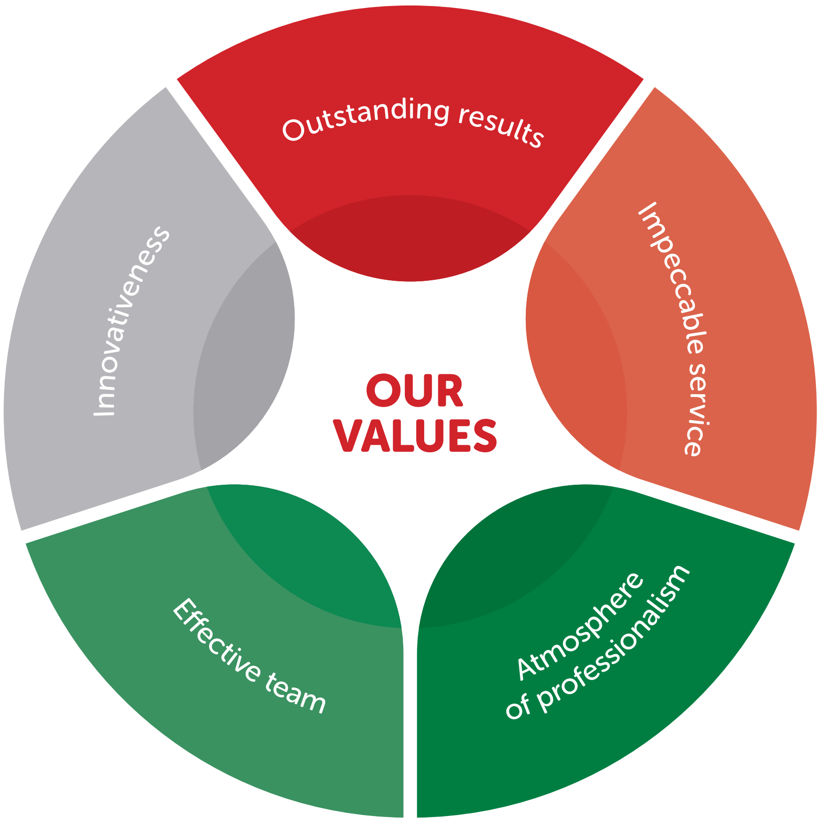


CORPORATE CULTURE

In 2017, we continued to work on the introduction of corporate values into the everyday work of our employees with the aim of establishing an atmosphere of professionalism and performance.

In 2017, O'KEY presented a new value – 'Innovativeness'.

Throughout the year O'KEY has carried out two leadership forums devoted to summarising the results for the year and updating strategic objectives. The updated strategy of the Group as well as a film about the Group and its history have been presented at the forums.



CORPORATE PERSONNEL TRAINING AND DEVELOPMENT SYSTEM

O'KEY remains committed to the personal and professional growth of its employees. O'KEY continues its development as a self-training organisation. In 2017, we continued to develop distance learning facilities for employees and increased the number of 'face-to-face' training courses from 16 to 38. We also launched a corporate online and offline library and an ambitious educational project – 'O'KEY knowledge marathon'.

TRAINING COURSES TOGETHER WITH SUPPLIERS

In 2016, we conducted courses together with large suppliers on product-related training of store employees to increase staff knowledge of brands and service quality. Training courses have been developed and carried out at O'KEY on brands such as: Johnson's baby, Libero, Zewa, Efes, Nestle, Heinz, Philip Morris.

O'KEY'S ACADEMY

In 2017, 38 new courses were developed and launched, 28 of which were established by the internal staff.

>50

courses are available for distance learning at O'KEY Academy

46,332

employees, man/courses were trained at O'KEY Academy in 2017

CORPORATE LIBRARY

The corporate library exists in three formats:

- generally accessible online library on the basis of a distance learning system – 25 books;
- online library – more than 1,000 books;
- bookcrossing project in the offices of Moscow and St. Petersburg.

'O'KEY KNOWLEDGE MARATHON'

The project is aimed at strengthening our corporate values and corresponds to a strategic focus on efficiency. We have organised masterclasses as part of the project dedicated to developing leadership, efficiency, lean production, management of human resources, reviews and trends of retail services market. Top managers at O'KEY participated in training for the first time as part of the project on such topics as information technologies, finance, quality and sales. Conferences and business games for enhancing teamwork alongside brainstorming events have also been organised.

>100

different events have been organised within one month in the Group's operating cities

800

unique employees have passed training within the project's framework

PERSONNEL RETENTION AND MOTIVATION

O'KEY efficiently utilises market-leading of tangible and intangible incentives to motivate employees. A key performance indicator system is in effect at O'KEY which includes both individual and corporate goals. Bonuses are performance related and equate to a certain share of salary.

In order to continue to be an attractive employer for our employees, we carried out a labour market investigation in 2017 and reviewed the salaries for a number of positions on the basis of the acquired analysis.

COMPENSATIONS AND BENEFITS

O'KEY ensures the necessary support is given to its employees in full conformity with legislative requirements. O'KEY also runs additional programmes aimed at establishing a comfortable working environment for our employees.

In particular, O'KEY provides its employees with the following benefits:

- long-term marginal cost under conditions of co-financing to the amount of 80-90%;
- payment for lunches;
- gift cards for the O'KEY network and gifts to children on holidays;
- tangible incentives to employees caught in difficult life situations;
- payment of membership in fitness clubs paid in installments.

CORPORATE WHISTLEBLOWING POLICY

In order to create the atmosphere of transparency and confidence the Group strives for, O'KEY has enacted a policy to report infringements of our best practices, which cover the issues of violating ethics, labour legislation, issues of interaction between employees, between employees and management. There are several channels to report infringements at O'KEY including a call centre, mandatory management visiting hours and morning meetings.

100%

appeals have been processed with a feedback provided thereto

322

appeals were received in 2017

Health and Safety

Ensuring the health and safety of our employees remains one of the top priorities for O`KEY. We strive to provide our employees with safe working conditions and our customers with a safe shopping environment.

WHAT WE DO:

- Monitoring workplace conditions
- Monitoring employee health
- Training employees

As part of our Health and Safety monitoring process, we conduct a regular audit of our stores, distribution centres and workplaces to ensure they are in full compliance with Russian legislation governing workplace safety. In 2017, specialists from the Labour Protection Department conducted 1,347 comprehensive inspections of our premises with regards to labour protection and fire safety in order to reduce the risk of penalties from the supervisory authorities.

Our employees are trained in work safety in accordance with the highest professional standards. In 2017, 3,059 members of our staff were trained to these professionally recognised levels.

In line with best international practices, O`KEY has implemented integrated systems for the regular tracking of working conditions and for logging all accidents and injuries. We have a systematic approach for investigating any accidents involving our employees or customers. The number of work-related injuries in 2017 continued to fall compared to the prior year. The total number of accidents amounted to 50, with all classified as light in their severity.

>6,500

workplaces have passed special assessment of working conditions during 2015-2017

Ethics and Compliance

O'KEY Group adheres to high standards of compliance with internal discipline, legislative and regulatory requirements, ethical and socio-legal rules and principles. The Group adheres to the principle of zero tolerance for any kind of discrimination.

The Group proceeds from the fact that its employees build their business relations on the terms of partnership, mutual respect, common goals and objectives. In any situations and circumstances, the activities and behaviour of employees of the Group must comply with high professional and ethical standards, generally accepted moral values.

Adherence to ethical norms and principles helps the Group avoid unjustified risks, maintain long-term economic growth, strengthens the team and the market positions.

The Group has introduced and successfully operates internal regulatory documents, including:

- Supplier selection Policy and Policy of choosing a counterparty
- Policy of interaction with state bodies
- Anticorruption policy

The Group has developed training programmes for employees on compliance with legislation on consumer protection, interaction with government agencies and others. These programmes are regularly updated, and trainings for employees are conducted.

In 2018, the Group will continue to work on the organisation and strengthening of the Compliance function, in particular through the creation of a unified system and a unified policy of Compliance, the organisation of appropriate training and controlling procedures.

Preventing Corruption

O'KEY Group has a zero tolerance policy towards corruption. We have put in place clear policies to prevent corruption in our business as well as to detect and avoid potential conflicts of interest.

O'KEY Group systematically monitors regulatory risks in the following areas:

- antitrust regulation
- legislation on consumer protection
- labour law
- alcohol and tobacco products trading
- advertising, intellectual property and information protection
- licensing and sanitary regulation
- judicial work and execution of judicial acts
- environmental regulation
- corporate legislation and legislation on the securities market, disclosure of information

We keep close monitoring of O'KEY's commercial activity internally as well related to our suppliers and partners and any deviations from standard operating procedures and Anti-corruption policy. Any suspicious behaviour is investigated according to our rules and policies and relevant measures are taken.

Any of our potential suppliers and service providers are scanned prior to getting a contract. We verify accuracy (transparency) of their financial reporting and that there is no affiliation to our other suppliers or our employees. We expect our suppliers to sign a consent confirming to follow our anti-corruption policy.

Training of our employees remains a priority for us. There are dedicated briefings and explanations given to most exposed departments of the business. Companywide communication is organised through leadership forums held twice a year. Additional briefings are held on store level by Risk and Compliance group leaders. All O'KEY Group employees have voluntarily signed the consent to follow Group's anti-corruption policy.

We encourage our employees to follow Group's policies and business ethics supported by our values.

We maintain a confidential whistleblower e-mail address for reporting potential conflicts to our internal audit and security departments. Also, any person may use the call centre to complain. Any information is promptly investigated by the anti-corruption team of the Risk Department.

Our Communities

O'KEY has developed an integrated programme of both charity and social investment designed to align the Group's objectives with addressing the broader social problems of the local communities in which we operate. This approach involves working together with local authorities, business partners, non-governmental organisations and our customers for the benefit of local communities as a whole.

In line with our mission, we place particular emphasis on targeted assistance and support programmes helping orphans and children lacking parental care, as well as large families with five or more children.

PRIORITIES OF CHARITY PROGRAMMES

- holistic support of large families designed to improve their financial position
- support for gifted children lacking parental care
- support of educational programmes for children in orphanages

MAJOR CHARITIES-PARTNERS IN 2017

- Rusfond
- Place under the Sun
- Festival 'Step towards!'
- AdVita

FOOD AID

In partnership with the Charity Foundation Place under the Sun in December 2017 O'KEY held an annual charity project 'Kind Purchase' to collect food and basic items on behalf of low-income families and families raising children with disabilities. Food aid was provided to more than 1,000 families in St. Petersburg before the New Year.

TREATMENT SUPPORT

In 2017, O'KEY, in partnership with Rusfond, held two large-scale charitable events, 'Buy a toy – save a child's life' in February and 'Kind November: helping children together' in November. As a result of generous donations from our customers, we collected more than RUB 12.5 mln for those in need. The funds received from the sale of private label toys and goods were used for several operations, postoperative treatment, purchase of orthopedic suits, wheelchairs and even to purchase expensive medication for the vulnerable. We helped 24 critically ill children with various malformations from Irkutsk, Krasnodar, Murmansk, Orenburg, Stavropol, Ufa, St. Petersburg, Volgograd, Voronezh, Leningrad, Rostov and Tyumen regions.

Since April 2016, O'KEY has been a loyal partner of the St. Petersburg charitable fund AdVita, a foundation dedicated to helping children and adults suffering from cancer. We organised a variety of campaigns in our St. Petersburg stores throughout 2017 to raise funds for AdVita and placed donation boxes next to check-outs for our customers to be able to help those in need. Since the beginning of the project, the generosity of our customers has helped us raise more than RUB 5.5 mln to put towards the treatment costs of over 20 children and adults with cancer.

DEVELOPMENT OF CHILDREN'S CREATIVITY

For several years O'KEY has been the general partner of the St. Petersburg international creative festival for children and youth with disabilities, 'Step towards!'. In May 2017, the festival was held for the tenth time and brought together 500 participants from 52 regions of Russia. The 'Step towards!' festival helped the children to work through their social anxieties and many secured a work placement among the creative professions.

In May 2017, O'KEY supported the all-Russian charity event 'Red Carnation', hosted by the Memory of Generations fund that aims to provide veterans with high-tech medical care.

SUPPORTING VULNERABLE GROUPS

We consider it our responsibility, as one of Russia's leading food retailers, to ensure, to the best of our ability, that vulnerable population groups have access to basic food products at affordable prices. For five years we have been offering holders of state social cards an additional 3% discount at our stores in Moscow and the Moscow region, the Krasnoyarsk region and Murmansk. The discount does not apply to alcohol and tobacco products.

ENVIRONMENTAL RESPOSIBILITY

We believe that having a responsible approach to the environment is an integral component of being successful in the market in the long term. Running our business in strict compliance with Russian environmental legislation is a key priority for O'KEY.

Further to this we regularly implement our own initiatives directed to increasing our eco-friendliness:

- we equip our stores with modern recuperators and energy-efficient lights to reduce our total energy consumption
- we conduct separate waste collection in all our stores to reduce the amount of waste to be buried at city landfills
- we perform quarterly monitoring of atmosphere and noise pollution in the buffer zone to make sure that our stores have no negative impact on the living conditions of local communities
- we install water-treatment facilities in our key locations: petrol and sand catchers, filtering stormwater from parking zones and grease catchers; filtering waste from our own-production facilities before it is disposed into the public sewers

Corporate Governance

Corporate Governance System

O'KEY Group S.A. is a company incorporated under the Laws of the Grand Duchy of Luxembourg with Global Depositary Receipts (GDRs) listed on the London Stock Exchange, and as such is not required to comply with the UK Corporate Governance Code.

O'KEY Group is committed to managing and conducting its operations in accordance with applicable regulations of Luxembourg and the London Stock Exchange.

We recognise our obligation to our shareholders to adopt appropriate standards of governance and control, both at the Board level and within our management teams, and aim to establish and support a corporate governance framework that is suitable for the development of our business and meets the requirements of our shareholders.

The most significant decisions affecting the life of the Company and the rights of shareholders, including the approval of financial statements and the Annual Report, appointment of the Directors, amendments of the Articles, approval of the final dividend for the financial year, are subject to review and approval at the Shareholders meeting.

The Board of Directors and its committees provide overall guidance for the business and strategic planning for the Group. It sets strategic goals and oversees their implementation by the CEO and senior Management of the Group.

The Management Board and the Chief Executive Officer are responsible for the day-to-day operations of the companies of the Group and implement the strategy approved by the Board of Directors.

THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is O'KEY Group S.A.'s supreme governing body. The General Meetings of Shareholders are convened and held in accordance with Luxembourg legislative requirements and the Articles of O'KEY Group S.A. According to the Articles of O'KEY Group S.A., the annual General Meeting shall be held within six (6) months of the end of each financial year in the Grand Duchy of Luxembourg at the registered office of the Company, or at any such other place in the Grand Duchy of Luxembourg as may be specified in the convening notice of the meeting.

The next annual General Meeting will be held before 30 June 2018. A convening notice specifying the date, time, address of the meeting and the agenda will be sent and published no later than fourteen days before the meeting.

Transfer Restrictions

As of 31 December 2017, and the date hereof, to the knowledge of the Company all shares in issue in the Company are freely transferable, provided that the transfer formalities set out under Article 6 of the Articles are fulfilled.

The Company has no information about any agreements between the shareholders which may result in restrictions on the transfer of securities or voting rights, as mentioned under Article 11 (1) (g) of the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids.

Special Control Rights

All the issued and outstanding shares of the Company have equal voting rights and there are no special control rights attached to shares of the Company.

The Caraden Shareholder (as defined in the Articles) has, under the condition of holding a minimum amount of shares in the Company, a specific right with respect to the appointment and removal of Directors as at least one Director (designated as the Caraden Director) must be appointed from a list of candidates proposed by the Caraden Shareholder and may be removed at the initiative of the Caraden Shareholder (additional information may be found under Article 8 of the Articles).

The supporting vote of the Caraden Shareholder is required, under certain conditions, to amend the provisions of the Articles relating to: (i) the rights and prerogatives of the Caraden Shareholder; and (ii) the appointment, removal, replacement, rights, prerogatives and positive vote of the Caraden Director (additional information may be found under Article 16.4 of the Articles).

OUR CORPORATE GOVERNANCE PRINCIPLES

PROFESSIONALISM

We strive to appoint individuals with relevant skills and experience to the Board of Directors and its committees in order to enable them to discharge their respective duties and responsibilities effectively. The Board is supplied, in a timely manner, with information in a form and of a quality appropriate to allow it to discharge its duties.

EQUALITY

O'KEY Group's corporate governance system is designed to protect shareholders' rights and ensure equal treatment of all shareholders.

ACCOUNTABILITY

The Board of Directors is accountable to O'KEY Group's General Meeting of Shareholders and is responsible for:

- formulating the Group's strategy;
- establishing and maintaining systems, which ensure due consideration of key decisions by experienced individuals, including in the areas of remuneration and incentives, internal control and risk management;
- holding management accountable for the successful implementation of the Group's strategy.

TRANSPARENCY

We strive to ensure the appropriate disclosure of reliable information on all significant issues related to our operations including financial status, social performance, operating results and ownership.

Control System in Employee Share Scheme

The Company does not have an employee share scheme.

Voting Rights

Each share issued and outstanding in the Company bears one vote.

The Articles do not provide for any voting restrictions.

In accordance with the Articles, a record date for the admission to a general meeting may be set by the Board (Article 15 of the Articles). Only those Shareholders as shall be shareholders of record on any such record date shall be entitled to be notified of and to vote at any general meeting and any adjournment thereof, or to give any such consent as the case may be.

In accordance with the Articles, the Board may determine such other conditions that must be fulfilled by Shareholders for them to take part in any meeting of shareholders in person or by proxy (Article 15 of the Articles).

Shareholders' Agreements with Transfer Restrictions

The Company has no information about any agreements between shareholders which may result in restrictions on the transfer of securities or voting rights.

Appointment of the Directors, Amendment of the Articles

The rules governing the appointment and replacement of the directors and the amendment of the Articles are set out under Luxembourg Company Law and the Articles (in particular Articles 8, 15 and 16).

The consolidated version of the Articles is published under the Shareholders section of the Company website and is available at: http://okeygroup.lu/sharedocs

Significant Agreements or Essential Business Contracts

The Board is not aware of any significant agreements to which the Company is a party and which take effect, alter or terminate upon a change of control of the Company following a takeover bid. The Board has considered essential business contracts and concluded that there are none.

Agreements with Directors and Employees

As of the date hereof, no agreements between the Company and its Directors or employees exist that provide for compensation if the Directors or the employees resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Board of Directors

The Company's Board of Directors plays the key role in organising an efficient corporate governance system. The Board is vested with the broadest powers to manage the business of the Company and to authorise and perform all acts of disposal and administration falling within the purposes of the Company.

The Board is responsible for taking strategic decisions in respect of the operation and development of the Group, as well as overseeing the risk management and internal audit functions of the Group. The decisions related to the day-to-day operations of the Group are delegated to the management.

The Board is also a management body of O'KEY Group S.A. and is authorised to take all decisions in respect of O'KEY Group S.A., unless they are reserved for the General Meeting. The Board is not authorised to issue or buy back shares. The repurchase by the Company of its own shares is subject to the conditions set out in the Company Law and the Articles.

There are five members of our Board, including one independent director. The General Meeting of Shareholders appoints the Board members by a simple majority of votes cast, for a period not exceeding six years or until their successors are elected[1].

Our current Board of Directors was elected at the General Meeting of Shareholders held on 13 October 2015.

Meetings of the Board of Directors

Meetings of Board of Directors are held regularly in compliance with the approved work schedule for the year. The Board's work schedule is determined on the basis of strategic planning and the reporting cycle. Whenever an urgent matter needs to be considered, Extraordinary Board meetings are organised, or, if a personal meeting cannot be organised due to short notice, the Board can adopt a circular resolution by a unanimous vote. It is the Board Chairman's responsibility to determine the Board's work plan and to include additional items in the plan.

In 2017, the Board of Directors worked on the following key tasks:

- » preparation of the financial statements and annual report, and review of the results for the year 2016;
- » approval of the budget and business strategy for the year 2017;
- » review of the quarterly financial results, approval of financial statements for 6 months of 2017 and monitoring of compliance with risk management strategy;
- » determination of the Group's strategic and operational priorities;
- » entering into a major transaction with X5 retail group in connection with a strategic decision to focus on two of the Group's most profitable business segments: hypermarkets and discounters.

Meetings of the Board of Directors

Member	Board of Directors	Audit Committee	Remuneration Committee
	(4 meetings)	(4 meetings)	(1 meeting)
Heigo Kera	attended 4	attended 4	attended
Dmitrii Troitskii	1 attended, 2 by proxy	not a member	by proxy
Dmitry Korzhev	3 attended, 1 by proxy	attended 1	not a member
Boris Volchek	4 by proxy 4	attended 1	by proxy
Mykola Buinyckyi	attended 4	attended 4	not a member

1 The rules governing the appointment and replacement of the Directors are set out under the Law of 10 August 1915 on Commercial Companies, as amended, and the Articles (in particular Articles 8, 15 and 16). The consolidated version of the Articles is published under the Shareholders section of the Company website, available at: http://okeyinvestors.ru/shareholder/documents/

MEMBERS OF THE BOARD OF DIRECTORS OF O'KEY GROUP S.A. as at 31 December 2017:

HEIGO KERA

Group Chairman, Member of the Audit Committee, Chair of the Remuneration Committee

Election
First elected to the Board of Directors in June 2010, and repeatedly re-elected since then

Education
University degree in economics, Tallinn Technical University (Estonia)

Skills and Experience
2015–2017: CEO of O'KEY Group effective 1 May 2015
2008–present: the owner and a Member of the Board of Directors of Silverko Consult OU
2002–2008: consultancy services, including research on retail markets in Belarus, Kazakhstan and China.

Committee Membership
Member of the Remuneration Committee
Member of the Audit Committee

Shares in O'KEY
Mr. Kera does not hold shares of O'KEY Group S.A.

DMITRII TROITSKII

Member of the Board of Directors Non-Executive Director

Election
First elected to the Board of Directors in June 2010 and repeatedly re-elected since then.

Education
University degree, State Marine Technical University of St. Petersburg

Skills and Experience
2005–2007: Member of the Board of Directors of the Ochakovo Dairy Plant
2005-present: Member of the Supervisory Board of Bank Saint Petersburg, Development Director of Neva-Rus

Committee Membership
Member of the Remuneration Committee

Shares in O'KEY
Mr. Troitskii indirectly owns ca. 33.05% of the shares of O'KEY Group S.A.

BORIS VOLCHEK

Caraden Director Member of the Audit and Remuneration Committee

Election
First elected to the Board of Directors in June 2010 and repeatedly re elected since then.

Education
University degree, Leningrad Institute of Railway Engineers (now St. Petersburg State University of Communications)

Skills and Experience
1995-present: President of the Union Group of companies
2000-present: General Director of St. Petersburg Automobile Museum.

Committee Membership
Member of the Remuneration Committee
Member of the Audit Committee

Shares in O'KEY
Mr. Volchek indirectly owns ca. 29.52% of the shares of O'KEY Group S.A.

DMITRY KORZHEV

Director Member of the Audit Committee

Election
First elected to the Board of Directors in June 2010 and repeatedly re-elected since then.

Education
University degree, State Marine Technical University of St. Petersburg

Skills and Experience
2005-2010: Member of the Supervisory Board of Bank Saint Petersburg

Committee Membership
Member of the Audit Committee

Shares in O'KEY
Mr. Korzhev indirectly owns ca. 11.73% of the shares of O'KEY Group S.A.

MYKOLA BUINYCKYI

Independent Director Chair of the Audit Committee

Election
First elected to the Board of Directors in October 2015. He also served on the Board in 2010-2013.

Education
University degree, The University of Edinburgh, UK
A fellow of the Chartered Institute of Management Accountants
A Member of the Institute of British Management
Joint diploma in management accounting

Skills and Experience
Over 35 years in international financial management and over 20 years' experience in Russia.
7 years as a management consultant with Coopers & Lybrand.
Prior to that, he worked for several years in senior financial management positions in the oil support.

Committee Membership
Member of the Remuneration Committee

Shares in O'KEY
Mr. Buinyckyi does not hold shares of O'KEY Group S.A.

Member of the Audit Committee
Member of the Remuneration Committee

Committees of the Board of Directors

The primary role of the Committees is to provide assistance to the Board in preparing and adopting decisions in its respective functional areas, as well as to ensure that matters brought for consideration by the Board of Directors are scrutinised prior to the Board meetings. The meetings of the Committees usually take place before the Board meeting. The Board Committees have broad procedural powers and may engage independent external experts, obtain any information from the Company's executive management that falls within their remit and may use any other Company resources, as well as set tasks for the Company's management.

There are two committees on the Board of Directors: the Audit Committee and the Remuneration Committee.

In total, 5 Committee meetings were held in 2017.

Audit Committee

Audit Committee Members

As of 31 December 2017, the Audit Committee comprised:

- Mykola Buinyckyi, Committee Chairman, Independent Director of the Board of Directors;
- Boris Volchek, Committee Member, Caraden Director of the Board of Directors;
- Dmitry Korzhev, Committee Member, Director of the Board of Directors;
- Heigo Kera, Committee Member, Group Chairman, Director of the Board of Directors;
- Ilya Ilin, Committee Member, non-director, external consultant;
- Alvidas Brusokas, Committee Member, non-director, external consultant.

Key Areas
The Audit Committee oversees the internal audit function, the effectiveness of risk management and the internal controls of the Company and the Group, and approves and monitors the performance of the internal audit plan for the year. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities relating to the financial statements, including periodically reporting to the Board of Directors on its activities and the adequacy of internal control systems over financial reporting.

According to the Statute of O'KEY Audit Committee, the Audit Committee shall consist of no fewer than three current members of the Board of Directors, and shall be chaired by an independent director.

The Committee's Remit
- reviewing the IFRS financial statements for integrity and transparency;
- analysing financial reporting processes, including carrying out regular reviews and making recommendations;
- recommending appointments and remuneration of the Company's external auditor to the Board of Directors and maintaining an ongoing relationship with the external auditor;
- analysing and supporting the internal audit system and risk management procedures, including the drafting of recommendations for their improvement.

Activities in 2017

The Audit Committee performed the following duties during 2017:

- fulfilled oversight responsibilities relating to the integrity of the Company's annual financial statements;
- fulfilled oversight responsibilities relating to the integrity of the Company's half-yearly financial statements;
- reviewed reports prepared by the Internal Audit department;
- reviewed effectiveness of the Company's risk management and internal control systems;
- reviewed policies and procedures published in the Company;
- monitored reports as per the Company's Whistleblowing Policy;
- planned and agreed the scope of the audit of financial statements for the year ended 2017 with the external auditor of O'KEY Group;
- approved the Internal Audit plan for the year 2018.

Plans for 2018
The Audit Committee and the Company will continue to focus on the following areas in 2018:

- how the Company's management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group;
- optimising the internal business processes involved in the preparation of financial reporting.

Internal Audit Department
Internal Audit assists the Group's Audit Committee in its oversight role.

Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

It is an independent department within the O'KEY Group that functionally reports to the Audit Committee of the Board of Directors and administratively reports to the Deputy of CEO.

In 2017, the department audited the following business processes: human resources, marketing, operation activities, purchases, environmental compliance and industrial safety. It also hired external consultants to help audit the risk management system.

The Internal Audit Department's plans for 2018 include auditing the following business processes: e-commerce, sales, government relations & public relations, and IT.

Remuneration Committee

Committee members

- Heigo Kera, Committee Chairman, Chairman of the Board, Director of the Board of Directors;
- Boris Volchek, Committee Member, Caraden Director of the Board of Directors;
- Dmitry Troitskii, Committee Member, Director of the Board of Directors;
- Ilya Ilin, Committee Member, non-director, external consultant;
- Alvidas Brusokas, Committee Member, non-director, external consultant.

The Committee's remit includes:

- reviewing the compensation policy;
- advising on any benefit or incentive schemes;
- making proposals to the full Board of Directors regarding the remuneration of Executive Directors and management (including Chief Executive Officer).

In 2017, the Committee worked closely with the Group management to find ways to facilitate the further optimisation of costs of the Group, as a result, some changes to the KPIs and bonus policies are to be introduced in 2018.

Activities in 2017:
During the reporting period, the Remuneration Committee held one meeting. At that meeting, the Committee reviewed the report on the remuneration, bonuses and expenses of the Board and its Committees. The committee reviewed the amount of remuneration to be allocated to the management of the Group in 2016, approved the Remuneration Committee Report and suggested the total maximum amount of remuneration of Directors for 2017 to be submitted for the approval of the shareholders of the Company.

Remuneration
Members of the Board of Directors of O'KEY Group S.A. receive remuneration of the amount approved by the General Meeting of Shareholders. Members of the Board and its Committees may be compensated for the expenses they incurred in the course of their duties, in accordance with the business and travel expenses policy of O'KEY Group S.A.

Diversity
O'KEY Group is working on adoption of a diversity policy. However, as can be seen from the information on the senior management team, O'KEY Group aims to employ the members of the team most suitable and qualified for their post and function, irrespective of their age, gender or origin. The requirements of educational and professional backgrounds are such as to ensure that the members of the team possess the skills and experience necessary to perform their functions effectively.

Changes made to the Senior Management Team in 2017

Miodrag Borojevic
- 22.03.2017
- Chief Executive Officer of O'KEY

Ivan Dropulic
- 10.07.2017
- Chief Commercial Officer of O'KEY

SENIOR MANAGEMENT

O'KEY`s management team consists of experienced professionals, whose expertise and enthusiasm drive our success. We have recruited within Russia and internationally to ensure we have the best people, who are able to bring a global perspective on the business combined with deep knowledge of the Russian marketplace. The team was further strengthened through the recruitment of selected senior managers in 2017.

MIODRAG BOROJEVIC

CEO of O'KEY

Appointment
A member of the Management Board since 2017

Education
The University of Belgrade, Department of Economics;
The Josip Juraj Strossmayer University of Osijek, Department of Electrical Engineering.

Skills and experience

2014-2017: CEO REWE Italy

2002-2014: various executive positions in Kaufland

ARMIN BURGER

CEO of DA!

Appointment

A member of the Management Board since 2013

Education

University of Freiburg, Department of Economics

Skills and experience
2012-2013: CEO and a Member of the Supervisory Board of Praktiker AG

2008-2011: Member of the Supervisory Board Aldi Süd

1999-2008: CEO Hofer KG, Sattledt, Austria

1990-1998: various positions in Aldi GmbH

KONSTANTIN ARABIDIS

CFO

Appointment
A member of the Management Board since 2016

Education
St. Petersburg University, Department of Economics;
Peter the Great Saint Petersburg Polytechnic University, Department of Technical Cybernetics;

Member of Association of Chartered Certified Accountants (ACCA).

Skills and experience

2012-2016: various positions in O'KEY Group

Before 2012: various positions in PWC

PAVEL TOMANEK

Chief Operating Officer

Appointment
A member of the Management Board since 2016

Education
Masaryk University in Brno, Department of Clinical Psychology

Skills and experience
2015-2016: O'KEY Sales Director for the Northwest and Southern regions

2012-2015: Operations Director in X5 Retail Group

2007-2008: Operations and Logistics Director in Lenta

2000-2007: Senior Executive in Tesco

ELENA POLOZOVA

Human Resources Director

Appointment
A member of the Management Board since 2015

Education
Moscow International Higher School of Business (MIRBIS), MBA;
Lipetsk State Technical University, Department of Psychology.

Skills and experience
2013-2015: Senior HR, OKEY

2003-2013: HR Business partner in Magnit

ANTON FARLENKOV

Corporate Development Director

Appointment
A member of the Management Board since 2016

Education
Urals State Technical University, Department of Physics and Technology

Skills and experience
2006-2016: Head of EEMEA equity research at Goldman Sachs

2003-2006: various positions in Royal Dutch Shell, Infoshare

IVAN DROPULIC

Chief Commercial Officer

Appointment
A member of the Management Board since 2017

Education
The University of Zagreb, Department of Economics

Skills and experience
2012-2017: Purchasing and Marketing Director, Member of the Board of Kaufland Croatia

2007-2012: Fresh Food Director at Kaufland Croatia

Up to 2007: various positions at Pik Vrbovec and Jamnica

IVART PAPLI

Director for Security and Risk Management

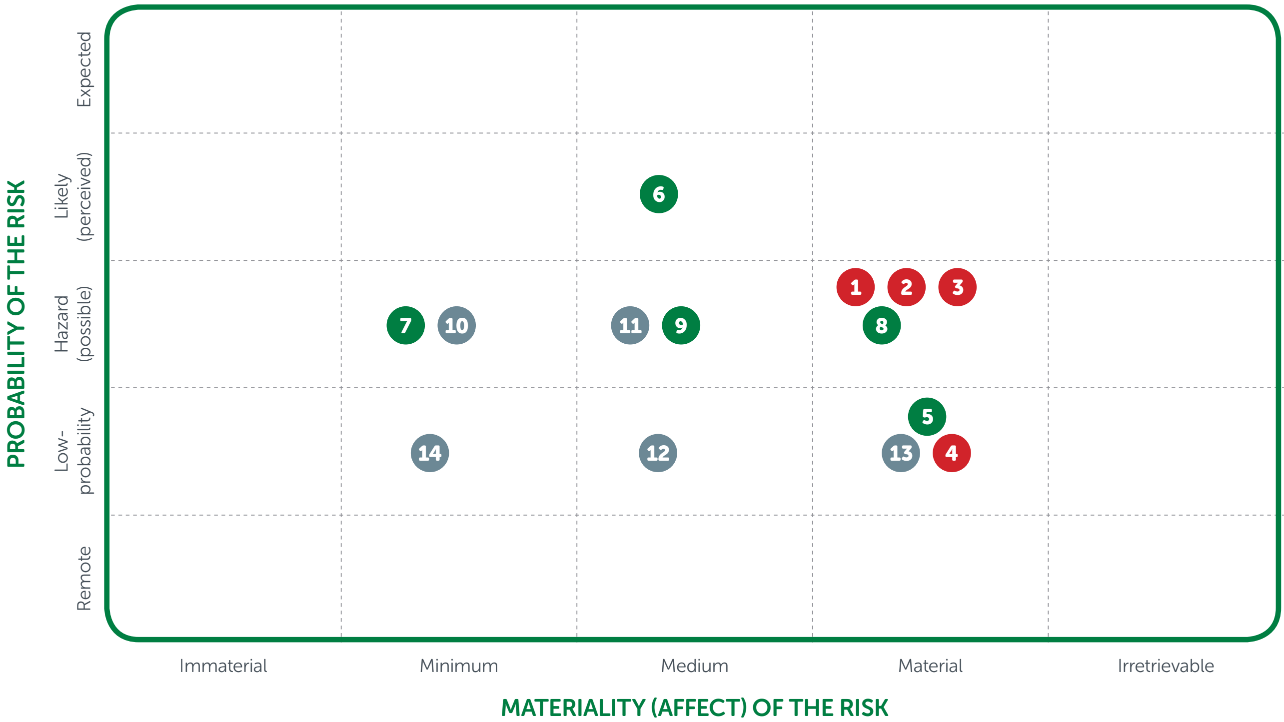
Appointment
A member of the Management Board since 2015

Education
Tallinn University, Department of culture
Baltic Business Security School, Licence in security management;
Institute of Economics (Estonia), Licence in company's economic safety,
Licence in fraud investigations (CFI).

Skills and experience
2012-2015: Risk & Security manager IKEA Russia

2002-2012: various positions at DHL

Risk Management System



The risk management system is intended to provide a reasonable guarantee that the Company's strategic goals will be achieved in a timely manner, and that the degree of risk faced by the Group remains acceptable for both management and shareholders. We operate a unified approach to risk management through the Group Risk Standard, which comprises a range of relevant tools and methodologies aimed at early risk detection and risk mitigation.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Audit Committee oversees how management monitors compliance within the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Group's Audit Committee in its oversight role. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Identified risk areas are monitored quarterly and followed by a coordinated improvement programme.

OUR CHALLENGES IN 2017

In 2017, we focused on the operating efficiency of the Company. With the sale of our supermarket business in December 2017, we began a new stage in the development of our company. Our organisational structure was updated in line with our strategic vision, and this will allow us to focus on the key priorities of the Group: achieving improved efficiency in our city hypermarkets and accelerating the expansion of discounters.

Additionally, we focused on costs control, optimisation of commercial policies and improving our assortment mix. As a result of this process optimisation, we achieved a notable decrease in personnel costs, both at store and head office level.

During 2017, we continued to increase logistics centralisation and the effectiveness of operations at store and head office levels. Through continuous and timely work with our suppliers, we achieved an improved overall centralisation rate of almost 60% by the end of 2017, up from 40% at the same period in 2016.

PRINCIPLE RISKS

Below, we describe the key risks that could have a material adverse effect on our business, our financial and operational performance and, as a result, could affect both our share price and reputation.

Additional risks not known to us, or those risks that we currently consider immaterial, may also impair our business operations. We do not expect to incur any risks that may jeopardise the continuity of our business.

Name of Risk	Definition & Potential Impact	Mitigating Actions
STRATEGIC RISKS		
1 Economic Outlook	Our business is affected by uncertainties associated with changing economic conditions, particularly in the current environment of global economic instability. Therefore, we may face reduced customer demand as the income and purchasing power of our customers decreases under the weight of a weaker macroeconomic environment, exacerbated by declining oil prices and sustained rouble volatility.	We closely monitor the changes in the macroeconomic environment, income levels, consumer confidence index and other indicators. Therefore, if significant unfavourable developments occur, we are ready to take corrective steps and adjust our business model.
2 Competition Risk	The retail sector in Russia is highly competitive. We face strong competition from other retailers (Russian and international), some of which are larger and have greater resources. Retail chains compete mainly over store locations, product ranges, price, service and store conditions. Some competitors might be more effective and faster in capturing certain market opportunities, which in turn may negatively impact our market share and our ability to achieve our performance and expansion targets.	We focused on enhancing our customer value proposition through the introduction of a competitive pricing policy, the implementation of effective marketing initiatives and assortment structure improvement. We put considerable effort into aligning our hypermarket price perceptions with the 'best value for money' concept. In this context, we launched an extended marketing campaign based on the price-match guarantee across the wide range of top-selling products offered at our hypermarkets.
3 Political Risk	Political developments may adversely impact the macroeconomic environment and the market in which our company operates. Although political stability in Russia has improved, Russia is still a state whose political, economic and financial systems are rapidly developing and changing.	Although these risks are outside the control of the Group, O'KEY monitors political developments closely and maintains strong relationships with various national industry bodies.
4 Regulatory Risk	Our operations are subject to various government regulations and industry-specific legislation with respect to quality, packaging, health and safety, labelling, distribution and other standards. Some regulations are still being developed in Russia. Current and future government regulations or changes thereto may require us to change the way we run our operations and could result in cost increases. Failure to comply with regulations can also lead to reputational damage.	We aim to ensure compliance with all applicable regulations by monitoring regulatory developments and changes, and by following up and responding to changes in regulations and standards in a timely manner. The new terms of Trade Law had significant influence on all players on the market. During the second half of 2016, and the first quarter of 2017, we developed and implemented essential changes in the Company's main business processes and updated relevant internal policies and procedures.

Name of Risk	Definition & Potential Impact	Mitigating Actions
OPERATIONAL RISKS		
5 Changing Customer Expectations	We strive to provide our customers with a wide range of goods and services, at competitive prices. However, we recognise that our customers' shopping habits and expectations are influenced by the economic environment and will change over time.	To maximise the efficiency and relevance of such assessments, we monitor internal and external reports on retail market developments and changes in O'KEY positioning. During the FY 2017, as a result of continual analysis of the assortment structure and negotiations with our suppliers, we enhanced the volume of promotional campaigns and developed goods that meet the expectations of our customers with regards to price, volume and quality.
6 Employee Recruitment and Retention	Competition for highly qualified management and store personnel remains intense in Russia. For our plans of expansion to materialise, we need highly skilled employees. Our future success depends in part on our continued ability to hire, and retain new employees. We understand that any inability to attract and retain highly qualified employees and key personnel in the future could have an adverse effect on our business.	To improve motivation, we have developed a system of Performance Appraisal that is conducted on a regular basis and rewards employees based on their individual results. We also promote internal opportunities for career development via training and special programmes. Additionally, to facilitate the adaptation of new employees, we organise introductory courses and coaching in our stores.
7 Supply Chain Risk	Our financial performance depends in part on reliable and effective supply chain management. We rely on third parties to supply us with merchandise and services. The third parties that supply us with merchandise and services also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Shortages and delays could materially harm our business. Unanticipated increases in prices could also adversely affect our performance. Furthermore, we may be exposed to the risk of delays and interruptions to our supply chain as a consequence of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.	Throughout 2017, we continued to increase logistics centralisation and the effectiveness of operations at store and head office levels. The continuous and timely work with our suppliers resulted in an improved overall centralisation rate of almost 60% by the end of 2017, up from 40% at the end of 2016. In line with our commitment to the 'lean store – lean office' concept, we carried out a restructuring of our head office in Q4'17 which resulted in a more transparent and efficient organisational structure.
8 IT Platform Development	Execution of our strategic targets requires the adaptation of our current IT infrastructure to changing business needs. As the business grows, the complexity of processes supporting it and diversity of tasks around such growth will increase. Delayed or inappropriate decisions on development of the infrastructure can lead to failures in meeting Group goals and impede the attainment of longer-term goals.	At the end of 2016, we began the integration of several core IT systems that will allow us to meet the modern demands of the market. In 2017, we implemented these systems in several areas of operation as part of the pilot project and witnessed improvement in the operations of our store and head office processes as a result. In 2018, we plan to finish the implementation of these systems.
9 IT Security Threats	We are observing an increase in IT security threats and higher degrees of professionalism in cybercrime. Our systems and solutions, as well as those of our counterparties, remain potentially vulnerable to attack. Depending on their nature and scope, such attacks could potentially lead to the leakage of confidential information, improper use of our systems, manipulation and destruction of data, sales downtimes and supply shortages, which in turn could adversely affect our reputation, competitiveness, and business, financial and operational performance.	We employ a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems such as firewalls and virus scanners in order to reduce the threats to our IT security.

Name of Risk	Definition & Potential Impact	Mitigating Actions
FINANCIAL RISKS		
10 **Provision of Sufficient Financing**	Recent changes in the macroeconomic situation might result in a liquidity squeeze and the tightening of lending policies by Russian banks. Given the Group plans for expansion in the coming periods, issues with the availability of external financing or significant changes in its cost could negatively impact our ability to execute the programme.	We maintain available lines of credit to close potential liquidity gaps. We diversify and enlarge the list of partnering banks to increase our control over the availability and cost of financing. Our securities are listed on the London Stock Exchange that allows us to utilise the secondary placement of shares as an alternative means of financing.
11 **Tax Regulations**	Russian tax law has complex tax rules, which may be interpreted in different ways and such rules are subject to frequent changes. Examinations by tax authorities and changes in tax regulations could adversely affect our business, and financial and operational performance. Changes in tax law could result in higher tax expense and payments. Furthermore, legislative changes could materially impact tax receivables and liabilities, as well as deferred tax assets and deferred tax liabilities.	Our tax and legal specialists review compliance with applicable tax regulations, current interpretations issued by the authorities and judicial precedents resulting from tax disputes. This work is conducted on a regular basis and in a consistent way, ensuring we are aware of any changes that we may need to implement.
12 **Changes in Working Capital**	The inability to control and manage elements of the working capital can result in negative changes for the operating cash flow, leading to liquidity gaps and excessive reliance on external financing.	We exercise constant control over the working capital, which is detailed in our monetary policy. The aim of this policy is to minimise prepayment balances and control overdue receivables. We are also taking steps to improve stock management efficiency by establishing and monitoring KPIs and organising training sessions for store employees.
13 **Risk of Currency and Interest Rate Volatility**	We are exposed to fluctuations in exchange rates because of loans received in USD and contractual obligations in USD and EUR. Although measures are taken to minimise this risk, there can be no assurance that exchange rate and interest rate fluctuations will not negatively influence our results.	We manage interest rate risks by borrowing money at fixed rates with a long tenor. These facilities do not provide the lender with the right to increase the interest rate due to any changes in the money market. Certain currency risks are controlled through switching the payments into roubles, setting caps or are hedged using derivative financial instruments.
14 **Risk of Misstatements in Financial Statements**	We face exposure to risks relating to failures in proper financial reporting and the classification of accounting entries, and risks of making inaccurate accounting estimates.	We regularly test internal controls over financial reporting to prevent misstatements in financial statements. We have a qualified team of finance professionals preparing our financial statements, and our consolidated IFRS financial statements preparation process is completely automated. For a description of financial risks and exposure calculation, please refer to note 30 in the Group Consolidated Financial Statements.

Information for Shareholders and Investors

SHARE CAPITAL

O'KEY Group S.A. share capital amounts to EUR 2,690,740 divided into 269,074,000 ordinary shares of a nominal value of EUR 0.01 each. As at the date of this report, the Company's share capital has remained unchanged since 30 November 2010.

All shares issued by the Company have equal rights as provided for by the law of 10 August 1915 on commercial companies, as amended (the 'Company Law') and as set forth in the Articles, save for the special rights granted to the Caraden Shareholder.

Significant Shareholdings

The three major indirect shareholders of the Group are its founders:

» Mr. Dmitri Troitskii (who indirectly owns approximately 33.05% of the outstanding share capital of O'KEY Group S.A.);
» Mr. Dmitry Korzhev (who indirectly owns approximately 11.73% of the outstanding share capital of O'KEY Group S.A.);
» Mr. Boris Volchek (who indirectly owns approximately 29.52% of the outstanding share capital of O'KEY Group S.A.).

In September 2017, Mr. Volchek informed the company that he had acquired additional GDRs, increasing his ownership from 28.02% to 29.52% of the total outstanding share capital.

In November – December 2017, the share indirectly owned by Mr. Korzhev decreased from 23.49% to 11.73%, and the share indirectly owned by Mr. Troitskii increased from 23.49% to 33.05%.

Global Depositary Receipts (GDRs)

Global Depositary Receipts (GDRs) are issued in respect of ordinary shares at a ratio of one ordinary share per one GDR. The GDRs are traded on the London Stock Exchange. The Company's depositary bank is The Bank of New York Mellon.

As of 31 December 2017, GDRs represented 38.17% of O'KEY Group S.A. share capital.

No other securities have been issued by the Company.

Stock Exchange

As of 31 December 2017, O'KEY Group S.A. GDRs were traded on the London Stock Exchange.

Share Capital Structure – Direct Holdings

Trading Floor of O'KEY Group S.A. GDRs

Trading floor	Ticker code
London Stock Exchange	OKEY

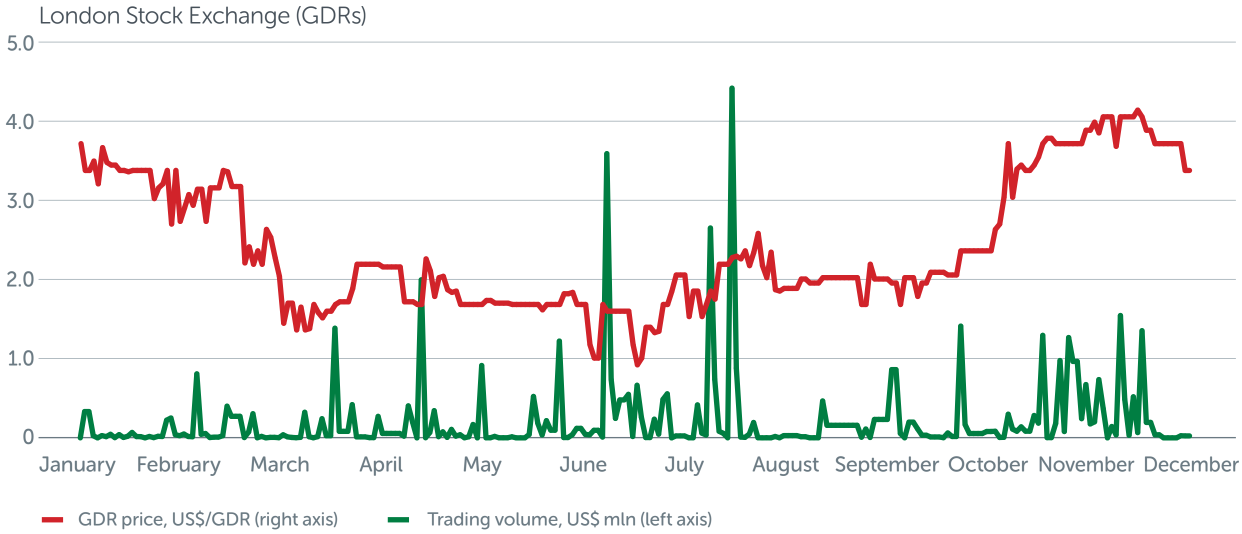
O'KEY Group S.A. Securities Identification Numbers

CUSIP[1]	Code
Regulation S GDRs	670866201
Rule 144A GDRs	670866102

ISIN[2]	Code
Regulation S GDRs	US6708662019
Rule 144A GDRs	US6708661029

1 CUSIP (Committee on Uniform Security Identification Procedures) – identification number given to the issue of shares for the purposes of facilitating clearing.
2 ISIN (International Securities Identification Number) – international identification number of the share.

O'KEY Group S.A. Share Price Performance and Trading Volumes in 2017



Total Shareholder Return[3]

	O'KEY Group S.A.	Peer average
TSR 2017	-3.53%	-7.42%
TSR 2016	28.96%	24.64%
TSR 2015	-55.63%	7.00%

O'KEY Group S.A. GDRs Trading Information (market transactions, Bloomberg)

	2017	2016
Annual maximum price, US$	2.7	2.6
Annual minimum price, US$	1.8	1.5
Year-end price, US$	2.5	2.6
Trading volume (mln units)	24.5	29.8

Source: Bloomberg – applicable to all the tables above

Credit Ratings

	Fitch
Credit rating	B+
Outlook	Stable
Last rating date	15 January 2018

In September 2012, the Company received an investment grade credit rating from Fitch international rating agency. In January 2018, Fitch affirmed O'KEY Group S. A.'s B+ rating with the Stable outlook.

Analyst Coverage

10 equity research analysts from leading banks, including Goldman Sachs, Credit Suisse, Morgan Stanley, JP Morgan, VTB Capital and Sberbank CIB, follow the Company on a regular basis. O'KEY's IR team routinely monitors and communicates analyst consensus to the Company's top management.

DIVIDENDS

Dividend Policy

To determine the recommended amount of dividends that will be payable, the Group's Board of Directors abides by the dividend policy. The general meeting of shareholders, upon recommendation of the Board of Directors, determines how the remainder of the annual net profits of the Company should be disposed of, including by way of stock dividend, it being understood that the remaining net profits of the Company left after payment of dividends shall be used for business development of the Company and its subsidiaries and the development of the retail business of the Group in Russia. Interim dividends may be declared and paid (including by way of staggered payments) by the Board of Directors, subject to observing the terms and conditions provided by law either by way of a cash dividend or by way of an in kind dividend.

Period	Record date	Amount of dividend per GDR (US$ cents, gross)	Amount of accrued dividend (US$, gross)
Interim dividends 2011	12.09.2011	9.9481	26,767,750.60
Interim dividends 2012	23.02.2012	10.254	27,590,847.96
Interim dividends 2013	15.02.2013	18.953	50,997,595.22
Interim dividends 2014	18.02.2014	22.670	60,999,075.80
Interim dividends 2014	17.10.2014	7.433	20,000,270.42
Interim dividends 2015	11.09.2015	8.920	24,001,400.80
Interim dividends 2016	08.07.2016	8.548	23,000,445.52
Interim dividends 2017	20.01.2017	9.167	24,666,013.58
Interim dividends 2018	25.01.2018	12.367	33,276,381.58

Taxation

As a general rule, the Company withholds 15% WHT from the dividend paid from Luxembourg for distribution to the holders of GDRs.

This information is provided for information purposes only. Potential and current investors should seek the advice of professional consultants on tax matters related to investments in the shares and GDRs of the Company.

INVESTOR RELATIONS

Communication and Dialogue

Transparent communication with all shareholders is one of O'KEY's top priorities. The Company's management maintains regular dialogue with institutional investors and sell-side analysts through participation in meetings, presentations, international conferences and conference calls, during which it discusses the Company's financial results and provides an overview of the retail market.

O'KEY understands the importance of keeping the investment community informed of the latest developments and provides updated outlooks in order to build an understanding of the Company's investment case.

In 2017, O'KEY maintained active communications with investors through the following activities:

» a roadshow involving senior management to meet with institutional investors in the UK;
» participation of the Company's management in a number of leading international market conferences focused on emerging markets;
» conference calls on financial results and an overview of the retail market.

Information disclosure

The Company takes great care to ensure that any relevant information is released to all shareholders and analysts at the same time, in accordance with the transparency principles.

Generally, the information is distributed through the following channels:

» London Stock Exchange website: the Company posts price-sensitive information on the LSE site through the information disclosure system (RNS);

» O'KEY website: the Company publishes releases on important events and financial results, as well as provides regular updates in relation to O'KEY operations. Any interested parties can subscribe online to receive news updates by registering online.

  O'KEY posts its annual reports on its website, www.okeyinvestors.ru, on the day of the report's official publication and sends out a press release to announce the publication.

  The website is regularly updated.

» Social media: O'KEY selectively uses social media as an additional channel of information disclosure and to distribute Company and industry news, as well as to highlight coverage in the media.

  For more information, please visit O'KEY's official Facebook page at https://facebook.com/okmarket.ru, the Vkontakte page at https://vk.com/okmarketru, and the Odnoklassniki page at https://ok.ru/okmarket.

» E-mail

  The Investor Relations Department can be contacted with respect to any queries at: ir@okmarket.ru

There have been no substantial changes in our approach to disclosure in 2017 compared to 2016.

Footnote: this annual financial report is drawn up and published in accordance with the applicable UK laws and regulations. The information given from pages 1 to 68 includes most (and to some extent more) of the information included in the consolidated directors' report but should not be considered as being the consolidated directors' report for the purpose of Luxembourg laws and regulations, which is drawn up and disclosed in accordance with applicable Luxembourg laws and regulations.

Management & Directors Responsibility Statement

We confirm, to the best of our knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of O'KEY Group S.A., and the undertakings included in the consolidation taken as a whole, and that the consolidated Directors' report includes a fair review of the development and performance of the business and the position of O'KEY Group S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Luxembourg, 26 March 2018

Dmitry Korzhev Member of the Board of Director	**Mykola Buinyckiy** Member of the Board of Director	**Miodrag Borojevic** CEO of O'KEY	**Heigo Kera** Chairman	**Konstantin Arabidis** CFO

O'Key Group S.A.

Consolidated Financial Statements for the year ended 31 December 2017

(WITH THE REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ THEREON)

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Report of the Réviseur d'Entreprises Agréé

To the Shareholders of
O'KEY GROUP S.A.
46A, Avenue J.F. Kennedy
L-1855, Luxembourg

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of O'KEY GROUP S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

SUPPLIERS' BONUSES

Please refer to note 4 (estimates and judgements) and note 23 (financial disclosures).

a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	b. How the matter was addressed in our audit
The Group receives various bonuses from suppliers based on volume-related allowance, promotional and marketing allowances and discounts received in connection with the purchase of goods. This represents a significant reduction in the cost of sales and inventory. The calculation of bonuses is in part dependent on an estimation of whether these amounts due under various agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions such as promotional activities or marketing compaign undertaken by the Group for certain goods. The process for calculating and recording supplier bonuses involves significant manual processes which are more susceptible to error.	Our procedures over supplier bonuses included, but were not limited to: » We tested key internal controls over completeness, existence and accuracy of recoginsed bonuses from suppliers, including authorisation and performance review of recorded bonuses versus budget and historical data. » We tested the Group's manual calculations made in the process of recording of supplier bonuses. With assistance of our own IT specialists we tested accuracy and completeness of system-generated reports which the Group used as input data for these manual calculations. We agreed relevant data elements in these reports to source documents on a sample basis. » We compared bonuses' trends by bonus type, product category and supplier to historical data adjusted for current market conditions where necessary. » We agreed bonuses receivable as at year-end to external confirmations obtained from suppliers on a sample basis. » We recalculated the effects of reduction in the inventory cost due to allocation of bonuses to unsold inventory and compared results to the amounts determined by the Group.

VALUATION OF DEFERRED TAX ASSET

Please refer to notes 4 (estimates and judgements) and note 20 (financial disclosures).

a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	b. How the matter was addressed in our audit
The Group has recognised significant deferred tax asset in respect of tax losses carried forward by LLC Fresh Market, a subsidiary operating a discounter chain. The recovery of the deferred tax asset depends on achieving sufficient taxable profits by the discounter chain in the future. There is an inherent uncertainty involved in forecasting the timing and amount of future taxable profits, which supports the extent to which deferred tax asset is to be recognised. The discounter business is relatively new for the Group and historical data on financial results of the discounter chain is limited. Therefore, this is a key judgmental area our audit is concentrated on.	Our procedures over valuation of deferred tax asset included, but were not limited to: » The Group prepares taxable profits forecast model based on the long-term budget of the discounter chain. We tested design and implementation of key internal controls over preparation of the discounter chain's long-term budget. » We analysed the underlying methodology and tested the mathematical accuracy of the taxable profits forecast model used to estimate the amount of the deferred tax asset to be recognised by the Group. » We evaluated the appropriateness of the Group's key assumptions used in taxable profits forecast such as revenue growth and operating profit margin through comparison of the forecast to historical performance and observable market data, including competitors' historical data and inflation rate forecasts. » We challenged the Group's assumptions regarding expansion of the discounter chain by comparing them to the Group's long-term cash-flow forecast and historical cash-flow trends. » We assessed the accuracy of the Group's forecasts used in prior years to obtain information regarding the effectiveness of the Group's forecasting process and identify potential bias. » We also assessed the adequacy of Group's disclosures in respect of deferred tax asset.

SALE OF SUPERMARKETS

Please refer to note 4 (estimates and judgements) and note 8 (financial disclosures).

a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period	b. How the matter was addressed in our audit
During the year ended 31 December 2017 the Group entered into a complex arrangement to sell most of its supermarket business. The net book value of assets already disposed and to be disposed and the sale proceeds are significant to the Group's consolidated financial statements. The arrangement is structured into several stages. Significant judgement is required to determine the part of the total consideration for the sale of supermarkets that should be recognised during the year ended 31 December 2017 and the part that should be deferred to the year ending 31 December 2018. Significant judgement is required to assess the effect of indemnities and warranties included in the sale agreement on the sale proceeds recognised in the Group's consolidated financial statements.	Our procedures over sale of supermarkets included, but were not limited to: » We reconciled the consideration received for the sale to the sale agreement. » We assessed whether the total consideration for the sale was allocated to the components of the arrangement in the proportion to their fair values. » We evaluated whether the timing of the gain recognized for each significant component corresponds to the transfer of control or substantial risks and rewards to the buyer as appropriate. » We inspected key terms of the sale agreement and assessed whether the effect of the seller's warranties and indemnities to the buyer was appropriately recognised as a part of the sale's consideration. » We also assessed the adequacy of the Group's disclosures related to the sale of supermarkets and non-current assets held for sale.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, the consolidated Directors' report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 6 October 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 8 years since the Company became public interest entity.

The consolidated Directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the consolidated Directors' report, is the responsibility of the Board of Directors. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

OTHER MATTER

The Corporate Governance Statement includes information required by Article 68ter paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Luxembourg, 26 March 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Jean-Manuel Séris

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

'000 RUB	Note	2017	2016
ASSETS			
Non-current assets			
Investment property	16	1 075 010	572 542
Property, plant and equipment	17	44 964 135	48 241 868
Construction in progress	17	3 313 175	3 485 879
Lease rights	18	4 437 856	4 578 535
Intangible assets	19	961 108	893 103
Deferred tax assets	20	1 917 572	1 277 273
Other non-current assets	21	1 817 452	2 002 680
Total non-current assets		**58 486 308**	**61 051 880**
Current assets			
Inventories	22	13 524 236	13 706 868
Trade and other receivables	23	10 275 841	5 871 010
Prepayments		1 280 658	958 467
Other investments		10 290	41 250
Cash and cash equivalents	25	7 750 177	11 463 467
Non-current assets held for sale	24	129 589	-
Total current assets		**32 970 791**	**32 041 062**
Total assets		**91 457 099**	**93 092 942**
EQUITY AND LIABILITIES			
Equity	26		
Share capital		119 440	119 440
Legal reserve		10 597	10 597
Additional paid-in capital		8 555 657	8 555 657
Hedging reserve		(99 861)	(75 329)
Retained earnings		15 025 513	13 324 398
Translation reserve		639 633	720 301
Total equity		**24 250 979**	**22 655 064**
Non-current liabilities			
Loans and borrowings	28	24 679 352	31 673 078
Deferred tax liabilities	20	888 997	692 091
Other non-current liabilities		121 890	139 304
Total non-current liabilities		25 690 239	32 504 473
Current liabilities			
Loans and borrowings	28	11 429 881	4 465 260
Interest accrued on loans and borrowings	28	231 897	156 870
Trade and other payables	29	28 854 731	32 480 892
Current income tax payable		999 372	830 383
Total current liabilities		**41 515 881**	**37 933 405**
Total liabilities		**67 206 120**	**70 437 878**
Total equity and liabilities		**91 457 099**	**93 092 942**

Consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 76to 111.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

'000 RUB	Note	2017	2016
Revenue	9	177 454 848	175 470 671
Cost of goods sold		(137 010 445)	(135 261 292)
Gross profit		**40 444 403**	**40 209 379**
General, selling and administrative expenses	10	(36 189 311)	(35 764 206)
Other operating income and expenses, net	11	3 335 349	(1 050 739)
Operating profit		**7 590 441**	**3 394 434**
Finance income	13	114 239	281 631
Finance costs	13	(3 532 915)	(3 550 403)
Foreign exchange (loss)/gain	14	(376 375)	145 973
Profit before income tax		**3 795 390**	**271 635**
Income tax expense	15	(628 477)	(409 425)
Profit/(loss) for the year		**3 166 913**	**(137 790)**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Exchange differences on translating to presentation currency		(80 668)	(118 246)
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of hedges and reclassification from hedging reserve	13	(30 665)	79 428
Other comprehensive income		-	(170 999)
Income tax on other comprehensive income	13, 15	6 133	(15 885)
Other comprehensive loss for the year, net of income tax		**(105 200)**	**(225 702)**
Total comprehensive income/(loss) for the year		**3 061 713**	**(363 492)**
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (RUB)	27	**11.8**	**(0.5)**

Consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 76 to 111.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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 year								
Loss for the year		-	-	-	-	(137 790)	-	(137 790)
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(118 246)	(118 246)
Change in fair value of hedges and reclassification from hedging reserve	13	-	-	-	79 428	-	-	79 428
Income tax on other comprehensive income	15	-	-	-	(15 885)	-	-	(15 885)
Other comprehensive income		-	-	-	-	(170 999)	-	(170 999)
Total other comprehensive loss		**-**	**-**	**-**	**63 543**	**(170 999)**	**(118 246)**	**(225 702)**
Total comprehensive loss for the year		**-**	**-**	**-**	**63 543**	**(308 789)**	**(118 246)**	**(363 492)**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	26	-	-	(347 949)	-	(1 124 462)	-	(1 472 411)
Total contributions by and distributions to owners		**-**	**-**	**(347 949)**	**-**	**(1 124 462)**	**-**	**(1 472 411)**
Balance at 31 December 2016		**119 440**	**10 597**	**8 555 657**	**(75 329)**	**13 324 398**	**720 301**	**22 655 064**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 76 to 111.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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 year								
Profit for the year		-	-	-	-	3 166 913	-	3 166 913
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	-	(80 668)	(80 668)
Change in fair value of hedges and reclassification from hedging reserve	13	-	-	-	(30 665)	-	-	(30 665)
Income tax on other comprehensive income	15	-	-	-	6 133	-	-	6 133
Total other comprehensive loss		**-**	**-**	**-**	**(24 532)**	**-**	**(80 668)**	**(105 200)**
Total comprehensive income for the year		**-**	**-**	**-**	**(24 532)**	**3 166 913**	**(80 668)**	**3 061 713**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends paid	26	-	-	-	-	(1 465 798)	-	(1 465 798)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**(1 465 798)**	**-**	**(1 465 798)**
Balance at 31 December 2017		**119 440**	**10 597**	**8 555 657**	**(99 861)**	**15 025 513**	**639 633**	**24 250 979**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 76 to 111.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

'000 RUB	2017	2016
Cash flows from operating activities		
Cash receipts from customers	202 566 776	199 801 345
Other cash receipts	497 880	684 044
Interest received	104 391	257 541
Cash paid to suppliers and employees	(194 385 579)	(186 678 063)
Operating taxes	(672 429)	(670 313)
Other cash payments	(125 740)	(76 312)
VAT paid	(2 182 232)	(1 485 904)
Income tax paid	(928 829)	(159 780)
Net cash from operating activities	**4 874 238**	**11 672 558**
Cash flows from investing activities		
Purchase of property, plant and equipment and lease rights (excluding VAT)	(3 112 061)	(5 880 420)
Purchase of other intangible assets (excluding VAT)	(439 980)	(450 701)
Proceeds from sales of property, plant and equipment and intangible assets (excluding VAT)	186 870	917 819
Net cash used in investing activities	**(3 365 171)**	**(5 413 302)**
Cash flows from financing activities		
Proceeds from loans and borrowings	7 685 500	24 498 000
Repayment of loans and borrowings	(7 663 017)	(23 480 067)
Interest paid	(3 655 488)	(3 939 956)
Dividends paid	(1 465 798)	(1 472 411)
Other financial payments	(88 340)	(134 577)
Net cash used in financing activities	**(5 187 143)**	**(4 529 011)**
Net (decrease)/increase in cash and cash equivalents	**(3 678 076)**	**1 730 245**
Cash and cash equivalents at beginning of the year	11 463 467	9 768 130
Effect of exchange rate fluctuations on cash and cash equivalents	(35 214)	(34 908)
Cash and cash equivalents at end of the year	**7 750 177**	**11 463 467**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 76 to 111.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

1 REPORTING ENTITY

(a) Organisation and operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union for the year ended 31 December 2017 for O'Key Group S.A. and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

As at 31 December 2017 the Company considers as its major shareholders: Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 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 34.

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

The Group's principal business activity is the operation of a retail chain in Russia under the brand name "O'KEY". At 31 December 2017 the Group operated 149 stores including 67 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 consolidated 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.

2 BASIS OF ACCOUNTING

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and were authorised for issue by the Board of Directors on 26 March 2018.

3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Russian Roubles. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated. Functional currency of the Company is USD and functional currency of Russian subsidiaries is RUB.

The results and financial position of the Group entities, which functional currencies are different from Russian Roubles, are translated into the presentation currency as follows:

» assets and liabilities for each statement of financial position presented are translated at the closing rate of the year end;
» profit and loss items for each statement of profit and loss and other comprehensive income are translated at the date of transaction;
» all resulting exchange differences are recognised as translation reserve in equity.

At 31 December 2017 the principal rate of exchange used for translating foreign currency balances were USD 1 = RUB 57.6002; EUR 1 = RUB 68.8668 (2016: USD 1 = RUB 60.6569; EUR 1 = RUB 63.8111).

4 USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments 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 within the next financial year include:

Tax legislation. The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to note 33.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of sales and inventory cost. The calculation of these amounts is in part dependent on an estimation of whether the amounts due under agreements with suppliers have been earned at the reporting date based on inventory purchased and other conditions. The process for calculating and recording supplier bonuses involves significant manual processes which are more susceptible to error. Furthermore, the allocation of the bonuses to inventory cost also has some element of judgement.

Determination of recoverable amount of property, plant and equipment. For those stores, where impairment indicators exist as at reporting date, the Group estimates recoverable amount being higher of its value in use and fair value less cost of disposal.

For details of impairment testing performed as at 31 December 2017 refer to note 17.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax assets on tax losses. The Group performs analysis of future taxable profit to cover the accumulated tax losses. Refer to note 20.

Sale of O'key Supermarkets business. In December 2017 the Group signed a framework agreement with X5 Retail Group for sale of the major part of supermarkets business. Significant judgment is required in determination of amount and timing of recognition of proceeds under the agreement. For details refer to note 8.

5 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.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Appraisers considered current prices in an active market. The appraisers used the income approach for determining the fair value.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the allocation of maintenance and insurance responsibilities between the Group and the lessee.

(b) Non-derivative financial assets

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Derivatives

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

6 OPERATING SEGMENTS

The Group is engaged in management of retail stores located in Russia. 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 analyse 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 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 on at least 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 centralised;
- 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 amortisation (EBITDA) adjusted for one-off items. Term 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 consolidated financial statements as described in note 37.

The segment information for the year ended 31 December 2017 is as follows:

'000 RUB	O'Key		Da!		Total	
	2017	2016	2017	2016	2017	2016
External revenue	167 062 312	169 695 802	10 392 536	5 774 869	177 454 848	175 470 671
Inter-segment revenue	-	-	-	30 274	-	30 274
EBITDA	11 358 589	11 845 435	(2 023 596)	(2 592 229)	9 334 993	9 253 206

A reconciliation of EBITDA to profit/(loss) for the year is as follows:

'000 RUB	Note	2017	2016
EBITDA		**9 334 993**	**9 253 206**
Revaluation of investment property	11	(200 000)	(27 055)
Gain/(loss) from disposal of non-current assets	11	3 905 402	(568 004)
Impairment of non-current assets	11	(279 174)	(434 370)
Loss from write-off of receivables	11	(436 256)	(279 015)
Impairment of receivables	11	(3 626)	(395)
Depreciation and amortisation	10	(4 613 172)	(4 549 933)
Finance income	13	114 239	281 631
Finance costs	13	(3 532 915)	(3 550 403)
Foreign exchange loss/(gain)	14	(376 375)	145 973
Other expenses		(117 726)	-
Profit before income tax		3 795 390	271 635
Income tax expense		(628 477)	(409 425)
Profit/(loss) for the year		**3 166 913**	**(137 790)**

7 SUBSIDIARIES

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

			2017	2016
Subsidiary	**Country of incorporation**	**Nature of operations**	**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%

8 SALE OF SUPERMARKETS

In December 2017 the Group signed a framework agreement with X5 Retail Group for sale of the major part of supermarkets business comprising of 32 stores. The agreement comprises a series of transactions. Total expected proceeds according to the agreement are RUB 7 222 176 thousand. Having considered terms of the agreement, the Group concluded that in substance control over 28 of 32 stores was transferred to the buyer in December 2017 and recognized in 2017 respective proceeds in the amount of RUB 6 677 176 thousand. Assets attributable to disposed part of business mainly comprise land and buildings, equipment, lease rights and short-term receivables. Net book value of the assets attributable to the disposed part of business amounted to RUB 2 031 973 thousand.

The sale of remaining part of supermarket business which consists of 4 stores is expected within 12 months after the reporting date. As a result, trading equipment and lease rights of these stores are presented as non-current assets held for sale in the consolidated statement of financial position as at 31 December 2017 (see note 24).

9 REVENUE

'000 RUB	2017	2016
Sales of trading stock	167 314 837	165 210 286
Sales of self-produced catering products	7 022 505	7 269 694
Revenue from sale of goods	**174 337 342**	**172 479 980**
Rental income	1 738 525	1 620 671
Revenue from advertising services	1 378 981	1 370 020
Total revenues	**177 454 848**	**175 470 671**

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.

10 GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

'000 RUB	Note	2017	2016
Personnel costs	12	(15 619 123)	(16 185 073)
Operating leases	31	(5 757 744)	(5 343 910)
Depreciation and amortisation	17, 18, 19	(4 613 172)	(4 549 933)
Communication and utilities		(3 525 377)	(3 485 840)
Advertising and marketing		(2 115 888)	(1 795 089)
Repairs and maintenance costs		(1 253 737)	(1 182 822)
Security expenses		(869 282)	(825 314)
Insurance and bank commission		(818 668)	(737 305)
Operating taxes		(730 401)	(713 223)
Legal and professional expenses		(520 419)	(602 704)
Materials and supplies		(329 541)	(301 595)
Other costs		(35 959)	(41 398)
		(36 189 311)	**(35 764 206)**

Fees billed to the Company and its subsidiaries by KPMG Luxembourg Societe coopérative, and other member firms of the KPMG network during the year are as follows:

'000 RUB	2017	2016
Auditors' remuneration for annual and consolidated accounts	12 988	13 902
Auditors' remuneration for other assurance services	4 259	4 721
Auditors' remuneration for tax advisory services	2 458	115
	19 705	**18 738**

11 OTHER OPERATING INCOME AND EXPENSES, NET

'000 RUB	Note	2017	2016
Gain/(loss) from disposal of non-current assets		3 905 402	(568 004)
Impairment of non-current assets	17, 18	(279 174)	(434 370)
Loss from write-off of receivables		(436 256)	(279 015)
Impairment of receivables		(3 625)	(395)
Loss from revaluation of investment property	16	(200 000)	(27 055)
Sundry income and expense, net		349 002	258 100
		3 335 349	**(1 050 739)**

Gain from disposal of non-current assets amounted RUB 3 905 402 thousand is mainly represented by gain on sale of supermarkets business in the amount of RUB 4 645 203 thousand, described in note 8.

In 2016 loss from disposal of other non-current assets amounted RUB 568 004 thousand relating to stores and land plots in Moscow and other regions which the Group closed or disposed of during the year.

12 PERSONNEL COSTS

'000 RUB	2017	2016
Wages and salaries	(10 263 659)	(10 706 956)
Social security contributions	(3 236 031)	(3 352 398)
Employee benefits	(1 093 169)	(1 100 248)
Other personnel costs	(1 026 264)	(1 025 471)
Total personnel costs	**(15 619 123)**	**(16 185 073)**

During the year ended 31 December 2017 the Group employed 23 thousand employees on average (2016: 25 thousand employees on average). Approximately 94% of employees are store and warehouse employees and the remaining part is office employees.

13 FINANCE INCOME AND FINANCE COSTS

'000 RUB	2017	2016
Recognised in profit or loss		
Interest income on loans, receivables and bank deposits	113 467	264 891
Other finance income	772	16 740
Finance income	**114 239**	**281 631**
Interest costs on loans and borrowings	(3 585 772)	(3 497 546)
Reclassification from hedging reserve	52 857	(52 857)
Finance costs	**(3 532 915)**	**(3 550 403)**
Net finance costs recognised in profit or loss	**(3 418 676)**	**(3 268 772)**
The above financial income and costs include the following in respect for assets/(liabilities) not at fair value through profit and loss:		
Total interest income on financial assets	**114 239**	**281 631**
Total interest expense on financial liabilities	**(3 532 915)**	**(3 550 403)**

'000 RUB	2017	2016
Recognised in other comprehensive income		
Change in fair value of hedges	(30 665)	79 428
Income tax on income and expense recognised in other comprehensive income	6 133	(15 885)
Finance income/(costs) recognised in other comprehensive income, net of tax	**(24 532)**	**63 543**

During 2017 the Group has capitalised interests in the value of property, plant and equipment. The amount of capitalised interest comprised RUB 243 571 thousand (2016: RUB 492 704 thousand).

In 2017, a capitalisation rate of 10.11% was used to determine the amount of borrowing costs eligible for capitalisation (2016: 11.24 %).

14 FOREIGN EXCHANGE (LOSS)/GAIN

During 2017 the Russian Rouble significantly fluctuated against the USD. Net foreign exchange loss recognised in profit and loss in the amount of RUB 376 375 thousand for the year ended 31 December 2017 (2016: loss RUB 145 973 thousand) mainly relates to USD-denominated payables. In 2017, the Group has not used hedging instruments to hedge foreign exchange risks.

The Group's risk management policy is to receive borrowings in the same currency which generated revenue (Russian Rouble). As at 31 December 2017, the share of USD-denominated borrowings in Group's debt was not significant. The Group's exposure to currency risk is disclosed in note 30.

15 INCOME TAX EXPENSE

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2016: 20%).

'000 RUB	2017	2016
Current tax expense	(1 065 737)	(1 182 854)
Deferred tax benefit	437 260	773 429
Total income tax expense	**(628 477)**	**(409 425)**

Income tax recognised directly in other comprehensive income

'000 RUB	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences	(80 668)	-	(80 668)	(118 246)	-	(118 246)
Change in fair value of hedges and reclassification from hedging reserve	(30 665)	6 133	(24 532)	79 428	(15 885)	63 543
	(111 333)	**6 133**	**(105 200)**	**(38 818)**	**(15 885)**	**(54 703)**

Reconciliation of effective tax rate:

'000 RUB	2017	2016
Profit before income tax	3 795 390	271 635
Income tax at applicable tax rate (2017: 20%, 2016: 20%)	(759 083)	(54 327)
Effect of income taxed at different rates	649 935	(33 110)
Tax effect of items which are not deductible for taxation purposes:		
- Inventory shrinkage expenses	(97 870)	(94 522)
- Other non-deductible expenses	(91 096)	(101 470)
Tax withheld on dividends received from subsidiaries	(150 966)	(143 415)
Adjustments to current income tax for previous periods	(197 370)	7 601
Other items	17 973	9 818
Income tax (expense)/benefit for the year	**(628 477)**	**(409 425)**

The amount of income tax reimbursed for previous years was recognised as reduction of income tax expense and relates to expenses, which the Group treats as deductible since 2014.

16 INVESTMENT PROPERTY

(a) Reconciliation of carrying amount

'000 RUB		Investment property
Investment properties at fair value as at 1 January 2016		**564 000**
Expenditure on subsequent improvements		35 597
Fair value loss (unrealised)	11	(27 055)
Investment properties at fair value as at 31 December 2016		**572 542**
Investment properties at fair value as at 1 January 2017		**572 542**
Transfer from Property, plant and equipment	17	702 468
Fair value loss (unrealised)		(200 000)
Investment properties at fair value as at 31 December 2017		**1 075 010**

During the year ended 31 December 2017 the Group transferred from property, plant and equipment to investment two buildings that were previously own-used and now held to earn rental income. As at 31 December 2017 Group's investment property comprises three buildings.

(b) Measurement of fair value

For one building with carrying amount of RUB 181 850 thousand as at 31 December 2017 the Group determined fair value using market approach based on most recent quoted prices.

For two remaining buildings the carrying amount of RUB 893 160 thousand as at 31 December 2017 is the fair value as determined by registered independent appraisers having an appropriate recognised professional qualification and recent experience in the location and type of the property being valued.

The appraisers used income approach for determining the fair value. Under income approach an estimate of annual net operating income was made which is mainly based on annual net rent rate of RUB 5 387 – 8 467 per sq. m. (2016: RUB 7 000 per sq. m.) and expected occupancy of 30% – 95% (2016: 93%) during the first year and 95-98% during following years. Discount rate of 13.7-14.4% (2016: 13%) was applied to discount future cash flows.

The fair value measurement of investment property has been categorised as a Level 2 (market approach) and Level 3 (income approach) fair value based on the inputs to the valuation technique used (see note 5).

17 PROPERTY, PLANT AND EQUIPMENT

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2016	**4 839 188**	**32 413 643**	**6 918 148**	**14 346 880**	**6 694 671**	**65 212 530**
Additions	61 050	1 330 346	-	2 044 418	3 558 131	6 993 945
Transfers	-	4 867 621	1 182 516	497 253	(6 547 390)	-
Transfers from Lease rights	127 317	-	-	-	-	127 317
Disposals	(6 079)	(9 375)	(393 091)	(1 343 184)	(219 533)	(1 971 262)
Balance at 31 December 2016	**5 021 476**	**38 602 235**	**7 707 573**	**15 545 367**	**3 485 879**	**70 362 530**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2017	**5 021 476**	**38 602 235**	**7 707 573**	**15 545 367**	**3 485 879**	**70 362 530**
Additions	53 106	10 539	-	998 789	2 820 278	3 882 712
Transfers	-	2 113 770	633 431	204 107	(2 951 308)	-
Classified as asset held for sale	-	-	(144 151)	(312 305)	-	(456 456)
Transfer to Investment property	-	(1 114 282)	-	-	-	(1 114 282)
Disposals	(140 106)	(1 605 877)	(887 694)	(1 507 618)	(41 674)	(4 182 969)
Balance at 31 December 2017	**4 934 476**	**38 006 385**	**7 309 159**	**14 928 340**	**3 313 175**	**68 491 535**
Depreciation and impairment losses						
Balance at 1 January 2016	**-**	**(4 650 025)**	**(1 839 374)**	**(8 940 398)**	**-**	**(15 429 797)**
Depreciation for the year	-	(1 181 577)	(606 709)	(2 344 466)	-	(4 132 752)
Impairment losses	-	(434 370)	-	-	-	(434 370)
Disposals	-	31	80 095	1 282 010	-	1 362 136
Balance at 31 December 2016	**-**	**(6 265 941)**	**(2 365 988)**	**(10 002 854)**	**-**	**(18 634 783)**

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Construction in progress	Total
Balance at 1 January 2017	-	(6 265 941)	(2 365 988)	(10 002 854)	-	(18 634 783)
Depreciation for the year	-	(1 316 609)	(647 413)	(2 156 386)	-	(4 120 408)
Impairment losses	-	(271 640)	(7 534)	-	-	(279 174)
Classified as assets held for sale	-	-	43 657	219 192	-	262 849
Transfer to Investment property	-	411 814	-	-	-	411 814
Disposals	-	420 398	411 590	1 313 489	-	2 145 477
Balance at 31 December 2017	-	(7 021 978)	(2 565 688)	(10 626 559)	-	(20 214 225)
Carrying amounts						
At 1 January 2016	4 839 188	27 763 618	5 078 774	5 406 482	6 694 671	49 782 733
At 31 December 2016	5 021 476	32 336 294	5 341 585	5 542 513	3 485 879	51 727 747
At 31 December 2017	4 934 476	30 984 407	4 743 471	4 301 781	3 313 175	48 277 310

Depreciation expense of RUB 4 120 408 thousand has been charged to selling, general and administrative expenses (2016: RUB 4 132 752 thousand).

During the year ended 31 December 2017 the Group transferred two buildings from Property, plant and equipment to Investment property following change in use of these properties. Before transfer to investment property, the Group performed impairment test for these buildings are recognised impairment loss in the amount of RUB 149 877 thousand.

As at 31 December 2017 the Group performed impairment test for low-performing stores and recognised an impairment loss of RUB 129 297 thousand (2016: RUB 434 370 thousand).

As at 31 December 2017 the Group determined recoverable amount of the stores being their value in use. Recoverable amount of the stores amounted to RUB 200 800 thousand and impairment loss amounted to RUB 73 116 thousand. Discount rate of 13.9% was applied to discount future cash flows.

Security

At 31 December 2017, 4 stores have been pledged to third parties as collateral for bank borrowings (2016: 4 stores). Refer to notes 28 and 33.

18 LEASE RIGHTS

Leasehold 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	2017	2016
Cost		
Balance at 1 January	**6 024 760**	**6 287 181**
Additions	107 695	36 000
Transfers to land	-	(140 565)
Disposals	(259 698)	(157 856)
Balance at 31 December	**5 872 757**	**6 024 760**
Amortisation and impairment losses		
Balance at 1 January	**(1 446 225)**	**(1 439 644)**
Amortisation charge	(144 140)	(174 640)
Transfers to land	-	13 248
Disposals	155 464	154 811
Balance at 31 December	**(1 434 901)**	**(1 446 225)**
Net book value	**4 437 856**	**4 578 535**

Amortisation of RUB 144 140 thousand has been charged to selling, general and administrative expenses (2016: RUB 174 640 thousand).

19 INTANGIBLE ASSETS

'000 RUB	Software	Other intangible assets	Total
Cost			
Balance at 1 January 2016	**1 093 006**	**128 156**	**1 221 162**
Additions	476 499	24 677	501 176
Disposals	(160 307)	(4 424)	(164 731)
Balance at 31 December 2016	**1 409 198**	**148 409**	**1 557 607**
Balance at 1 January 2017	**1 409 198**	**148 409**	**1 557 607**
Additions	499 154	46 676	545 830
Disposals	(168 723)	(4 359)	(173 082)
Balance at 31 December 2017	**1 739 629**	**190 726**	**1 930 355**
Amortisation and impairment losses			
Balance at 1 January 2016	**(558 077)**	**(28 027)**	**(586 104)**
Amortisation for the year	(220 700)	(21 841)	(242 541)
Disposals	160 252	3 889	164 141
Balance at 31 December 2016	**(618 525)**	**(45 979)**	**(664 504)**
Balance at 1 January 2017	**(618 525)**	**(45 979)**	**(664 504)**
Amortisation for the year	(323 022)	(25 602)	(348 624)
Disposals	40 435	3 446	43 881
Balance at 31 December 2017	**(901 112)**	**(68 135)**	**(969 247)**
Carrying amounts			
At 1 January 2016	**534 929**	**100 129**	**635 058**
At 31 December 2016	**790 673**	**102 430**	**893 103**
At 31 December 2017	**838 517**	**123 591**	**961 108**

Amortisation and impairment losses

Amortisation of RUB 348 624 thousand has been charged to selling, general and administrative expenses (2016: RUB 242 541 thousand).

20 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	
	2017	2016	2017	2016	2017	2016
Investment property	69 975	994	-	-	69 975	994
Property, plant and equipment	268 721	173 210	(893 233)	(974 315)	(624 512)	(801 105)
Construction in progress	-	-	(261 521)	(267 198)	(261 521)	(267 198)
Intangible assets	-	-	(94 649)	(126 179)	(94 649)	(126 179)
Other non-current assets	-	-	(102 825)	(101 467)	(102 825)	(101 467)
Inventories	500 080	602 017	-	(1 510)	500 080	600 507
Trade and other receivables and payables	294 154	615 767	(575 124)	(577 189)	(280 970)	38 578
Long-term investments	6 613	6 613	-	-	6 613	6 613
Tax loss carry-forwards	1 816 384	1 234 439	-	-	1 816 384	1 234 439
Tax assets/(liabilities)	**2 955 927**	**2 633 040**	**(1 927 352)**	**(2 047 858)**	**1 028 575**	**585 182**
Set off of tax	(1 038 355)	(1 355 767)	1 038 355	1 355 767	-	-
Net tax assets/(liabilities)	**1 917 572**	**1 277 273**	**(888 997)**	**(692 091)**	**1 028 575**	**585 182**

(b) Unrecognised deferred tax liability

As at 31 December 2017 a temporary difference of RUB 23 909 664 thousand (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 was reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

(c) Recognised deferred tax asset on tax loss carried forward

Deferred tax asset recognised in respect of tax loss carried forward relates to losses accumulated by Group's subsidiary LLC Fresh Market that develops a discounter chain and does not yet generate profit. Russian tax legislation does not limit the period into which a tax loss can be carried forward.

The Group determined that future taxable profits will be available in foreseeable future against which accumulated losses can be utilised. In making this assessment the Group considered that according to the discounter chain's long-term budget tax losses accumulated as at 31 December 2017 will be utilised within 6 years after reporting date.

(d) Movement in temporary differences during the year

'000 RUB	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Investment property	994	68 981	-	69 975
Property, plant and equipment	(801 105)	176 593	-	(624 512)
Construction in progress	(267 198)	5 677	-	(261 521)
Intangible assets	(126 179)	31 530	-	(94 649)
Other non-current assets	(101 467)	(1 358)	-	(102 825)
Inventories	600 507	(100 427)	-	500 080
Trade and other receivables and payables	38 578	(325 681)	6 133	(280 970)
Long-term investments	6 613	-	-	6 613
Tax loss carry-forwards	1 234 439	581 945	-	1 816 384
	585 182	**437 260**	**6 133**	**1 028 575**

'000 RUB	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
Investment property	(1 113)	2 107	-	994
Property, plant and equipment	(565 250)	(235 855)	-	(801 105)
Construction in progress	(210 954)	(56 244)	-	(267 198)
Intangible assets	(95 313)	(30 866)	-	(126 179)
Other non-current assets	(118 434)	16 967	-	(101 467)
Inventories	542 909	57 598	-	600 507
Trade and other receivables and payables	(261 414)	315 877	(15 885)	38 578
Long-term investments	-	6 613	-	6 613
Tax loss carry-forwards	537 207	697 232	-	1 234 439
	(172 362)	**773 429**	**(15 885)**	**585 182**

21 OTHER NON-CURRENT ASSETS

'000 RUB	2017	2016
Long-term prepayments to entities under control of shareholder group	906 496	894 175
Prepayments for property plant and equipment	613 421	769 210
Long-term deposits to lessors	297 535	339 295
	1 817 452	**2 002 680**

Long-term prepayments to entities under control of the shareholder group represent prepayments for rent of hypermarkets for the period until 2034. Related party transactions are detailed in note 34.

22 INVENTORIES

'000 RUB	2017	2016
Goods for resale	13 261 136	13 370 212
Raw materials and consumables	671 255	700 673
Write-down to net realisable value	(408 155)	(364 017)
	13 524 236	**13 706 868**

The Group tested the stock for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of stock by RUB 408 155 thousand as at 31 December 2017 (2016: RUB 364 017 thousand). The write down to net realisable value was determined applying the percentages of discount on sales and write-offs 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.

23 TRADE AND OTHER RECEIVABLES

'000 RUB	2017	2016
Trade receivables	449 882	545 464
VAT receivable	376 414	1 562 138
Prepaid taxes other than income tax	179 532	132 565
Prepaid income tax	46 814	14 282
Bonuses receivable from suppliers	1 732 884	3 081 243
Other receivables	818 629	535 318
Receivable from sale of supermarkets	6 671 686	-
	10 275 841	**5 871 010**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

24 NON-CURRENT ASSETS HELD FOR SALE

'000 RUB	Leasehold improvements	Equipment	Total
Balance at 1 January 2017	-	-	-
Transfer to assets held for sale	100 493	93 114	193 607
Disposals	-	(64 018)	(64 018)
Balance at 31 December 2017	**100 493**	**29 096**	**129 589**

Non-current assets held for sale represent property, plant and equipment of 4 supermarkets that will be disposed in 2018 (see note 8). These assets are measured at net book value which is lower than their fair value less costs to sell. The fair value measurement for assets held for sale has been categorised as a Level 2 fair value measurement and is based on the prices in the agreement with the buyer.

25 CASH AND CASH EQUIVALENTS

'000 RUB	2017	2016
Cash on hand	235 348	417 766
Bank current account	1 203 654	589 988
Term deposits	4 145 533	8 240 763
Cash in transit	2 165 642	2 214 950
Cash and cash equivalents	**7 750 177**	**11 463 467**

Term deposits had original maturities of less than three months.

The Group keeps its deposits in the following banks: VTB bank, Saint-Petersburg bank, Unicredit bank, BNP Paribas.

The Group's exposure to credit and currency risks related to cash and cash equivalents is disclosed in note 30.

26 EQUITY

Reconciliation of number of shares from 1 January to 31 December is provided in the table below.

	Ordinary shares	
Number of shares unless otherwise stated	**2017**	**2016**
Par value	EUR 0.01	EUR 0.01
On issue at 1 January	269 074 000	269 074 000
On issue at 31 December, fully paid	**269 074 000**	**269 074 000**

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

In accordance with Luxemburg 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. There were no transfers to legal reserve during 2017 (2016: nil).

In January 2017 the Group paid interim dividends to shareholders in the amount of RUB 1 465 798 thousand (2016: RUB 1 472 411 thousand). Interim dividends paid were recognised as distribution to owners in the Consolidated Statement of Changes in Equity.

Dividends per share recognised as distribution to shareholders for the year ended 31 December 2017 amounted to RUB 5.5 (2016: RUB 5.5).

27 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary shareholders of RUB 3 166 913 thousand (2016: loss RUB 137 790 thousand), and a weighted average number of ordinary shares outstanding of 269 074 000, calculated as shown below. The Company has no dilutive potential ordinary shares.

Number of shares	2017	2016
Issued shares at 1 January	269 074 000	269 074 000
Weighted average number of shares for the year ended 31 December	**269 074 000**	**269 074 000**

28 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 30.

'000 RUB	2017	2016
Non-current liabilities		
Secured bank loans	-	2 500 000
Unsecured bank facilities	19 466 346	23 000 000
Unsecured bonds	5 213 006	5 243 118
Unsecured loans from related parties	-	929 960
	24 679 352	**31 673 078**
Current liabilities		
Secured bank loans	1 600 000	2 500 000
Unsecured bank facilities	3 913 823	1 000 000
Unsecured bonds	5 030 112	962 410
Unsecured loans from related parties	883 096	-
Unsecured loans from third parties	2 850	2 850
Loans and borrowings	**11 429 881**	**4 465 260**
Unsecured bonds interest	213 776	146 904
Interest accrued on loans	18 121	9 966
Interest accrued on loans and borrowings	**231 897**	**156 870**
	11 661 778	**4 622 130**

As at 31 December 2017 loans and borrowings with carrying value of RUB 1 600 000 thousand were secured by property, plant and equipment (2016: RUB 5 000 000 thousand). Refer to note 33.

As at 31 December 2017 the Group has RUB 13 800 000 thousand (2016: RUB 15 800 000 thousand) of undrawn, committed borrowing facilities available in respect of which all conditions present had been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB			31 December 2017		31 December 2016	
	Currency	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	RUB	2020 – 2021	10 243 118	10 243 118	6 205 528	6 205 528
Secured bank facility	RUB	2018	1 600 000	1 600 000	5 000 000	5 000 000
Unsecured bank facility	RUB	2018 – 2021	23 380 169	23 380 169	24 000 000	24 000 000
Unsecured loans from related parties	USD	2021	883 096	883 096	929 960	929 960
Unsecured loans from other companies	RUB	2018	2 850	2 850	2 850	2 850
			36 109 233	**36 109 233**	**36 138 338**	**36 138 338**

Compliance with loan covenants

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

At 31 December 2017 and during the year then ended the Group complied with all loan covenants.

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 RUB	Note	Loans and borrowings	Interest rate swap liability	Dividends payable	Total
Balance at 1 January 2017		**36 295 208**	**147 019**	**-**	**36 442 227**
Changes from financing cash flows					
Proceeds from loans and borrowings		7 685 500	-	-	7 685 500
Repayment of loans and borrowings		(7 663 017)	-	-	(7 663 017)
Interest paid		(3 655 488)	-	-	(3 655 488)
Dividends paid	26	-	-	(1 465 798)	(1 465 798)
Other financial payments		(25 140)	(63 200)	-	(88 340)
Total changes from financing cash flows		**(3 658 145)**	**(63 200)**	**(1 465 798)**	**(5 187 143)**
Other changes					
Accrued interests		3 766 143	63 200	-	3 829 343
Dividends declared		-	-	1 465 798	1 465 798
Reclassification from hedging reserve		-	(52 857)	-	(52 857)
Changes in fair value of hedge recognized in other comprehensive income		-	30 665	-	30 665
Effect of changes in foreign exchange rates		(62 076)	-	-	(62 076)
Total other changes		**3 704 067**	**41 008**	**1 465 798**	**5 210 873**
Balance at 31 December 2017		**36 341 130**	**124 827**	**-**	**36 465 957**

29 TRADE AND OTHER PAYABLES

'000 RUB	2017	2016
Trade payables	25 946 694	29 374 499
Advances received	322 048	350 816
Taxes payable (other than income tax)	990 862	1 085 381
Payables to staff	1 216 184	1 339 925
Deferred income	106 275	99 489
Interest rate swap liability	124 827	147 019
Other current payables	147 841	83 763
	28 854 731	**32 480 892**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, bonuses receivable and investments.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		2017	2016
Trade and other receivables	23	9 673 081	4 162 025
Cash and cash equivalents	25	7 750 177	11 463 467
		17 423 258	**15 625 492**

Due to the fact that the Group's principal activities are located in the Russian Federation the credit risk is mainly associated with its domestic market. The credit risks associated with foreign counterparties are considered to be remote, as there are only few foreign counterparties and they were properly assessed for creditability.

(ii) Trade and other receivables

The Group has no considerable balance of trade receivables because the majority of its customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from tenants and receivables connected to provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key stores. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 RUB	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not overdue and past due less than 90 days	9 496 464	-	4 045 013	-
Past due 90-180 days	39 160	-	43 875	-
Past due 181-360 days	63 386	-	36 658	-
More than 360 days	107 974	(33 903)	67 736	(31 257)
	9 706 984	**(33 903)**	**4 193 282**	**(31 257)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 RUB	2017	2016
Balance at beginning of the year	31 257	29 277
Impairment loss recognised	2 646	1 980
Impairment loss reversed	-	-
Balance at end of the year	**33 903**	**31 257**

The management has performed a thorough analysis of the recoverability of the receivables and impaired the balances outstanding for more than 1 year. Based on past experience management believes that normally the balances outstanding less than 360 days should not be impaired.

(iii) Cash and cash equivalents

The Group held cash and cash equivalents of RUB 7 750 177 thousand at 31 December 2017 (2016: RUB 11 463 467 thousand), which represents its maximum credit exposure on these assets. Cash and cash equivalents are mainly held with banks which are rated from Ba2 to Ba3 based on Moody's rating.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. The Group's liquidity risk management objectives are as follows:

- Maintaining financial independence: a share of one creditor in debt portfolio should not exceed 30%;
- Maintaining financial stability: the ratio DEBT/EBITDA should not exceed 4.0;
- Monitoring of compliance with debt covenants;
- Planning: timely preparation of operating, investing and financing cash-flow forecasts on rolling basis.

(i) Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including future interest payments:

2017 '000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loan	1 600 732	(1 702 265)	(415 805)	(1 286 460)	-
Unsecured bonds	10 457 192	(12 556 532)	(753 080)	(5 447 923)	(6 355 529)
Unsecured bank facilities	23 397 231	(28 089 592)	(2 267 729)	(3 727 947)	(22 093 916)
Unsecured loans from related parties	883 096	(900 516)	(900 516)	-	-
Unsecured loans from other companies	2 879	(2 878)	(2 878)	-	-
Trade and other payables	27 435 546	(27 435 546)	(27 435 546)	-	-
	63 776 676	**(70 687 329)**	**(31 775 554)**	**(10 462 330)**	**(28 449 445)**

As at 31 December 2017 Group's current liabilities exceed current assets by RUB 8 545 090 thousand (2016: RUB 5 892 343 thousand). Excess of current liabilities over current assets is usual for retail industry. The Group uses excess of trade and other payables over inventory to finance its investing activities.

2016 '000 RUB	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-5 yrs
Non-derivative financial liabilities					
Secured bank loan	5 001 141	(5 467 111)	(1 445 164)	(1 394 695)	(2 627 252)
Unsecured bonds	6 352 432	(7 574 128)	(1 076 276)	(734 925)	(5 762 927)
Unsecured bank facilities	24 008 799	(31 602 297)	(2 214 692)	(1 202 048)	(28 185 557)
Unsecured loans from related parties	929 960	(1 010 471)	(37 096)	(37 096)	(936 279)
Unsecured loans from other companies	2 876	(2 878)	(2 878)	-	-
Trade and other payables	30 945 206	(30 945 206)	(30 945 206)	-	-
	67 240 414	**(76 602 091)**	**(35 721 312)**	**(3 368 764)**	**(37 512 015)**

In April 2016 the Group placed unsecured bonds on Moscow Exchange in the amount of RUB 5 000 000 thousand. The bonds mature after 5 years in 2021. However, bond holders have an option to claim repayment after 2.5 years – in October 2018.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys derivatives in order to manage market risk. All such transactions are carried out within the guidelines set in Group's policy on hedging market risk. The Group applies hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group holds its business in the Russian Federation and mainly collects receivables nominated in Russian Roubles. However, financial assets and liabilities of the Group are also denominated in other currencies, primarily US Dollar.

Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial assets and liabilities and amounts on foreign exchange rate gains or losses. The Group ensures that its exposure is kept to an acceptable level by keeping the proportion of financial assets and liabilities in foreign currencies to total financial liabilities at an acceptable level. From time to time the Group converts assets and liabilities from one currency to another. The Group regularly considers the necessity of using derivatives to hedge its exposure to currency risk.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	USD-denominated	USD-denominated
	2017	2016
Trade and other receivables	2 025	1 760
Cash and cash equivalents	7 853	3 582
Unsecured loans from related parties	(883 096)	(929 960)
Trade and other payables	(439 046)	(176 595)
Gross exposure	(1 312 264)	(1 101 213)
Net exposure	**(1 312 264)**	**(1 101 213)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
Russian Rouble equals	**2017**	**2016**	**2017**	**2016**
USD	58.3529	67.0349	57.6002	60.6569

Sensitivity analysis

A 20% weakening of the RUB against USD at 31 December 2017 would have decreased equity and profit and loss by RUB (262 453) thousand (2016: RUB 220 243 thousand). This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2016.

A strengthening of the RUB against USD at 31 December 2017 would have had the equal but opposite effect on equity and profit and loss, on the basis that all other variables remain constant.

(ii) Interest rate risk

The Group has material exposure to interest rate risk. As at 31 December 2017, 7% of the Group's interest bearing financial liabilities were subject to re-pricing within 6 months after the reporting date (2016: 6%).

The Group uses swap to hedge its exposure to variability of interest rates. As at 31 December 2017 the Group had interest swap agreement with VTB bank. Under this agreement the Group swaps Mosprime rate for fixed rate. At inception, the swap had a maturity of three years. As at 31 December 2017 fair value of swap liability was RUB 124 827 thousand (31 December 2016: RUB 147 018 thousand).

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUB	Carrying amount	
	2017	2016
Fixed rate instruments		
Financial assets	4 145 533	8 240 763
Financial liabilities	(28 637 411)	(36 295 208)
Variable rate instruments		
Financial liabilities	(7 703 719)	-

Cash flow sensitivity analysis for variable rate instruments

A change of 500 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis was performed on the same basis for 2016.

	Profit or loss		Equity	
'000 RUB	**500 bp increase**	**500 bp decrease**	**500 bp increase**	**500 bp decrease**
2017				
Variable rate instruments	(385 000)	385 000	-	-
Interest rate swap	75 000	(75 000)	90 205	(102 946)
Cash flow sensitivity (net)	(310 000)	310 000	96 306	(102 946)
2016				
Variable rate instruments	-	-	-	-
Interest rate swap	75 000	(75 000)	96 306	(96 845)
Cash flow sensitivity (net)	75 000	(75 000)	96 306	(96 845)

(e) Offsetting of financial assets and financial liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2017		
Gross amounts	1 155 608	2 641 689
Amounts offset in accordance with IAS 32 offsetting criteria	(65 665)	(65 665)
Net amounts presented in the statement of financial position	1 089 943	2 576 025
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1 083 445)	(1 083 445)
Net amount	**6 498**	**1 492 580**
31 December 2016		
Gross amounts	2 356 574	13 602 195
Amounts offset in accordance with IAS 32 offsetting criteria	(5 013)	(5 013)
Net amounts presented in the statement of financial position	2 351 561	13 597 182
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(2 351 561)	(2 351 561)
Net amount	**-**	**11 245 621**

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

Amounts offset in accordance with IAS 32 offsetting criteria comprise mainly trade payables for goods and bonuses receivable from suppliers.

(f) Fair values

Basis for determination of fair value of financial assets and liabilities is disclosed in note 5. Fair value of Group's financial assets and liabilities, including loans and borrowings, approximates their carrying amounts.

(g) 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 Moscow Exchange. Fair value of bonds payable was determined for disclosure purposes based on active market quotations (Level 1 fair value).

(h) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement.

31 OPERATING LEASES

Leases as lessee

The Group has both owned and leased land plots. The owned land plots are included in property, plant and equipment. Leased land plots are treated as operating leases. In case the Group incurs costs directly attributable to acquisition of operating lease rights, these costs are capitalised as initial cost of land lease and are amortised over the period of the lease (49-51 years). The further information on leases is detailed below.

When the Group leases land plots under operating leases, the lessors for these leases are State authorities and third parties. The leases are typically run for 2-3 years, after which long term operating lease contract is concluded for 49 years.

The Group also rents premises under operating leases. These leases typically run up to 10 years, although some leases may be for longer periods. Property leases can be renewed based on mutual agreement of the lessor and the Group. The Group has subleases. Fees payable by the Group for operating leases of stores comprise fixed payments and contingent rent which is determined as an excess of 2%-6% of the revenue of related stores over the fixed rent rate.

During the year ended 31 December 2017 RUB 5 901 883 thousand was recognised as an expense (including amortisation of Lease rights amounting to RUB 144 139 thousand) in the profit and loss in respect of operating leases (2016: RUB 5 518 550 thousand). Contingent rent recognised as an expense for the year ended 31 December 2017 amounted to RUB 241 081 thousand (2016: RUB 467 947 thousand).

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

'000 RUB	2017	2016
Less than one year	2 831 840	3 771 246
Between one and five years	11 119 850	14 239 837
More than five years	25 419 104	30 089 728
	39 370 794	**48 100 811**

Leases as lessor

The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2017 RUB 1 738 525 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2016: RUB 1 620 671 thousand). All leases where the Group is lessor are cancellable. The Group has contingent rent arrangements.

Contingent rent recognised as income amounted to RUB 100 828 thousand for the year ended 31 December 2017 (2016: RUB 79 877 thousand). Contingent rent is determined as an excess of 4%-20% of the tenant's revenue over the fixed rent rate.

32 CAPITAL COMMITMENTS

The Group has capital commitments to acquire property, plant and equipment and

intangible assets amounting to RUB 867 441 thousand as at 31 December 2017 (2016: RUB 1 078 308 thousand). The capital commitments mostly consist of construction contracts for stores.

33 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 management is of the opinion that no material losses will be incurred in respect of claims.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised 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 consolidated 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 are successful in enforcing their interpretations, the maximum unrecognised exposures approximate RUB 1 300 million as at 31 December 2017.

(c) Assets pledged or restricted

The Group has the following assets pledged as collateral for loans and borrowings:

'000 RUB	Note	2017	2016
Property, plant and equipment (carrying value)	17	2 471 050	2 529 768
Total		**2 471 050**	**2 529 768**

34 RELATED PARTY TRANSACTIONS

(a) Major shareholders

As at 31.12.2017 the Company considers as its major shareholders Mr. Troitskii (indirectly holds 33.048%) and Mr. Volchek (indirectly holds 29.52%); Mr. Korzhev indirectly holds 11.73% shares of the Company.

(b) Transactions with management

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 12)

'000 RUB	2017	2016
Salaries and bonuses	339 537	359 436
Social security contributions	14 490	10 718
Long-service bonus	163 120	98 358
Other payments	6 900	7 500
	524 047	**476 012**

In addition members of Board of Directors received remuneration in the amount of RUB 48 531 thousand for the year ended 31 December 2017 (2015: RUB 59 942 thousand) which is included in legal and professional expenses.

(c) Transactions with other related parties

Other related parties are entities which belong to the shareholder group (see note 1).

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUB	Transaction value 2017	Transaction value 2016	Trade receivable 2017	Trade receivable 2016
Services provided:				
Other related parties	2 402	2 225	289	94
	2 402	**2 225**	**289**	**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 2017	Transaction value 2016	Prepayments 2017	Prepayments 2016
Other related parties	(831 117)	(788 700)	1 082 999	921 195
Including:				
Rental fee	(702 645)	(653 097)	-	-
Reimbursement of utilities	(57 771)	(73 197)	-	-
Reimbursement of other expenses	(70 701)	(62 406)	-	-
Other services received:				
Other related parties	(1 618)	(2 756)	3 608	2 143
Finance costs:				
Other related parties	(71 483)	(81 347)	-	-
	(904 218)	**(872 803)**	**1 086 607**	**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 1 082 999 thousand as at 31 December 2017 comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 1 107 623 thousand and current liabilities for rent of hypermarkets in the amount of RUB 24 624 thousand. Long-term part of prepayments amounting to RUB 906 496 thousand is disclosed in note 21. 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 71 483 thousand for the year ended 31 December 2017 (2016: RUB 81 347 thousand) and were recorded as finance costs in profit or loss.

(iii) Loans

'000 RUB	Amount loaned 2017	Amount loaned 2016	Outstanding balance 2017	Outstanding balance 2016
Loans paid back:				
Other related parties	-	-	(883 096)	(929 960)

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

(d) Pricing policies

Related party transactions are not necessarily based on market prices.

35 EVENTS SUBSEQUENT TO THE REPORTING DATE

In January 2018 the Group paid interim dividends to shareholders in the amount of RUB 1 883 083 thousand.

36 BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis except for the following:

- Derivative financial instruments are stated at fair value;
- Liabilities incurred in cash-settled share-based payment transactions are remeasured at fair value;
- Investment property is remeasured at fair value.

37 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2005, the Group's date of transition to IFRSs, such differences have been recognised in the foreign currency translation reserve. When a foreign operation is disposed of such that control or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

(ii) Non-derivative financial assets – measurement

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Non-derivative financial liabilities – measurement

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of profit and loss and other comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(d) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Distributions to owners/contributions from owners

The dividends paid to the shareholders are recognised directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholder group) or other benefits to such related parties are recognised directly in equity as distributions to the shareholders.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

» Buildings	30 years;
» Machinery and equipment, auxiliary facilities	2-20 years;
» Motor vehicles	5-10 years;
» Leasehold improvements	over the term of underlying lease;
» Other fixed assets	2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property, including investment property under construction, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss. If fair value of investment property under construction is not reliably determinable, the Group measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Fair value of the Group's investment property is determined by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include capitalised computer software, patents and licenses. Acquired computer software, licenses and patents are capitalised on the basis of the costs incurred to acquire and bring them to use.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

» software licenses	1-7 years;
» other intangible assets	1-5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Leased assets

(i) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group is a lessee in a land lease, the initial cost of land lease is amortised using straight-line method over the period of lease being up to 51 years. Where the Group is a lessee in a lease of premises, the lease rights are amortised using straight-line method over the period of lease being up to 8-19 years.

(ii) Finance leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are shown as other payables (long-term accounts payable for amounts due after 12 months from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted moving average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

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

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

Other long-term employee benefits represent long-service bonuses. Long-term employee benefits are expensed evenly during the periods in which they are earned by employees.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of VAT, returns and discounts.

(i) Goods sold

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register.

(ii) Services

Revenue from services rendered is recognised in profit or loss when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

(n) Cost of sales

Cost of sales include the purchase price of the goods sold and other costs incurred in bringing the inventories to the location and condition ready for sale. These costs include costs of purchasing, packaging and transporting of goods to the extent that it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of bonuses from suppliers of inventories, primarily in the form of volume discounts and slotting fees. These bonuses are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of sales.

(o) Finance income and costs

Finance income comprises interest income on issued loans and bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Value added tax

Input VAT is generally reclaimable against sales VAT when the right of ownership on purchased goods is transferred to the Group or when the services are rendered to the Group. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(t) Presentation of the statement of cash flows

The Group reports cash flows from operating activities using direct method. Cash flows from investing activities are presented net of VAT. VAT paid to suppliers of non-current assets and VAT in proceeds from sale of non-current assets are presented in line "VAT paid" in operating activities.

(u) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(v) New Standards and interpretation not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

» IFRS 9 **Financial Instruments**, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The standard will not have a significant impact on the Group's consolidated financial statements.

» IFRS 15 **Revenue from Contracts with Customers** establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 **Revenue**, IAS 11 **Construction Contracts** and IFRIC 13 **Customer Loyalty Programmes**. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The standard will not have a significant impact on the Group's consolidated financial statements.

» IFRS 16 replaces the existing lease accounting guidance in IAS 17 **Leases**, IFRIC 4 **Determining whether an Arrangement contains** a lease, SIC-15 **Operating Leases – Incentives** and SIC-27 E**valuating the Substance of Transactions Involving the Legal Form of a Lease**. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The Group is a lessee in significant number of operating lease agreements (stores and land plots). Application of IFRS 16 will result in recognition of these leases as asset on balance sheet. At the same time, a financial liability will be recognised.

The Group does not intend to adopt this standard early.

The Group has not analysed the likely impact of the new Standard on its financial position or performance.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

» Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

Glossary

Average ticket	the figure calculated by dividing total sales, net of VAT, at all stores during the relevant year by the number of tickets in that year
Big data	is data sets that are so voluminous and complex that traditional data processing application software is inadequate to deal with them
Click & Collect	service which allows customers to place orders online for collection in store
Corporate Social Responsibility (CSR)	responsible attitude in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment
EGAIS	national automated information system for the control of alcohol production and distribution
FMCG (fast–moving consumer goods)	products that are sold quickly and at relatively low cost
In-store availability	the number of SKUs in-store with a positive stock value as a proportion of the total number of active SKUs for sale, calculated based on the average daily in-store availability of all open stores
LFL (like-for-like)	the method of comparing current year sales figures to prior year's sales figures excluding the expansion effect
Mystery shopper	person hired by a market research firm or a manufacturer to visit retail stores, posing as a casual shopper to collect information about the stores' display, prices, and quality of their sales staff
Private label (PL)	brand owned not by a manufacturer or producer, but by a retailer or supplier, who gets its goods made by a contract manufacturer under its own label
SKU (stock keeping unit)	a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise
Total selling space	the area inside stores used to sell products, excluding areas rented out to third parties, own-production areas, storage areas and the space between store entry and the cash desk line
Traffic	the number of tickets issued for the period under review
CAGR	compounded annual rate of growth
Capex	capital expenditure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRM	Client Relationship Management
DC	distribution centre
FY	financial year
GDP	Gross domestic product
GDR	global depositary receipts
H	half of the year
HR	human resources
IFRS	International Financial Reporting Standards
IT	Information Technology
K m^2	a thousand square meters
KPI	Key Performance Indicators
LSE	London Stock Exchange
M&A	Mergers & Acquisitions
m^2	square metre
NGO	non-governmental organisation
p.p.	percentage point
Q	quarter of the year
RUB	Russian rouble
TMS	transport management system
WMS	warehouse management system
YoY	Year Over Year

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