Meeting customer needs

ANNUAL REPORT 2018

O'KEY
GROUP OF COMPANIES

YEAR AT A GLANCE

15
Net store openings[1]

584.9 k m²
Selling space

160
Total number of stores

161 bn RUB
Total Group revenue in 2018

13.6 bn RUB
Total revenue from DA!

32%
DA! revenue growth YoY

4
Distribution centres

[1] Does not include 4 supermarkets sold in 2018.

CONTENTS

O'KEY GROUP

O'KEY GROUP IS ONE OF THE KEY PLAYERS IN THE RUSSIAN RETAIL MARKET.

Since the opening of our first hypermarket in St. Petersburg in 2002, we have continued to strive for excellence. We have expanded to 160 stores across the country under two major formats: hypermarkets under the 'O'KEY' brand and discounters under the 'DA!' brand. We value our customers' comfort and active lifestyle by successfully developing e-commerce operations in Moscow and St. Petersburg to deliver the best products right to their doors.

To know more about O'KEY Group and its history please follow **the link** or scan the QR Code.

- International management team with unique, multi-industry experience
- One of the market leaders in St. Petersburg with a strong presence in Moscow, Ekaterinburg, Krasnodar, Ufa and other major cities in Russia
- Strong brand known for affordable products and a high-quality shopping experience, attested by multiple industry awards
- Multi-format shopping in hypermarket and discounter formats, tailored to our customers' everyday needs
- Highly centralised logistics: 4 distribution centres across Russia
- More than 20,000 employees ensure service excellence

160

Stores across Russia [1]

4

Distribution centres across Russia

>20,000

Employees

[1] As of 31 December 2018

About the Report

This Annual Report 2018 (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 Group's strategy, presents the Group's operating and financial results, describes the Group's corporate governance framework and corporate social responsibility. The Report has been prepared based on consolidated IFRS financial statements for 2018.

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 forward-looking 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.

Further information

Further information regarding O'KEY Group's strategy, our businesses and performance, approach to governance and risk management can be found on our corporate website.

An archive of annual and strategic reports as well as a full suite of additional information materials is available at www.okeyinvestors.ru

OUR VISION

- The best city 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

OUR VALUES

- Innovativeness
- Outstanding results
- Impeccable service
- Atmosphere of professionalism
- Effective team

FINANCIAL & OPERATIONAL HIGHLIGHTS

O'KEY GROUP IS KEEPING UP WITH THE GROWING COMPETITION, AND DESPITE THE SLIGHT 1.1% YOY DECREASE IN UNDERLYING GROUP NET RETAIL REVENUE, IN 2018 WE DELIVERED REMARKABLE GROWTH FOR THE DA! BRAND.

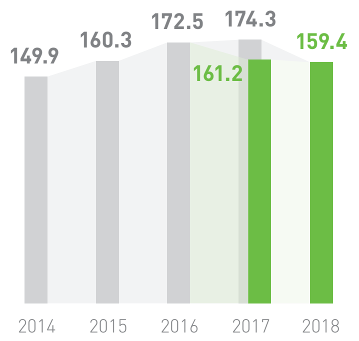
Operational highlights

Net Retail revenue and traffic decline in 2018 was primarily caused by the sale of supermarkets business. Excluding the effect of supermarkets business sale the Group net retail revenue decreased by 1.1% YoY in 2018.

Net retail revenue, bn RUB

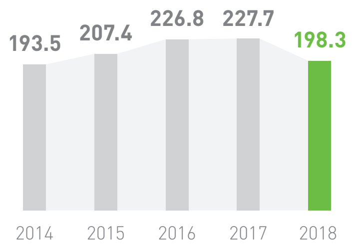
↓ **159.4**
–8.6%

YoY change to underlying net retail revenue, excluding the effect of the supermarket business sale. –1.1%



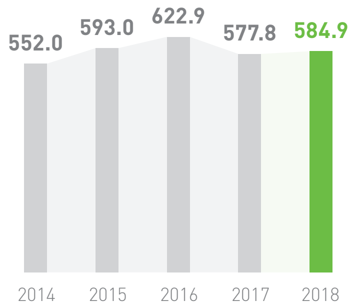
Traffic, mln

↓ **198.3**
–12.9%



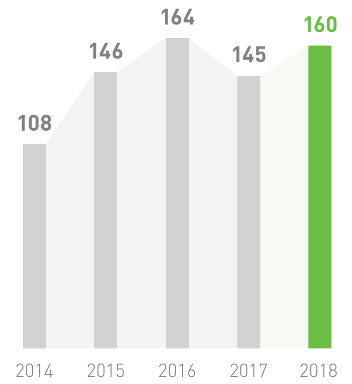
Total selling space, K m²

↑ **584.9**
+1.2%



Number of stores[1]

↑ **160**
+10.3%



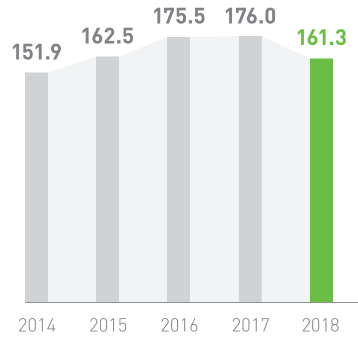
[1] The number of stores in 2017 does not include 4 supermarkets soled in 2018.

[2] Total revenue for 2017 hereinafter has been restated for comparison reason as a result of adoption IFRS 15 'Revenue from contract with customers' as stated in note 5 of Consolidated Financial Statements.

Financial highlights

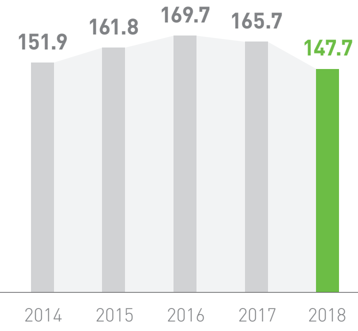
Total revenue[2], bn RUB

↓ **161.3**
–8.4%



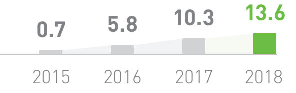
O'KEY revenue, bn RUB

↓ **147.7**
–10.9%



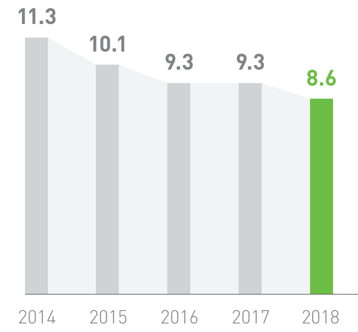
DA! revenue, bn RUB

↑ **13.6**
+31.9%



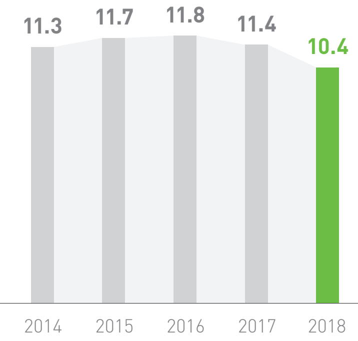
Group EBITDA, bn RUB

↓ **8.6**
–7.5%



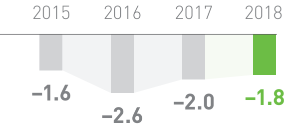
O'KEY EBITDA, bn RUB

↓ **10.4**
–8.8%



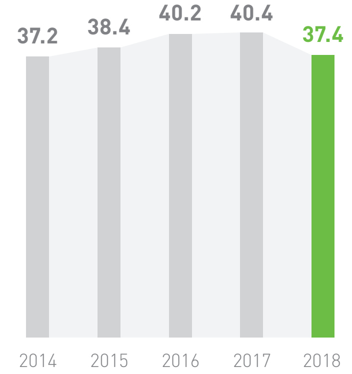
DA! EBITDA, bn RUB

–1.8



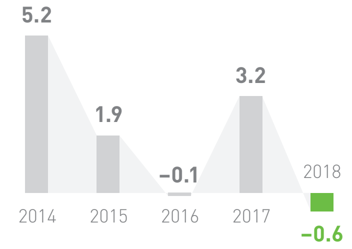
Gross profit, bn RUB

↓ **37.4**
–7.4%



Net profit / loss, bn RUB

–0.6



More about our financial results **on page 44**

MAJOR DEVELOPMENTS IN 2018

4 February

Okeydostavka.ru website and mobile application won Best Industry Solution award from the Global CIO.

23 March

O'KEY mobile app receives platinum award from 'Best mobile app awards' in 'Best Social/Lifestyle category' for its style and user-friendly interface.

31 May

O'KEY Group opens its first fully refurbished hypermarket in Moscow located at RIO Mall on Dmitrovskoe Highway.

6 June

O'KEY branded kvass wins the Quality Mark from Roskachestvo NGO, building on the success achieved by its products in 2017.

7 June

Discounters under DA! brand named The Best Retail start up of the year' at Russian Retail Week.

6 July

RAEX assigns O'KEY LLC, the main operating subsidiary of O'KEY Group S.A., a credit rating of 'ruA-' with a Positive outlook, reflecting the stable position of the Company.

18 July

O'KEY Group launches self-scanning terminals at its St. Petersburg hypermarkets.

23 August

O'KEY hypermarket located in Novocherkassk becomes the first hypermarket of a new format opened in Rostov Region.

12 September

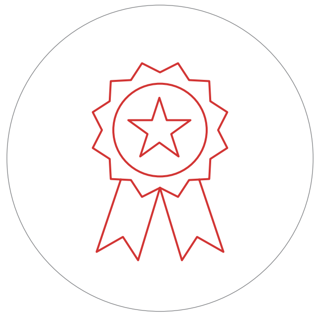
Armin Burger is appointed CEO of O'KEY.

21 September

O'KEY Group is declared winner of the 'Consumer Choice' award in the 'Best Price' category at the Consumer Rights and Quality of Service' awards. O'KEY is also recognised as the 'Best Food Retail Chain' of 2018.

25 October

The Company launches its third 'Kind Purchase' charitable fundraising campaign aimed at helping seriously ill children, in partnership with Rusfond, one of the oldest charitable foundations in Russia.



16 November

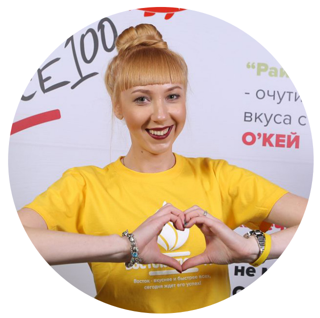
O'KEY Group private label branded products win the international competition Quality Guarantee 2018.

22 November

O'KEY Group launches an omni-channel mobile app, providing a unified approach to communications with customers in stores and online.

28 November

Renegotiation of the depositary service fees to be charged from the holders of the depositary receipts by the depositary bank to 1.3 US$ cents per GDR (effective from January 2019) from 3 US$ cents previously.



12 December

O'KEY Group hosts '100% Professional', a professional skills contest to determine the best cashier, baker and chef.

CHAIRMAN'S STATEMENT

> Progress is impossible without having the courage to change

Share Capital Structure – Direct Holdings

Dear customers, stakeholders, investors, colleagues, and partners, O'KEY Group made significant progress throughout 2018. The strength and flexibility of our business model were once again confirmed by our rapidly-growing DA! business and the performance of our hypermarkets, which regained momentum towards the end of the year.

Staying close to our customers and being attentive to their needs are key to developing the business amid growing pressure from competition and external economic challenges. We dedicated our efforts in 2018 to clearly defining the shape of our business. O'KEY's renewed company structure, formed as a result of selling our supermarket business at the end of 2017, has allowed us the opportunity to focus on our core strategic priorities: driving efficiencies in our hypermarkets and accelerating the expansion of our DA! discounter business.

We have also worked hard on further sharpening our value proposition, as well as finding the right mix of SKUs and share of private labels in both store formats. Looking forward, we expect the market to remain turbulent, but that is where our continued dedication to freshness and excellence comes into play. We want customers to feel the welcoming and hospitable atmosphere in our stores while shopping for the highest quality products with affordable prices – and here at O'KEY, we believe this is the way to foster the long-term loyalty of our customers and continue the successful development of our business.

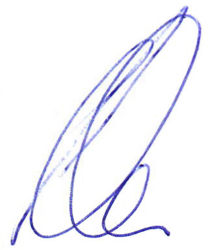
One of the major events of the year was the appointment of our new CEO, Armin Burger, formerly CEO of DA!, in September 2018. Armin is one of the key people behind the success of our discounter business, and his vision for further development of multiformat O'KEY Group will be an essential advantage for the Company. Armin is now in charge of both the DA! and O'KEY brands and we firmly believe that his expertise in retail, together with the rest of our strong and committed management team, will elevate our success to new heights while keeping the Company on the right strategic course.

O'KEY Group continues to follow best practices in its corporate governance. We shall remain transparent and follow the latest developments in this area. In 2018, we further enhanced our ESG policies including, first and foremost, our anti-corruption policy, which is now fully comprehensive and includes all areas of potential risks. I would like to personally thank all Board members for all their hard work with this in 2018.

Being results-oriented is our top priority, and we look beyond just financial results. Remaining committed to our local communities, following all environmental regulations, and working for good causes with Rusfond and other charity organisations are primary examples of results that really matter. We launched three 'Kind Purchase' campaigns and raised over RUB 19 mln, including RUB 6.8 mln during the final event held in October and November 2018.

Our employees and their commitment and creativity are a constant source of inspiration for us all. We are always looking for new ways to boost the skills and motivation of our staff, including online and offline education and professional contests. These include the '100% professional' programme which was run in 2018 and received very positive feedback.

Progress is impossible without having the courage to change. We are focusing on what needs to be changed and improved within the business to deliver the best results for all of our stakeholders.



Heigo Kera
Chairman of the Board of Directors

CEO'S STATEMENT

“We are on track with the right formula for development

161.3 bn RUB
Revenue in 2018

8.6 bn RUB
EBITDA in 2018

15 new stores
Opened in 2018 (net)

Dear stakeholders,

finding optimal solutions in a challenging environment has proved to be an attainable goal for O'KEY Group in 2018. As customer satisfaction remains at the heart of what we do, we maintained our focus on the quality and freshness of our products while retaining full control over our financial and operational results. O'KEY Group is keeping up with the growing competition, and despite the slight 1.1% YoY decrease in underlying Group net retail revenue, we delivered remarkable growth for the DA! brand. Rising inflation at the end of the year and weaker consumer confidence became the major factors shaping O'KEY's operating environment throughout 2018. Nevertheless, the fourth quarter brought positive news and excellent results in sales.

In 2018, we moved both the O'KEY and DA! headquarters in close proximity to each other in new offices. This was done to encourage cooperation and active dialogue between both in procurement and other areas while keeping the identity of each brand intact. We are constantly searching for potential synergies within our business, including joint procurement and imports, to drive economies of scale and pass on the benefits to our customers.

O'KEY review

The underlying net retail revenue[1] for O'KEY hypermarkets fell by 3.4% to RUB 145,821 mln, partly due to growing competition in the retail sector. The situation improved towards the end of the year, during which the decline was slowed through smart promotions ahead of the holiday season in the fourth quarter and further improvements made to our assortment and marketing.

Driven by our continued focus on providing the optimal product mix to every customer group, in 2018 we introduced our new private label brand, O'KEY Selection. The new brand has enabled O'KEY to improve its positioning and deliver new choices for customers who value top quality and premium products. Meanwhile, our core private label brands continue to prove their excellence by receiving major awards in 2018 at both national and international contests.

The Company rewards all its loyal customers by offering discounts and promotions. The introduction of our CRM system in 2018 helps us gain insights into individual customer needs and provide a truly customised shopping experience.

In 2018, the Company rolled out innovative self-scanning IT solutions in eight stores in Moscow and St. Petersburg. Now customers can use them in our stores along with self-checkouts counters. The installed IT solutions account for around 11% of the sales in those stores and increased the average ticket size.

We are fully prepared for 2019 and are ready to implement further initiatives aligned with our strategic priorities. We will be improvingour assortment management, logistics operations, and process optimisation to continue providing the performance our customers and stakeholders have come to expect from us.

DA! review

2018 has been a successful and special year for the DA! brand. We opened 19 new stores while financial results achieved during the reporting period were in line with our expectations despite the challenging economic environment and rising competition. Our LFL revenue grew 12.7% and our net retail revenue increased by 31.9%, while our LFL traffic accelerated with a 9.5% YoY increase. We paid close attention to making our stores comfortable and further improving store navigation and product assortment. Our DA! private label brand occupies 42% of shelf space and accounts for 943 SKUs, 96 of which were introduced in 2018. The DA! pricing position has not been changed and is still offering the best deals on the market.

In line with our strategic development goals, we plan to continue expanding DA! in Moscow and the Moscow region and create long-term value for our customers, with up to 30 new store openings planned for 2019.

Outlook for the future

One of our key priorities for O'KEY's future development is maintaining a friendly atmosphere in our stores. We recognise the importance of every customer choosing to shop with us and will be going forward in a manner that befits their support. O'KEY Group offers loyalty programmes for customers and extensive training to employees to create a sense of unity and mutual respect.

The Company remains committed to its principles of transparency and openness in terms of Corporate Governance, ensuring full regulatory compliance and following recommended best practices.

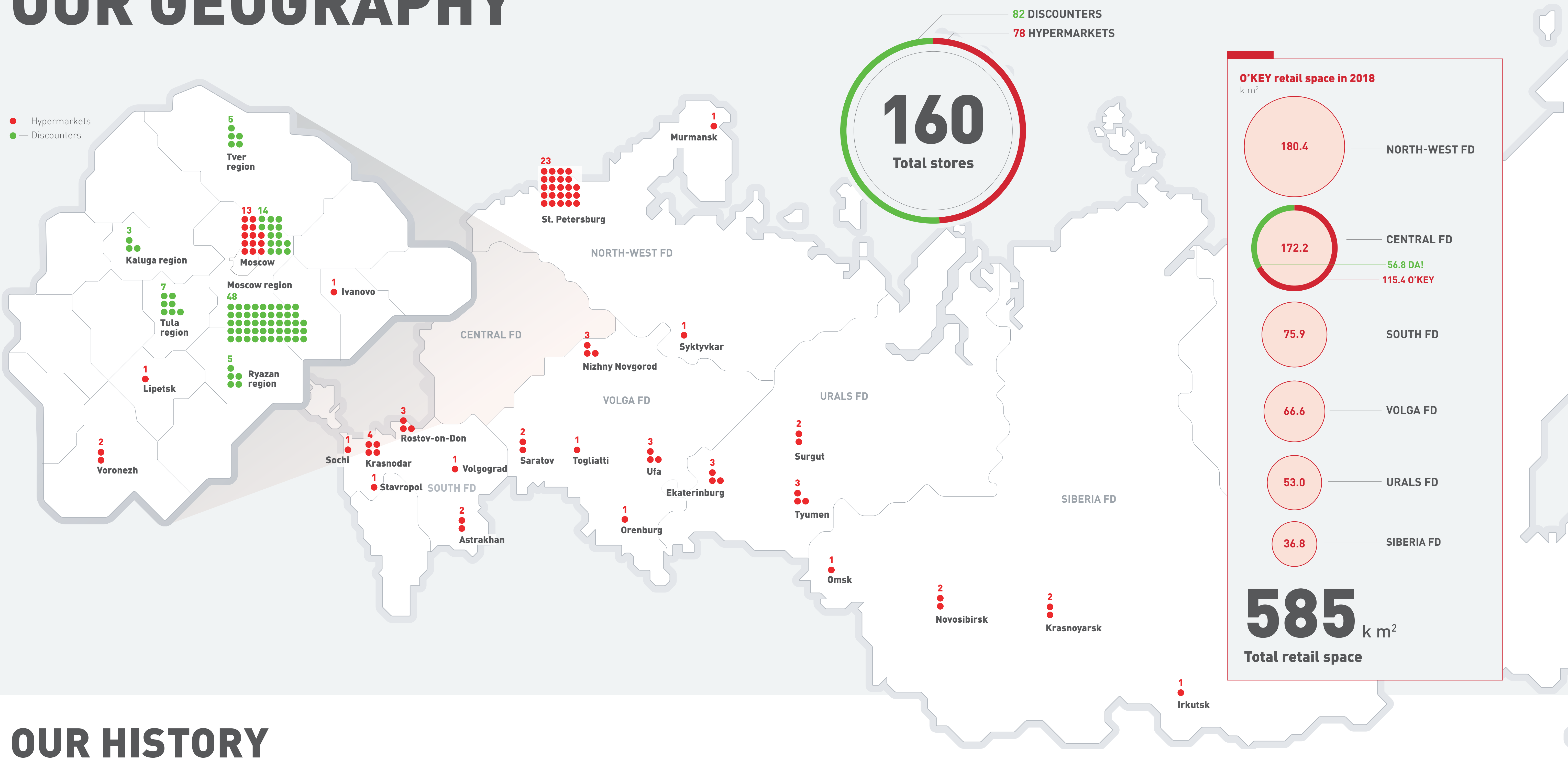
We respect our stakeholders and make a strong effort to develop long-term and mutually beneficial relationships with them. O'KEY Group, and I personally, highly appreciate the contribution of expertise and hard work from both management teams and are highly appreciative of our employees across the country, who are an integral part of our success. We pursue the same responsible attitude towards charitable initiatives and are happy to further develop our partnership with Rusfond to support good causes.

Our efforts continue to be underpinned by our unwavering commitment to our Company's values and to serving the interests of our stakeholders. O'KEY's strong market share and positive outlook for the future will help us maintain our leading position in the Russian retail market.

Armin Burger
Chief Executive Officer

[1] Revenue, excluding the effect of the supermarket business sale.

OUR GEOGRAPHY



OUR HISTORY

2001
O'KEY Group founded

2002
First O'KEY hypermarket opened in St. Petersburg

2003
Strategy of establishing **regional market leadership**

2007
Focus on **expansion** in Russia's key regional markets

2009
Top-10 retailer by revenue

2010
IPO on the London Stock Exchange

Top-3 retailer by revenue

2014
Rapid expansion in Moscow and key regional markets

2015
Online sales platform launched for market-leading hypermarket

New discounter format under the DA! brand

2016
Mobile app for iOS and Android launched in 2016

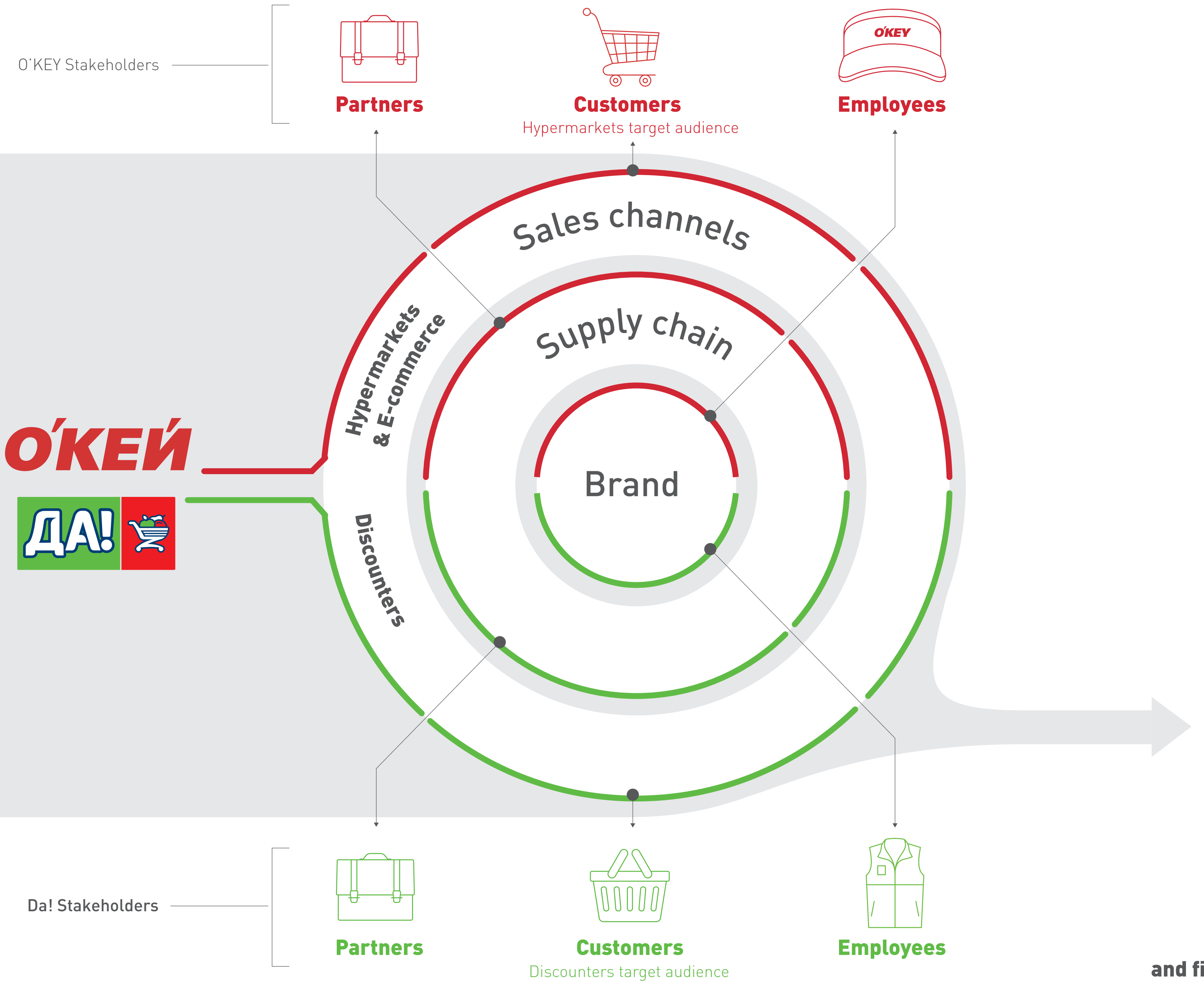
2017
O'KEY-auto and 24 hour delivery service launched for hypermarket segment

Sale of supermarket business including 32 supermarkets across Russia

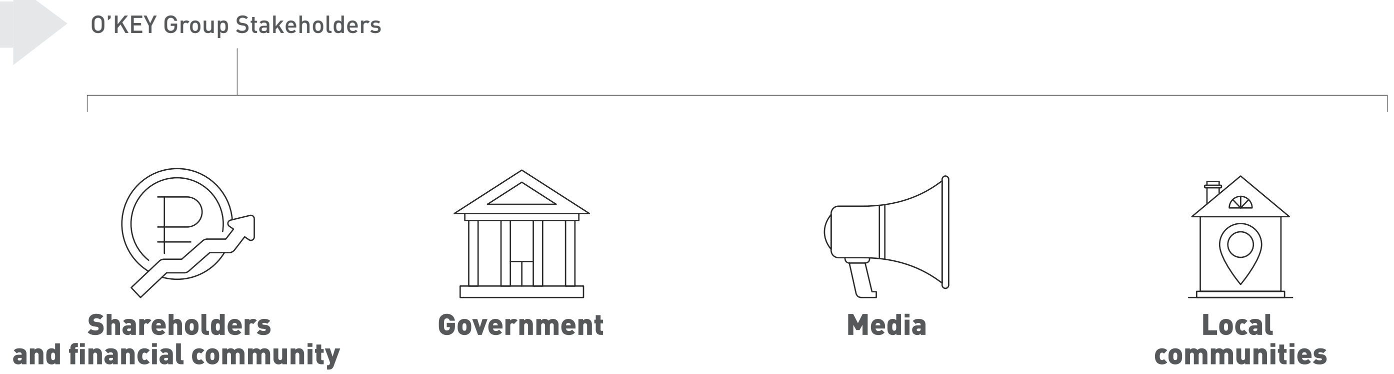
2018
Revenue of discouters under brand DA! reached 8.5% of the Group revenue

O'KEY Group launches an omni-channel mobile app providing a unified approach to communications with customers in stores and online

BUSINESS MODEL



The Group's business model is built around two brands – O'KEY (hypermarkets) and DA! (discounters). Each brand operates its own business infrastructure (commercial model, supply chain, sales channels, etc.) aiming to create the highest value to the stakeholders



Value Creation

- Job creation
- Salaries and social benefits
- Training and career development

- Long lasting and mutually beneficial cooperation with suppliers
- Reliable supplies

- Strong and broad assortment range
- Diverse private label product range
- Guarantee of the best quality
- Loyalty programme
- Personalised promo offers

Challenges

- Employee recruitment and retention
- Competition risks
- Economic outlook

- Changing customer expectations
- Economic outlook
- Competition risks

- Changing customer expectations
- Economic outlook
- Competition risks

Value Creation

- Business value growth
- Dividends distribution

- Contribution to GDP
- Tax revenue

- Clear understanding of O'KEY business

- Charity, cultural and sports events development
- Infrastructure development and modernisation
- Improving quality of life by supporting vulnerable groups and taking care of environment

Challenges

- All principle risks (pp. 50–55)

- Political & Regulatory risks
- Tax regulations
- Risk of currency and interest rate volatility
- Risk of misstatements

- Economic outlook
- Changing customer expectations
- Competition risk

- Economic outlook
- Changing customer expectations
- Competition risk

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.

О'КЕЙ

Deliver the best value proposition

Priorities

- 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

Challenges

- Supply chain risks
- Changing customer expectations
- Economic outlook
- Competition risks

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 our technological platform to support rollout 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

Enhance supply chain

Priorities

- 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

Challenges

- Supply chain risks
- Changes in working capital
- IT Platform development
- IT security threats
- Employee recruitment and retention

Strengthen our presence

Priorities

- Expand our 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

Challenges

- Provision of sufficient financing
- Changing customer expectations
- Supply chain risks
- Competition risks

ДА!

Growth and expansion

Priorities

- Open up to 30 new stores in 2019 in Moscow and surrounding regions

Challenges

- Provision of sufficient financing
- Changing customer expectations
- Economic outlook
- Competition risks

Strong private labels

Priorities

- 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

Challenges

- Changing customer expectations
- Supply chain risks

Deliver the best value proposition

Priorities

- 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

Challenges

- Changing customer expectations
- Supply chain risks
- Competition risks

Stakeholders engagement

Partners

Customers

Local communities

Government and local authorities

Employees

Shareholders and financial community

Media

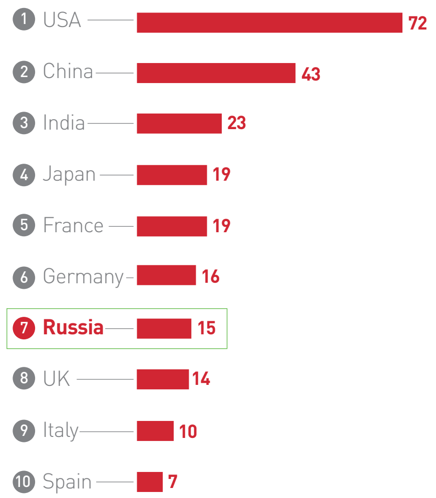
RUSSIA'S FOOD RETAIL MARKET

The Market in 2018
The Russian food retail market is the world's 7th largest in monetary terms, and has been growing above 6% on average in the last 5 years[1]. Given that modern trade penetration remains relatively low at c. 70% level, we expect it to continue demonstrating robust growth in the next few years and reach above 80% penetration, corresponding to developed markets.

6%
Russia's food retail market growth in the last 5 years

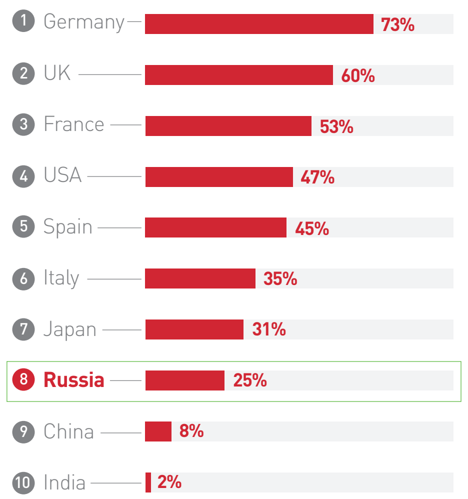
80%
Expected modern trade penetration

Grocery retail market size in 2018, RUB tn[2]



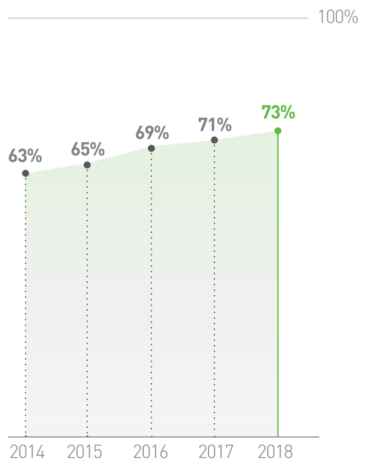
Source: Euromonitor, Rosstat

Global market share of top 5 grocery retailers



Source: Euromonitor, Rosstat

Modern trade penetration in 2014–2018



Source: Infoline Analytics

[1] Average official exchange rate in 2018 is RUB 62.9264 per 1 USD.

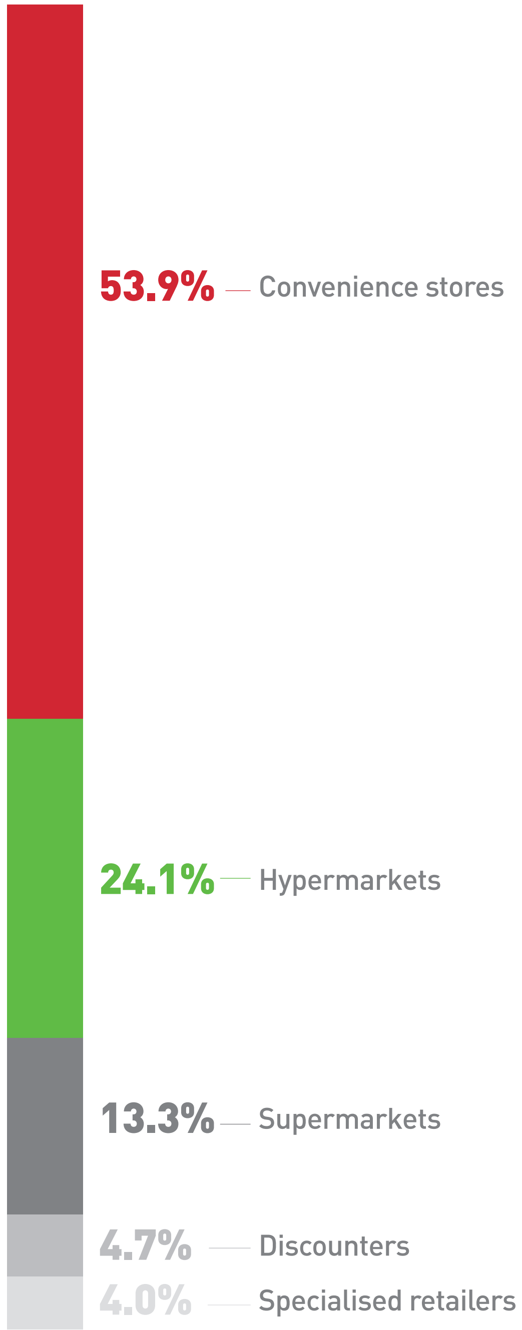
[2] Russian retail market size as per Rosstat data; other countries – Euromonitor.

According to Infoline, the total selling space of the largest food retailers in Russia increased by 9.2% YoY to 24.9 mln m² in 2018. Discounters showed the biggest growth, with their combined selling space expanding by 29.0% YoY, followed by specialized retailers with 28.8% YoY growth in selling space, and convenience stores with 11.8% YoY growth. Growing competition for the best retail locations and proximity to customers continue to put pressure on hypermarkets and supermarkets, leading to gradual declines in their respective shares in overall selling space.

24.9 mln m²
Total selling space in 2018

Largest grocery retailers selling space by format in 2018

Specialised retailers include such stores as SPS Holding, Bristol, VkusVill, Velikolukskiy, Myasnov, Otdohni; convenience stores include Pyaterochka, Magnit, Dixy, etc.; discounters include such stores as DA!, Svetofor, Monetka.



Source: Infoline

O'KEY aims to meet the needs of all consumer segments by building our strategy around two main retail formats – city hypermarkets and discounters. Under discounters we understand the business which operates a discount business model – more than 40% SKUs in private labels, standardised store building, standard in-store lay-out, low FTE[1].

Striving for efficiency and productivity across all business processes at our hypermarkets, we create a distinct competitive advantage in the food retail market by attracting new customers and fostering customer loyalty by greatly expanding the range of consumer needs that can be met at a single location. We believe that recent changes in our assortment mix and our new marketing approach will help us to increase sales densities across all our stores in 2019.

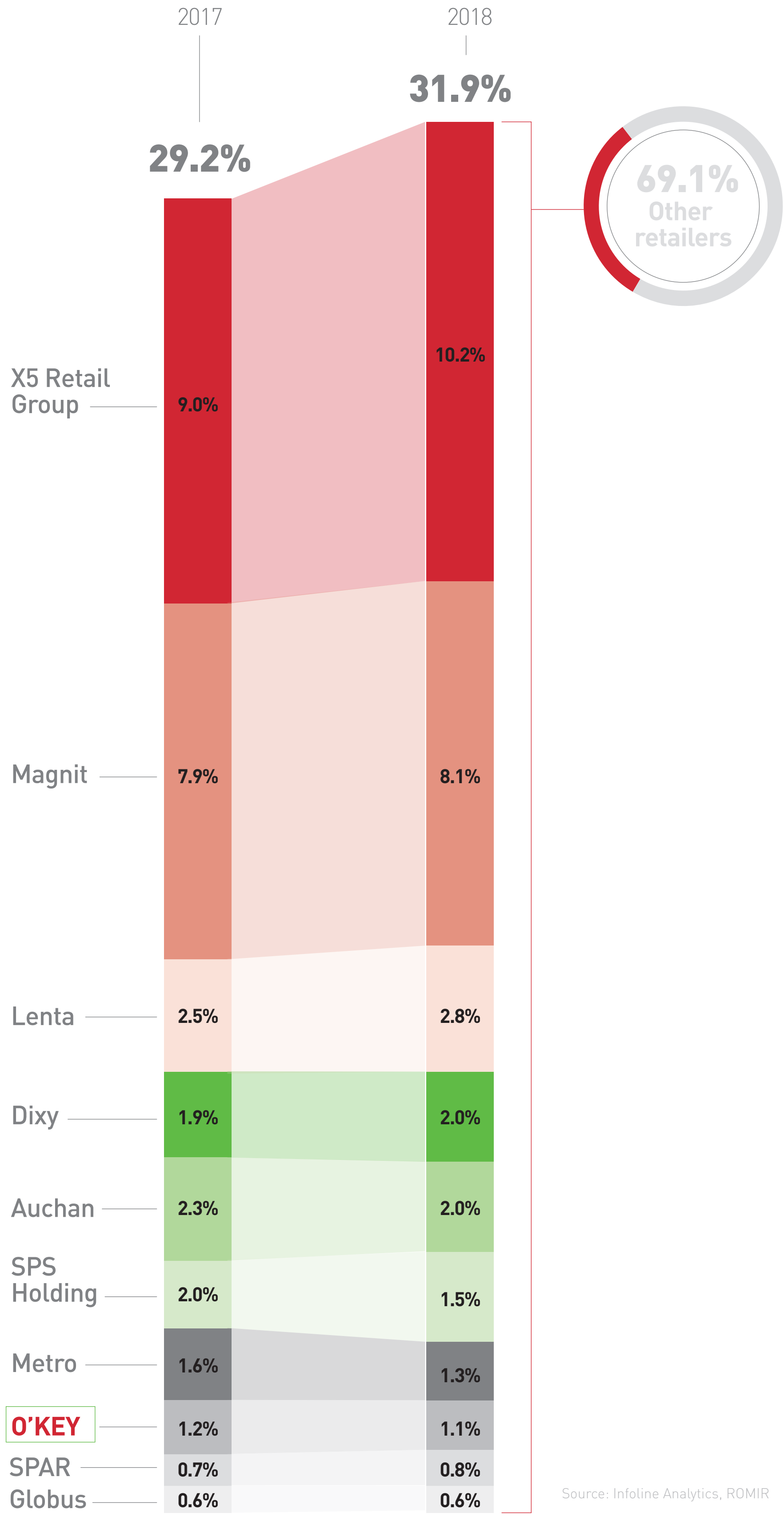
We remain committed to developing a value-for-money discounter concept, unique for Russia, with the goal of becoming a shopping destination

The segment demonstrated good results in 2018, and we aspire to continue active store rollouts in 2019.

[1] FTE – full-time equivalent is a unit that indicates the workload of an employed person in a way that makes workloads or class loads comparable across various contexts.

[2] By net retail revenue

Top 10 food retailers in Russia[2]



Source: Infoline Analytics, ROMIR

The online grocery retail market in Russia grew by a considerable 50% in 2018 to RUB 23 bn, accounting for 0.15% of the total grocery market in Russia compared with 0.11% in 2017. The market size increase was mostly driven by demand growth in Moscow and St. Petersburg, while demand in other regions is gradually catching up.

Key drivers of the rapid online grocery market expansion in 2018:

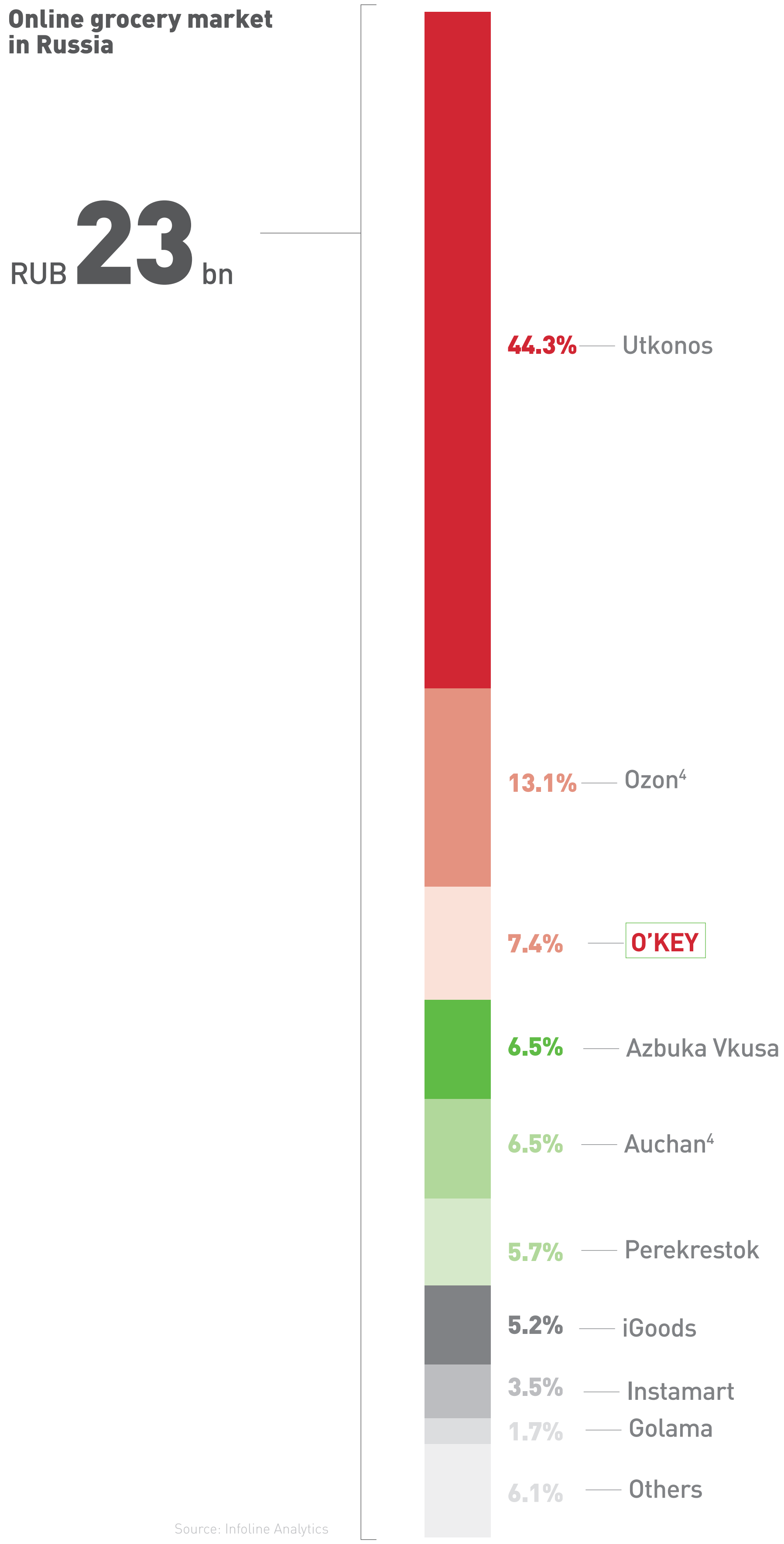
- **behavioural factors:** growing demand for online delivery as mobility increasingly becomes essential to everyday life;
- **new players:** several new entrants to the online grocery market in 2018 (Ozon, Perekrestok, Golama);
- **expanding geographic coverage:** online grocery services expanded geographically to Kazan, Nizhny Novgorod, Belgorod, Orenburg, Surgut, and Yekaterinburg;
- **enhanced processes:** modernisation of IT systems and logistics optimisation (e.g., introduction of dark store concepts).

Despite Russia's solid online grocery market growth in 2018, it is still at the nascent stage (0.15% of the total grocery market in 2018) in comparison with global trends, with the world's top 3 online grocery market leaders (South Korea with a 9% share, China with 5.3%, and the UK with 4.3%)[3] setting the online grocery trend for the whole world.

[3] Source: Euromonitor

[4] Online store does not deliver fresh category products (fruit & vegetables, meat and milk products, etc.).

Online grocery market in Russia

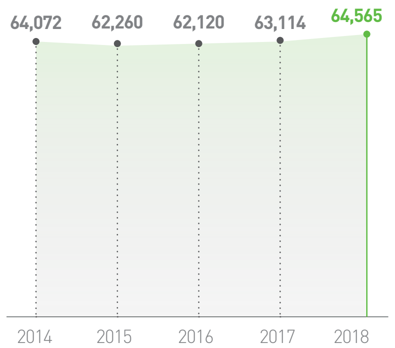


Source: Infoline Analytics

ECONOMIC ENVIRONMENT

DESPITE HAVING SUFFERED SEVERAL YEARS OF HEADWINDS ARISING FROM WEAK OIL PRICES, INTEREST RATE VOLATILITY, AND THE IMPACT OF INTERNATIONAL SANCTIONS, IN 2018 THE RUSSIAN ECONOMY SHOWED SIGNS OF RECOVERY.

Real GDP growth in 2014–2018,
RUB bln



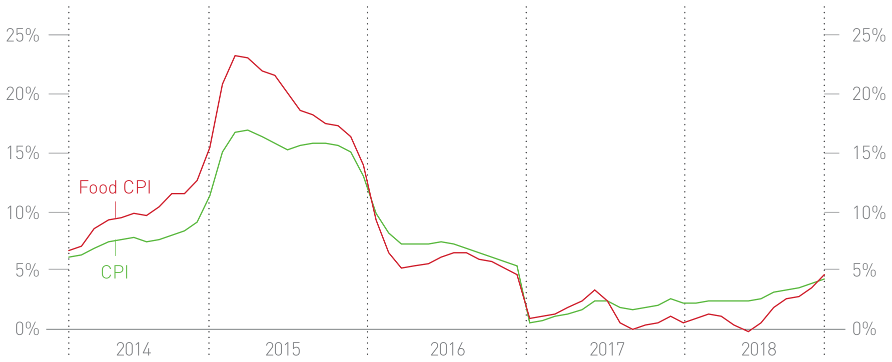
Real GDP growth reached 2.3% YoY, which was ahead of consensus expectations of 1.5%-2%[1]. The growth was supported by positive developments in the mining industry, transport sector, building and construction sector, as well as the financial and insurance sectors.

Average headline inflation reached 2.9% YoY in 2018 (vs 1.7% in 2017), whereas the food component picked up to 1.7% YoY (vs 1.3% in 2017). The acceleration of inflation at the year end was largely driven by a tighter supply-demand balance in the sugar market, rapid growth in poultry and egg prices, and increasing grain prices. The food inflation is expected to accelerate moderately in 2019 amid a VAT hike and further increases in food prices supporting LFLs of grocery retailers.

2.3% YoY

GDP growth in 2018

Russia's Consumer Price Index,
monthly YoY, %

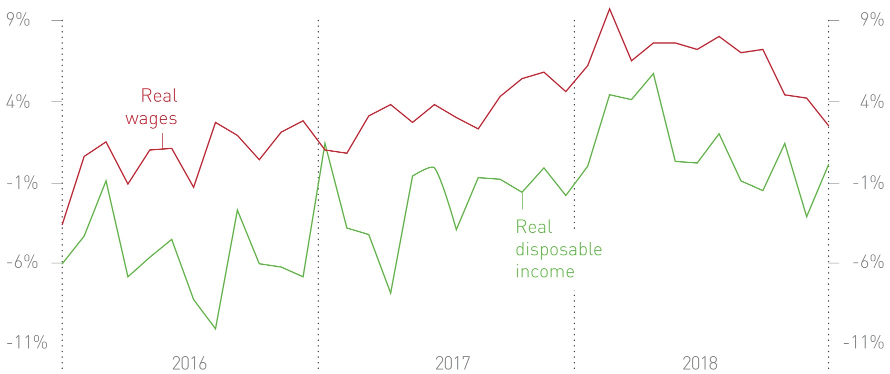


Source: Rosstat

The consumer environment in 2018 remained mixed overall as real wage growth slowed toward the end of the year and real disposable income declined for the full year. Real disposable income in 2018 continued to fall amid rising inflation, increased mandatory payments, and stagnant pensions. As a result, real disposable income declined for five consecutive years, reducing by 0.2% YoY in 2018 (including the impact of a one-off RUB 5,000 payout to pensioners in January 2017).

However, the percentage of customers trading down stayed almost the same in 2018 as a year ago reaching 30% on average according to Central Bank of Russia official statistics. The share of customers visiting retail and food retail stores less frequently or ceasing purchase of certain products decreased YoY by 2 p.p. to 22% on average in 2018 compared with 24% one year ago. The percentage of customers who made deeper spending cuts over 2018 decreased to 34% compared to 37% in 2017.

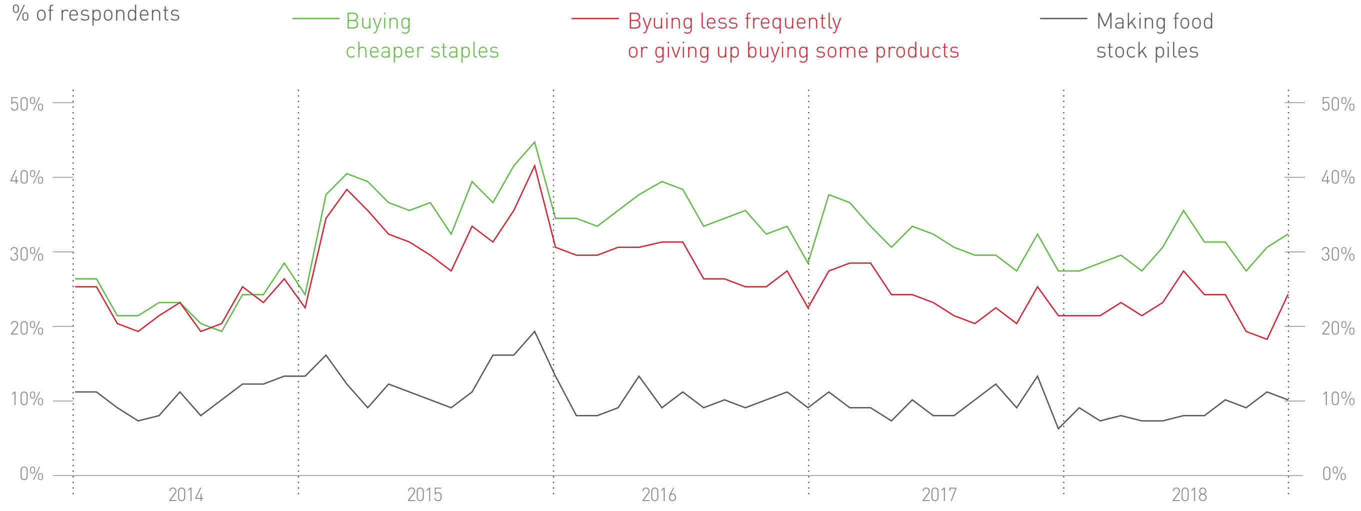
Real disposable income and real wages in 2016-2018,
monthly YoY, %



Source: Rosstat

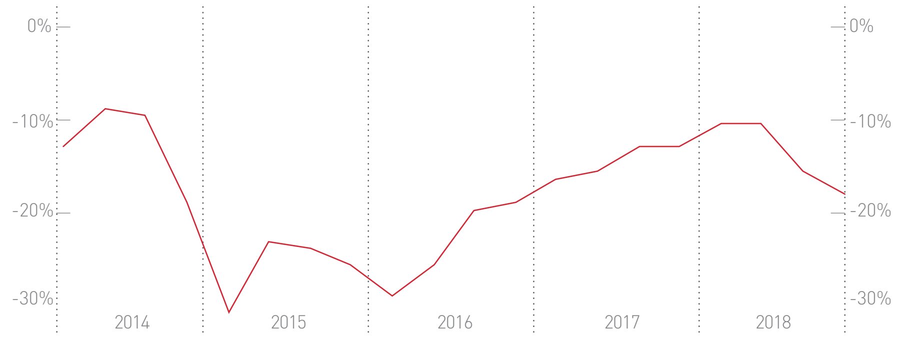
[1] Source: Central Bank of Russia

Trading down 2014-2018,
% of respondents



Source: CBR

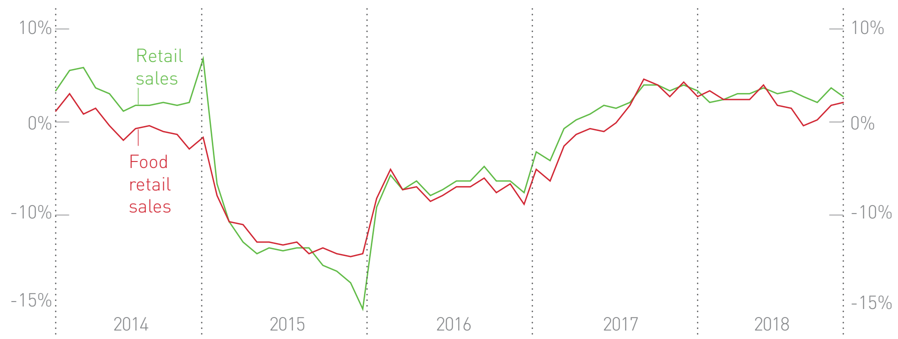
Russia's Consumer Confidence Index in 2014-2018,
monthly YoY, %



Source: Rosstat

Consumer confidence gradually deteriorated throughout 2018 from the initial peak reached during the first quarter through public sector salary indexation. With no additional catalysts, growing inflationary expectations, and declining real disposable income, consumer confidence plunged to –17% in the fourth quarter of 2018.

Real retail sales and food retail sales growth in real terms in 2014–2018,
monthly YoY, %



Source: Rosstat

Food retail sales grew by 4.0% YoY in nominal terms, having accelerated throughout the year amid accelerating inflation. In real terms, food retail sales increased by 2.3% YoY.

2.3% YoY

Food retail sales increase

Outlook

According to Ministry of Economic Development of Russian Federation real GDP growth in Russia in 2020–2021 will amount to 2% and 3.1% respectively. We remain cautiously optimistic on the outlook for the Russian consumer. We expect consumer sentiment to remain mixed in 2019 as growing inflation and a slow-down in real disposable income growth will continue to put pressure on consumer confidence.

We continue to base our strategy on a more cautious scenario in light of the challenging operating conditions continuing throughout 2018. We believe that by investing in our business today to enhance efficiency and ensure price competitiveness alongside our strong reputation for quality and service, we will be one of the best-positioned retailers in the Russian market to benefit from future market growth opportunities.

OPERATIONAL REVIEW

HYPERMARKETS

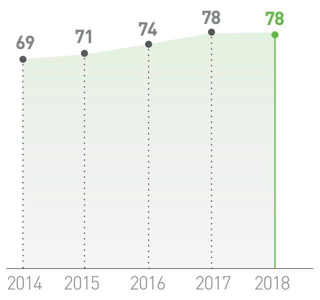
O'KEY GROUP IS COMMITTED TO EXCELLENCE IN BRINGING THE BEST PRODUCTS TO CUSTOMERS AND MAINTAINING THE HIGHEST QUALITY OF SERVICE AT EVERY STORE. OUR STRONG VALUE PROPOSITION HELPS US TO MAINTAIN OUR POSITION AS ONE OF THE LEADERS IN THE RUSSIAN RETAIL MARKET.

Strategic priorities

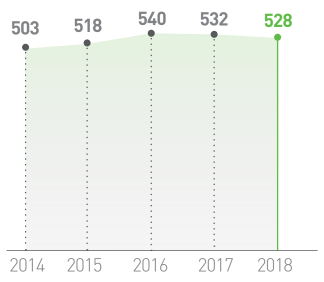
- Focus on price positioning and sales growth
- Optimise and manage assortment efficiently
- Differentiate our own production to meet every customer's needs
- Deliver the best value on price and quality

Key performance indicators

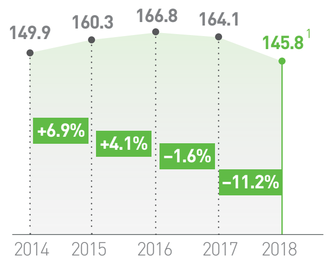
Number of stores



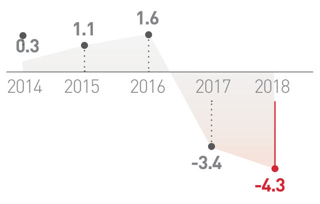
Selling space, k m^2



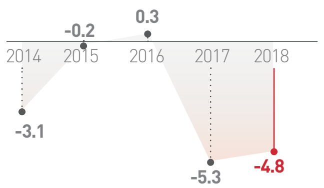
Net retail revenue, RUB mln



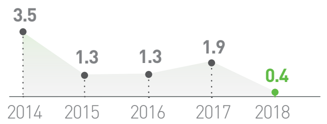
LFL Net retail revenue, %



LFL Traffic, %



LFL Average Ticket, %



[1] Net Retail revenue decline in 2018 was primarily caused by the sale of supermarkets business. Excluding the effect of supermarkets business sale net retail revenue decreased by 3.4% YoY.

Despite the decrease in underlying revenue[2] caused by external and internal factors, we maintained our position as one of the key market players in the food retail sector and remained dedicated to our strategic priorities. We continued to improve our value proposition, product mix and assortment management. Building our business model around two different formats - hypermarkets and discounters, we strive to create long-term, successful and stable company.

Performance

In 2018, O'KEY's underlying net retail revenue, excluding the effect of the supermarkets business sale, decreased by 3.4% YoY to RUB 145,821 mln. LFL net retail revenue fell by 4.3% for the year on the back of a 4.8% decrease in LFL traffic and a 0.4% increase in LFL average ticket. The results were mainly affected by intensifying competition in the retail sector, weakening consumer sentiment over the year, with real disposable income decreasing by 0.2% YoY amid rising inflation, higher mandatory payments, stagnant pensions and some of the changes we made in key business areas including service level, assortment mix and freshness. However underlying O'KEY revenue, excluding the effect of the supermarket business sale, demonstrated marginal improvement in Q4 2018. Smart promotional campaigns ahead of the holiday season, along with improvements in assortment mix and marketing, helped us slow the decline in items per client by 1% QoQ in Q4. Combined with shelf inflation growth of 2.9% YoY, these initiatives resulted in LFL basket growth of 2.0% YoY.

In 2018, the Company opened two new concept hypermarkets in Moscow and in the town of Novocherkassk, in the Rostov region. We focused on cooperation with the local producers and introduced a new Fresh Zone to demonstrate own commitment to fresh produce. As at the end of 2018, the total number of hypermarkets was maintained at 78, with a total selling space of 528 k m^2.

New Fresh Zone at hypermarkets demonstrates our commitment to freshness

Hypermarkets business at a glance

- **7.3** k m^2 — **Average store selling space**
- **34** k — **Average product range, SKU**
- **165** mln — **Clients shopped with us in 2018**
- **91.5** % — **Hypermarkets share in sales 2018**
- **54** % — **Owned stores**
- **1,008** RUB — **Average ticket in 2018**

[2] Excluding the effect of the supermarket business sale.

Commercial model

Our commercial model is based upon the principle of providing the best value for money to customers. The pillars our commercial model stands on are:

- the right assortment,
- attractive promotion campaigns,
- a focus on freshness and quality,
- a strong private label offering.

This approach in 2018 was successful with customers responding positively. We believe that promotions have already reached the highest sustainable level so we have no plans to increase its share in 2019. Instead we will continue working on our assortment mix to increase footfall in our stores as well as better service. In particular, we are planning to re-arrange our SKUs to put even more focus on higher quality and private label products, so customers can clearly see the difference between them and other price segments.

In 2019, O'KEY stores will also have improved planograms[1] and we will change our approach to assortment management, which will allow us to increase our efficiency and stand out even more among competitors.

O'KEY recognised by Federal Supervision Agency for Customer Protection and Human Welfare as the 'Best Food Retail Chain' in 2018 and 'Consumer Choice' for 'Best Prices'

Loyalty programme

Our loyalty programme is designed to reward customers and provide our cardholders with a sense of worth, encouraging them to return to our stores to make even more valuable purchases. Our discount cards provide multiple options to obtain the highest quality for the most affordable and attractive price.

Originally created as a simple discount programme, it now offers the whole range of benefits to our customers, such as ongoing collectable loyalty, weekly promotions, special coupon promotions for high seasons and personalised offers for active customers based on their purchase history. Our loyalty programme offers a wide range of benefits to our customers.

We significantly improved our loyalty programme by launching the new mobile application, allowing both online and offline customers to track their history of purchases and accumulation of points, expected to be launch in 2019. We also piloted personalised coupons that can be used in both online and physical stores.

Plans for 2019

In 2019, we plan to concentrate on improvements to the loyalty programme's functionality and usability, integrating innovative IT-solutions, including CRM, and enhancing our dialogue with customers to make shopping even easier.

O'KEY private label brands

Entry segment	Medium segment	Premium segment
That's What You Need! 789 SKUs	**O'KEY** 822 SKUs	**O'KEY Selection** 16 SKUs
1600+ SKUs under the three brands	**4.8%** Share of Private label brands in total SKUs	**6.6%** Share of Private label brands in revenue

Private label

Our private label is what should set us apart from our competitors. We strive to provide our customers with the highest quality products at a lower price than other major retailers. In order to strengthen our private label and to cover all price segments we launched a new line of products in the premium segment.

The main event of 2018 was the launch of the new brand 'O'KEY Selection' in October. This is a premium brand, which initially included 38 SKUs. Despite the high quality of products and packaging 'O'KEY Selection' is more affordable than brands of the same quality. Our assessments have shown the positive reaction to the new brand from the target audience. Now we have three different brands for all price segments: alongside the new 'O'KEY Selection' brand in premium segment, we already have the well-established 'That's What You Need!' brand in the entry segment and 'O'KEY' brand in the medium segment.

Our own private label products are 20–30% cheaper than branded alternatives of a comparable quality

In 2018, we also worked on expanding the assortment of 'That's What You Need!' and 'O'KEY' brands. Overall, we added 691 new SKUs, including 155 re-launched and 536 brand new ones. The total share of private label products within the assortment range reached 6.6% in 2018 compared to 6.2% in 2017, while in money terms share of the main brands 'That's What You Need!' and 'O'KEY' increased from 6.1% to 6.6%.

O'KEY's top priority remains high quality of all assortment on our shelves. Our quality control programme 'Trademark O'KEY – Customers` guarantee' includes checking production facilities as well as testing samples in independent and accredited laboratories. Recognising these efforts, our production has received several important quality awards.

Plans for 2019

In 2019, we plan to focus on developing our 'O'KEY' and 'O'KEY Selection' lines. We are going to increase the number of products in 'O'KEY Selection' up to 200 SKUs with the ultimate goal of offering the premium segment in all categories. We will continue to work on improving our high quality standards and our ongoing efforts to increase the margins and profitability of private label products. Another direction our progress will take is the improved positioning of private label in our stores.

[1] **Planogram** is a diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases.

Own production

We understand that modern life is about mobility and fast pace, and time becomes the most precious resource. O'KEY Group fully recognises the needs of big city life and provides our customers with the wide range of freshly prepared salads, bakery, fish and meat dishes. In 2018 the Company's own production unit has undergone several important transformations, aimed at customer satisfaction and improvements to operational efficiency.

Own production unit 2018 at a glance:

- in 2018, we introduced a quality control manager position to our structure, whose responsibilities include educating the staff and process control;
- our weekly catalogues with the most popular positions were introduced in 2018 and led to significant sales growth in the Cafeteria segment;
- we developed our 'Ultra Freshness' approach with daily evening promotions and discounts;
- in 2018, we continued to focus on daily freshness and local suppliers: we keep supporting local producers across Russia and using best domestic ingredients in our recipes;
- the 'sit and eat' format which is available both inside and outside stores has been implemented in 2018: our customers are free to enjoy their cup of coffee or snack to brighten their shopping day; we are also testing self-service models in our bakery to make the shopping even easier.

Freshness approach

Own production department maintains a multilayered system of quality control, which includes daily optical and hygiene checks and expands to our distribution centres where the product is preserved before it reaches the customer.

- Employees' check and hygiene control of the facilities and employees' check;
- distribution centre freshness control;
- visual freshness check, degustation;
- quality Control Manager.

- 102 universal SKU's in every store;
- more than 100 SKUs introduced in 2018;
- up to 200 SKUs in the assortment;
- own production occupies 4% of the product range.

Plans for 2019

Our key priorities for 2019 include process mapping and optimisation. We want to make sure our products are of consistently high quality throughout the entire production cycle by developing visual technological cards and planograms. Own production centralisation is a new initiative, which we launched in 2018. It will allow us to optimise and control the processes of production, centralise bakery assortment and distribute it to the stores. We will test it further in 2019 and implement it if it fits the production needs. Our wider objective include further increasing our productivity per department.

Quality and Safety

Quality control at all stages has always been our top priority. The Company's quality management system is compliant with the requirements of the Russian legislation and elements of the HACCP system. Moreover, the Company's quality standards frequently go beyond the necessary requirements and include participation in regional and national initiatives to further improve production characteristics[1].

Private label branded products won the international competition Quality Guarantee 2018 and Quality Mark from Roskachestvo NGO

Our quality control department is in charge of quality and safety monitoring. The standard quality control procedures include preliminary quality control measures, assortment monitoring both in the store and in the warehouse, internal and external audit of stores and supply chain.

O'KEY Group does not accept any compromises in terms of quality management and understands the importance of the continuous quality improvement. In 2018, the Company took the following steps regarding quality control:

- O'KEY Group joined the electronic veterinary control State information system 'Mercury';
- O'KEY has become the first retailer to pass the audit in accordance with the 'Made in Don Land' certification and now is able to use this label further in producing its own goods. This label guarantees the high quality of goods and a conformity to international standards;
- O'KEY group has joined North-Western and Central regions voluntary certification initiative to comply with Russian legislation regarding product and process quality in the retail market;
- O'KEY has successfully undergone planned periodic audits under the 'St. Petersburg quality' programme at the 'River House' hypermarket in St. Petersburg;
- the Company together with the Quality Control Centre has launched the regional initiative 'Independent quality audit', including testing samples of dairy products to ensure they meet legal requirements.

Plans for 2019

The Company cares about its ongoing quality control procedures and integrates them in its plans for future development. In 2019, the Company intends to continue the transition to electronic veterinary control under the State information system 'Mercury' and further concentrate on regional and federal product quality initiatives. We plan to further improve the quality of our private label brand and continue our own production certification process. One of the important questions for 2019 is the optimisation of the processes of certification and declaration of directly imported products, in accordance with changes in legislation. We also plan to actively participate in the 'ACORT'[2] quality committee projects.

0 quality and food safety incidents in O'KEY Stores in 2018

[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 the finished product to be unsafe, and designs measurements to reduce these risks to a safe level.

[2] The Retail Companies Association was established at the initiative of several retail chains of Russia in 2001 to represent the interests of its members and coordinate their activities.

OPERATIONS

BEING OPERATIONALLY EFFICIENT IS THE CORNERSTONE OF OUR BUSINESS. WE VIEW HYPERMARKETS AS A COMPLETE ORGANISM WITH ITS OWN NEEDS AND A SPECIAL RHYTHM AND TIMING. IMPROVING OPERATIONAL EFFICIENCY MEANS PROVIDING BETTER SERVICE, INCREASING PROFITABILITY AND SATISFYING CUSTOMERS.

O'KEY worked throughout 2018 to improve operational efficiency. The most notable changes in 2018 were:

- O'KEY private label brands have been introduced along isles and corridors in stores to enhance its visibility for our customers;
- we launched our large-scale cooperation with the 'Mercury' system;
- rezoning and specific planograms were designed to optimise the processes in stores and make our layouts even better;
- staff productivity has been increased by 10% mainly due to processes automation and implementation of the employee loyalty programmes.

Plans for 2019

Our plans for 2019 are ambitious and primarily concerned with the development of planograms and improving assortment layouts. Development of cluster matrixes will give us clear understanding about merchandise needs and product availability, both in the store and in the warehouse, and will decrease the overall costs of operating the stores. We will continue developing the electronic veterinary certification system 'Mercury', which will allow employees to receive tasks via the scanners and improve their productivity.

SUPPLY CHAIN

IN 2018, WE CONTINUED TO IMPROVE OUR SUPPLY CHAIN AND STREAMLINE ASSOCIATED BUSINESS PROCESSES FOCUSING ON EFFICIENCY AND PRODUCTIVITY.

O'KEY operates one federal and two regional distribution centres, located in Moscow and St. Petersburg. The federal distribution centre, based in Moscow, distributes slow-moving goods and alcohol to all stores, while regional distribution centres distribute fast-moving and short-shelf-life goods to regional stores. This supply chain strategy gives us a great advantage in comparison with competitors, providing an excellent balance between logistics costs, merchandise levels and high levels of service.

We aim to build a solid warehouse infrastructure which will enable us to better serve our customers' needs in all regions of operations and to bring efficiency of logistics costs to a more competitive level.

In 2018 we

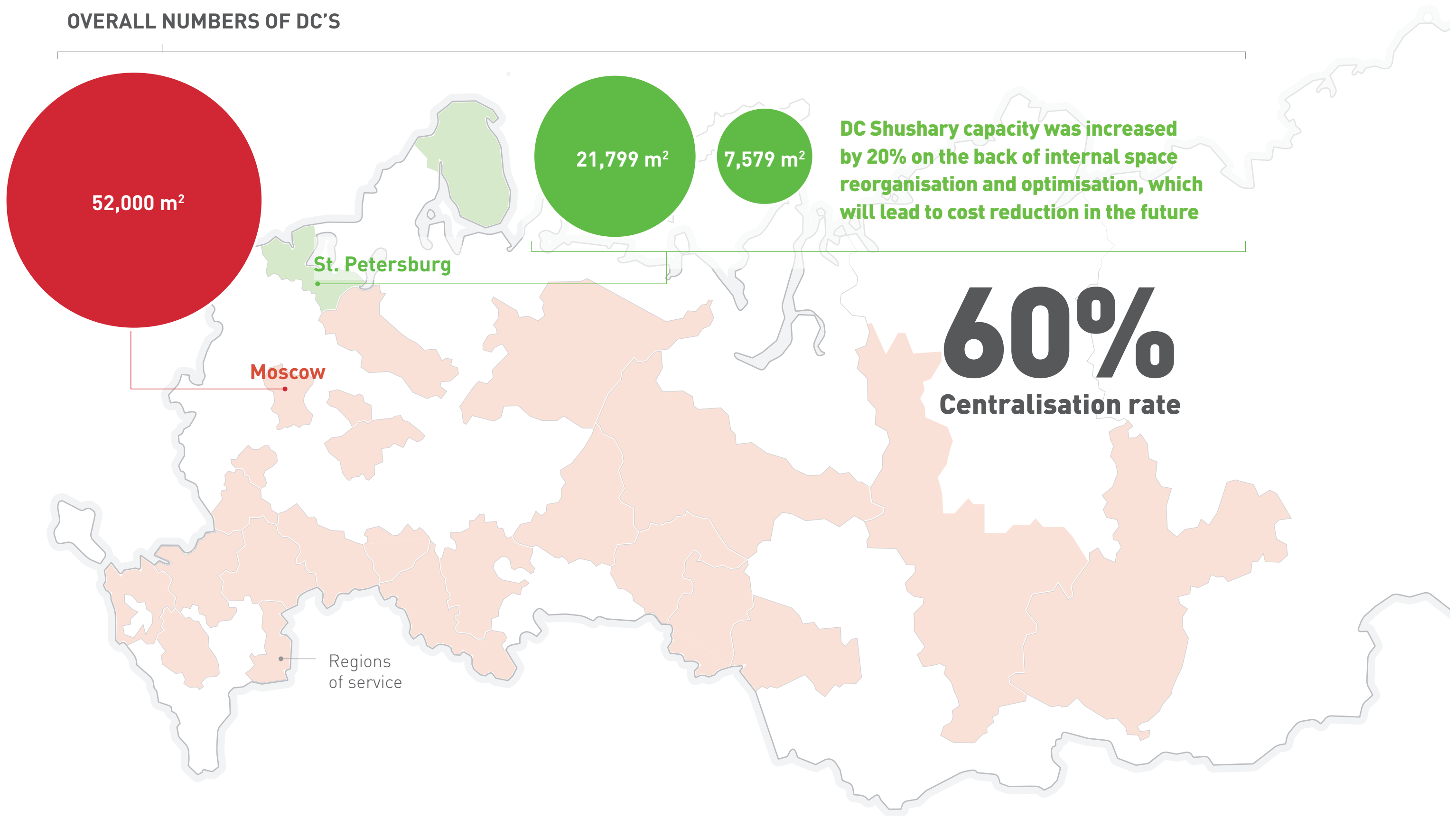
- increased the centralisation of dry food, non-food and alcohol categories (from 62.4% to 75.3% at the end of 2017 and 2018 respectively);
- successfully finished the pilot forecasting and replenishment for several categories of Food assortment in ORACLE RPAS and started the roll-out across all categories.

Plans for 2019

In 2019, we plan to continue the roll-out of ORACLE RPAS for all categories and put attention on business processes optimisation aimed at working capital reduction and improvement of on shelf availability. Another focus will be implementation of 'Track and Trace technology', in order to meet requirements of Russian legislation.

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

OVERALL NUMBERS OF DC'S



IT

IN O'KEY, WE BELIEVE THAT ADHERING TO EFFICIENT AND CUSTOMER-ORIENTED IT SYSTEMS AND APPLICATIONS IS ESSENTIAL TO MAINTAIN THE HIGHEST LEVEL OF COMPETITIVENESS IN THE CONSTANTLY EVOLVING RETAIL MARKET.

To know more about IT at O'KEY Group please follow **the link** or scan the QR Code to watch the interview with O'KEY Information Technologies Director at Russian Retail Week 2018.

In 2018, we continued to transform our IT infrastructure using cutting edge digital solutions and widely-recognised software. We focused on developing the integrated IT platform which will allow us to achieve our strategic goals, contribute to cost optimisation, maximise our product availability and increase customer loyalty.

In 2018, we

- fully launched CRM-solutions which help online and offline customers to keep records of purchases, and contribute to our new loyalty programme;
- completed the transition to the new retail automation platform based on Microsoft Dynamics AXAPTA 2012 for store process automation, with more accurate and real time operations control via hand held terminals;
- accomplished the pilot introduction of Oracle RPAS platform used for rule-based pricing, sales forecasting and replenishment optimisation in pilot categories;
- worked on transition to the new Boss HR application, streamlining HR processes and salary calculation, which will boost the level of employees' involvement and loyalty;
- extended self-scanning technology which improves customer experience, increases customer loyalty and stimulates our clients to buy more per visit, to seven stores in Moscow and Saint Petersburg;
- implemented initiatives aimed at expanding electronic document interchange with our partners, to replace paper document flow;
- upgraded IT platform to fulfil regulatory requirements, such as veterinary certification, alcohol excise tax stamp tracing and VAT rate increase.

Plans for 2019

In 2019, we will continue to implement innovative IT technologies.

We will finalise Oracle RPAS rollout for sales forecasting, replenishment optimisation and price management, focus on further reduction of paper workflows, extension of EDI, including universal supplier's document implementation.

We will also modernise our supply chain processes with migration to Axapta 12 to have complete stock management scope (stores, warehouse stocks and supplier operations) in new Axapta 12 ERP platform as well as Boss HR registration system with self-services for our employees.

This will result in a benefit from optimised shelf design and layout in our stores, as well as enhancing our processes and boosting business efficiency.

ERP	Supply Chain	Category management	Cash Register	Online Store	HR System	Customer relations
Microsoft Dynamics AXAPTA 2012	Manhattan WMS Oracle RPAS	JDA Software Oracle RPAS	Crystal Service Integration	IBM Web-Sphere Commerce	Boss HR application	CRM Manzana

E-COMMERCE

IN 2018, O'KEY GROUP MAINTAINED ITS POSITION AS ONE OF THE MARKET LEADERS AMONG ONLINE RETAILERS. WE BELIEVE THAT THE COMPANY IS WELL POSITIONED TO KEEP ITS STRONG PRESENCE IN THIS MARKET. IN 2018, WE CONTINUED THE DEVELOPMENT OF OUR SOFTWARE SOLUTIONS AND LOGISTICS TO PROVIDE THE BEST ONLINE AND OFFLINE SHOPPING EXPERIENCE TO OUR CUSTOMERS.

E-commerce shows strong growth globally and in Russia. People change their habits and online food purchases become the daily routine. One of the leading trends in the industry is that the customer base becomes more unified and retailers should approach the same customers both online and offline.

O'KEY Group was third by revenue in the industry. Our online revenue increased by 26% and reached RUB 1.7 bn, while our online customer base has grown to more than 366,000 people.

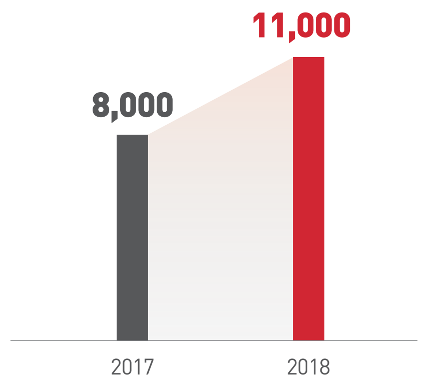
To reiterate our market influence we joined the Association of Internet Trade Companies, which is at the forefront of e-commerce industry and since its foundation in 2012, strives to promote fair competition, innovation and the positive development of the industry in Russia.

1,500

orders on average daily via www.okeydostavka.ru

Orders made via the mobile app

Share of e-commerce revenue in total revenue of hypermarket, where www.okeydostavka.ru pick up point is located



>11,000 tonnes delivered in 2018 compared to 8,000 in 2017

Website & Mobile app

In 2018, we continued our development as a fully omnichannel retailer. In particular we updated the personal accounts of our users. New account allows customers to see their history of online and offline purchases, expenses and current promotions – all in one place. Our website and mobile application received the award for Best Industry Solution from Global CIO.

Best Industry Solution from the Global CIO[1] for the website and mobile application

O'KEY mobile app (mobile family) won the platinum award in the 'Convenience and Ease of Use' nomination in 2018

- Purchase goods
- Use facet search and filters
- Use easy templates
- Share basket between users
- View promotions
- Pay online
- View order history
- View offline catalogues
- Locate the nearest store
- Create an electronic loyalty card
- Access the shopping history, both in the form of a detailed receipt and overall monthly expenses
- Check accumulated loyalty points and personalised offers

[1] **Global CIO** – Professional Association of Chief Information Officers.

Logistics

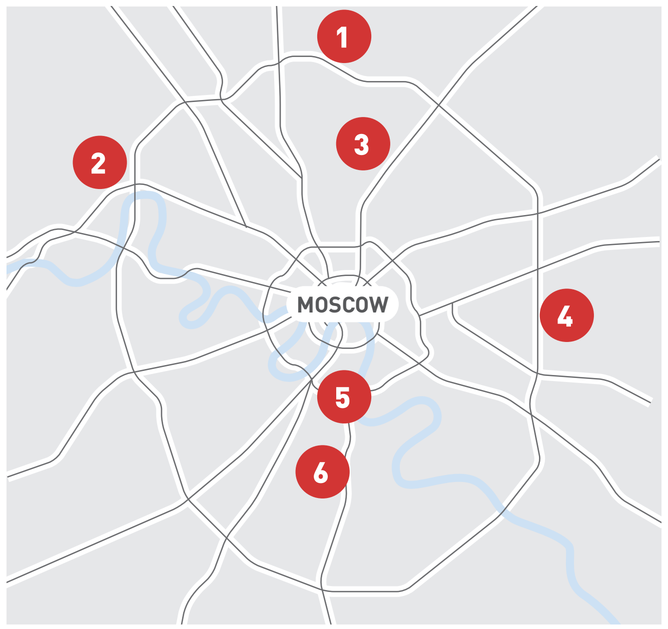
We continued development of our logistics in 2018. We launched one new pick-up point in Moscow so there are 12 points in total, equally spread between Moscow and St. Petersburg. We maintained day-to-day delivery throughout the year and consider this a significant achievement of our business.

Plans for 2019

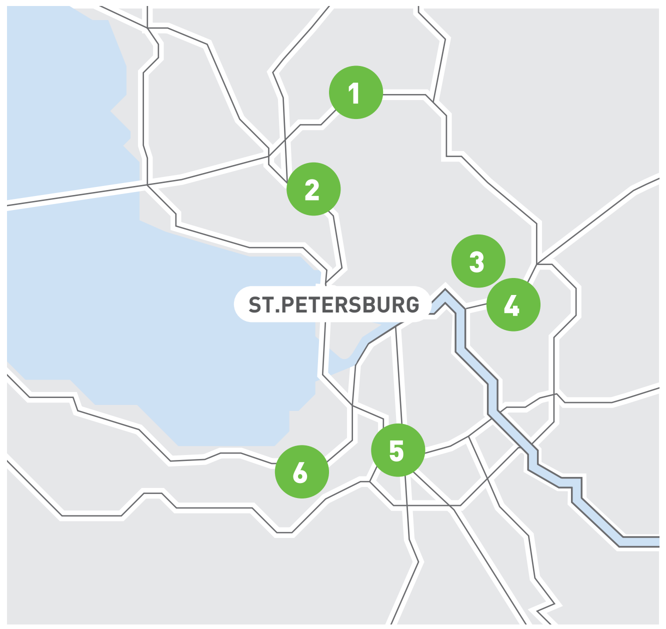
Development of our e-commerce business will remain a strategic priority for the Group. We will continue to expand our customer base and to improve our services. We are looking for possibility to expand our unique drive-through format called 'O'KEY Auto' and further increase our online and offline customer base.

In 2018, GfK[2] ranked O'KEY Group the second best performing online store in the food retail segment

Delivery zones



1. HM 'Vesna Altufevo'
2. HM 'Putilkovo'
3. HM 'Rostokino'
4. HM 'Svyatoozerskaya'
5. HM 'GOOD ZONE'
6. HM 'Kirovograd Columbus'



1. HM 'Vyborgskoye'
2. HM 'Bogatyrskiy Yakhtennaya'
3. HM 'Ladozhskaya'
4. HM 'Bolshevikov'
5. HM 'Pulkovskoye'
6. HM 'Tallinskoe shosse'

[2] GfK is a research and analytics company.

DISCOUNTERS

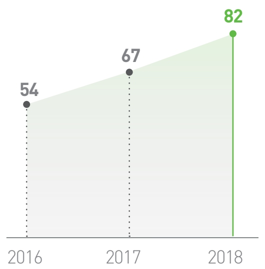
WE CONSTANTLY FOLLOW THE LATEST TRENDS OF THE RETAIL INDUSTRY AND ADJUST THE VARIETY OF THE ASSORTMENT TO MEET THE CHANGING DEMAND.

Strategic priorities

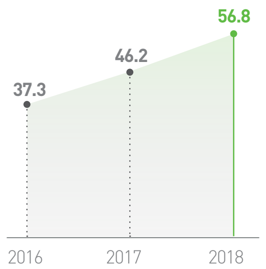
- Growth and expansion
- Strong private labels
- The best value proposition

Key figures

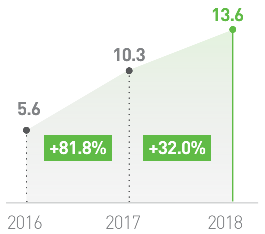
Number of stores



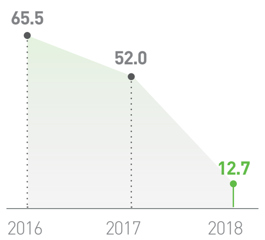
Selling space
thd m²



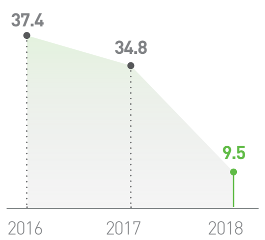
Net retail revenue
RUB bn



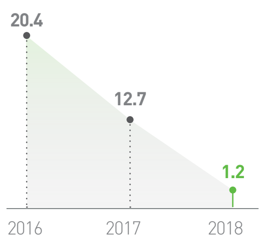
LFL Net retail revenue
%



LFL Traffic
%



LFL Average ticket
%



Discounters business at a glance

0.7 km² **Average store selling space**

19 **Stores opened in 2018**

27% **Percentage of owned space**

8.5% **Discounters share in sales 2018**

RUB **13.6** bn **Net retail revenue in 2018**

2,571 SKUs **Product range**

96 new SKUs **introduced in 2018**

DA! achieved good results in 2018 with a net retail revenue increase of almost 32% and continued traffic and average ticket number growth, which validates our strategic focus on the discounters' segment. We are grateful to see that our dedication to DA! has been welcomed by our customers in 2018.

The unique format of DA! discounters allows the customers to purchase a wide range of products and non-food items at the most attractive prices. We strive to get the most convenient locations for our stores to transform shopping into an easy and comfortable experience. Da! ensures an excellent level of service and keeps up with the latest trends to make our stores the best value for money for our customers.

Performance

In 2017 the net retail revenue of DA! discounters increased by 32% to RUB 13,559 mln compared to RUB 10,282 mln in 2017. Traffic increased by 27.8%, while average ticket rose by 3.3% and reached 465 RUB by the end of the year.

We achieved robust results and significant growth across all major segments in 2018 while keeping the promotion share unchanged versus last year. Managing our assortment and maintaining the competitive pricing policy also contributed to the significant success of DA! stores in 2018. Logistic procedures were improved to increase the freshness of the goods offered to the customer. An additional 96 private label SKUs were added to our portfolio throughout the year.

Producers of our private label products have to undergo external audits which are based on GFSI[1] (Global Food Safety Initiative) requirements

The major developments of 2018 were:

- change of shelving and layouts (new bakery and winery displays, loose products dispensers, new shelving);
- improved lighting;
- price cards with integrated special 'new' sign, discount percentage indication, clear action mechanics;
- introduction of the new leaflets system (52 regular leaflets, 24 alcohol leaflets, 19 opening leaflets, New Year leaflet, wine guide, our first leaflet with additional private label pages);
- optimised and partly extended assortment in dairy, fresh meat and poultry, fruit and vegetable and in-store bakery sections;
- installed Personal Data Terminals PDT[2] at the warehouse, which allows us to comply with new legal requirements for alcohol and veterinary products and improve productivity of warehouse operations.

To know more about DA! operations please follow the link or scan QR Code to watch the interview of DA! Information Technologies Director for Retailer portal.

[1] Global Food Safety Initiative (GFSI) – a private organisation, established and managed by the international trade association the Consumer Goods Forum under Belgian law in May 2000. The GFSI maintains a scheme to benchmark food safety standards for manufacturers as well as farm assurance standards.

[2] PDT (Personal Data Terminal) – an electronic device that is used to enter or retrieve data via wireless transmission (WLAN or WWAN), used at the warehouses.

Best value proposition

Our people
Our DA! team consists of trained professionals who are passionate about their work. Due to our expansion in 2018, the number of employees increased by more than 14.5% compared to the previous year. As of 31 December 2018, DA! employed 1,946 people. We encourage diversity and provide equal opportunities for both male and female employees; 57% of all employees are women. We seek to hire the best professionals in the field regardless of their age and gender and are ready to develop their skills further and provide the necessary education and qualifications.

Supply Chain
DA! Discounters operate under the principle of 'Every day low price', while maintaining consistently high quality of goods. A robust and reliable supply chain supports the core of our business strategy.

All our stores are supplied from our own distribution centre DC Sidorovo (55 K m^2) located 60 km south of Moscow. The only item delivered directly to stores is bread, a product with an ultra-short shelf life. To ensure maximum freshness, it is not stored in the distribution centre.

Our transport fleet consists of 39 vehicles to ensure 24/7 smooth operations from the distribution centre.

Major developments in supply chain management in 2018 included:
- delivery of products to stores within a specified time frame;
- adoption of electronic document flow between the distribution centre and stores;
- registration and issue of electronic veterinary certificates in accordance with the legislation;
- registration of alcohol in accordance with EGAIS requirements[1].

A further important achievement of 2018 was the increased productivity of employees by 15%.

Private Labels and Own Production
We continuously seek opportunities to adjust the assortment of our stores, addressing current trends and customer needs. As part of our strategy, we focus on strengthening our private label products, many of which are made by our suppliers exclusively for DA!.

In 2018 we introduced 96 new private label SKUs, some of them under our newly developed 'farm label'.

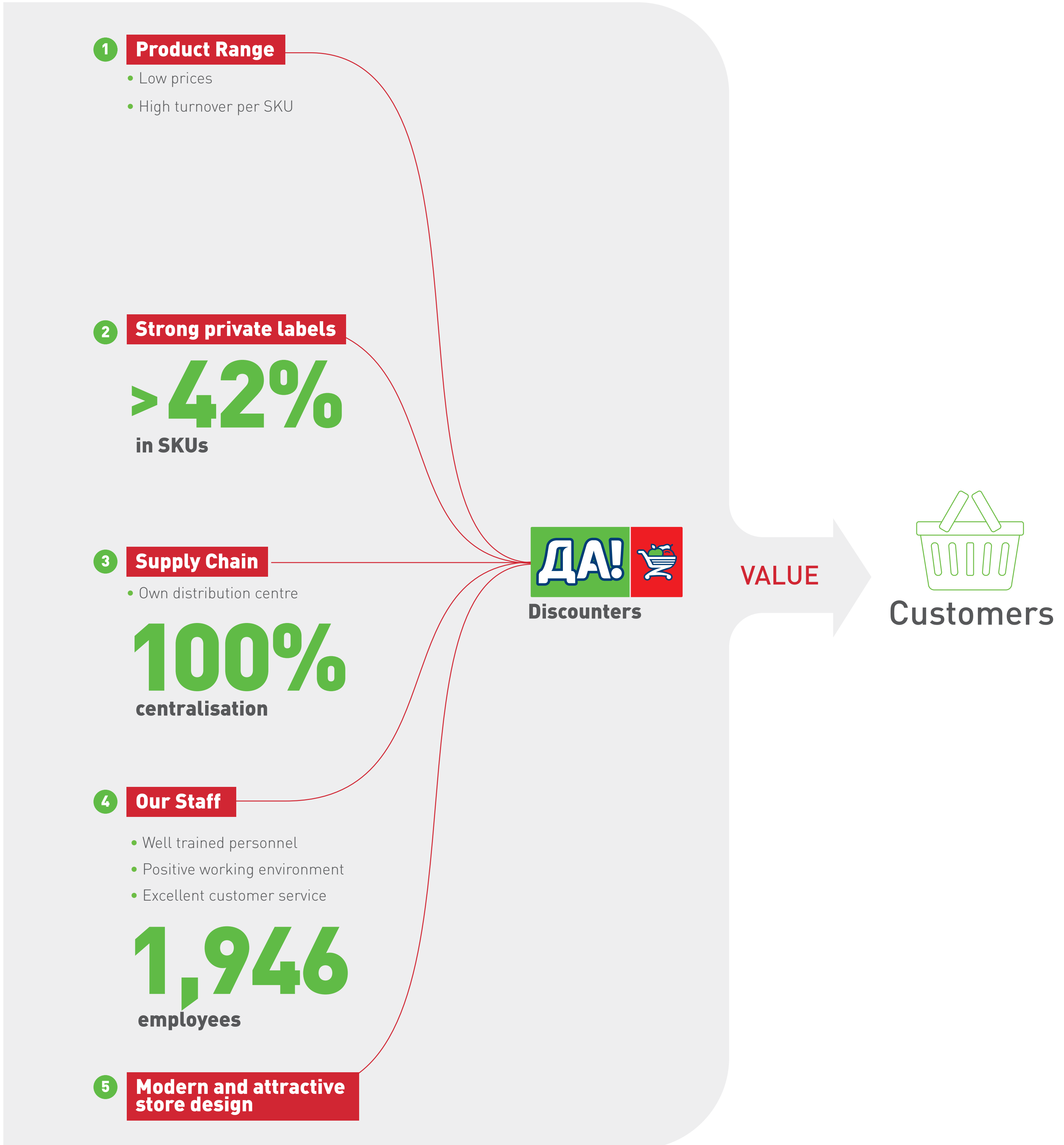
[1] **Unified State Automated Information System (EGAIS)** is a unified government automated information system, a programme for governmental control over production and purchase of alcohol.

Our main goal is to continue developing private label products, focusing on quality, packaging layout and number of SKUs. In 2019 we intend to strengthen our private label competence by covering more high-quality segments and shifting several branded SKUs to private label SKUs.

Plans
In 2019, we plan to open up to 30 new DA! stores. Further store productivity improvement will also remain a key priority for the year ahead.

The total number of SKUs in core assortment will be kept at 2,500 items. Within this total number we will keep on optimising our core range. A partial shift from branded SKUs to private label brand is also targeted in certain areas. One of the long-term policies is maintaining the highest possible rate of price competitiveness. Promotion share will be maintained, with an increase of the share of non-food specials to 6% of the turnover. We will continue our efforts to optimise the product layout schemes and improve our merchandising.

Despite being two diversified businesses, we intend to capture possible synergies with the procurement team of O'KEY



ENSURING FINANCIAL STABILITY

Group profit and losses

RUB mln	2018	2017	Change, YoY
Total Group revenue [1]	161,303	176,076	–8.4%
Gross profit	37,382	40,444	–7.6%
Gross profit margin	23.2%	23.0%	20 bps
SG&A	–33,915	–36,189	–6.3%
SG&A as % of revenue	21.0%	20.6%	47 bps
Group EBITDA [2]	8,644	9,335	–7.4%
Group EBITDA margin	5.4%	5.3%	6 bps
Profit/loss	–599	3,167	n/a

161.3 bn

Total Group revenue in 2018

Revenue

In 2018, underlying Group revenue, excluding the effect of the supermarket business unit sale, fell by 1.1% YoY. IFRS Group revenue decreased by 8.4% YoY to RUB 161,303 mln. The revenue decline was primarily triggered by the supermarket business unit sale (32 stores) initiated in December 2017.

Weakened consumer sentiment resulting from real disposable income diminishing by 0.2% YoY[3] amid rising inflation, higher mandatory payments, and stagnant pensions, along with intensifying market competition continued to put pressure on the Group's operations during the year.

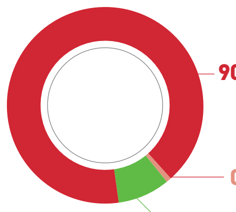
In addition adaptation to new working schedules influenced service levels and freshness during the summer period putting pressure on a top line.

The closure of hypermarkets in Cherepovets and Sterlitamak in 1H 2017 and supermarket in Omsk in 2H 2018, along with the temporary closure of the hypermarkets at the RIO shopping mall (from July 2017 to May 2018) and Otrada shopping park (in December 2018) in Moscow also impacted the Group's results during the period under review.

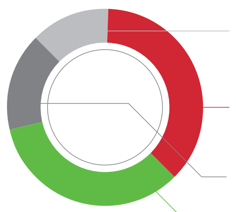
By the end of the reporting period, total selling space increased by 1.2% to 584,914 m². O'KEY selling space decreased by 0.7% to 528,124 m², while DA! selling space increased by 22.9% to 56,790 m².

Group revenue structure 2018

By format



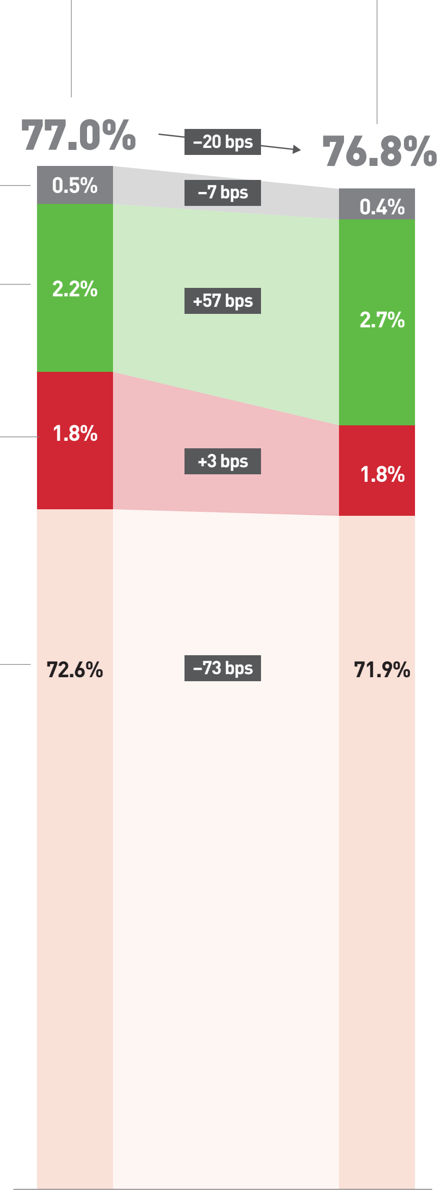
By geography



Cost of goods sold and gross profit

Gross profit as a percentage of revenue increased by 20 bps in 2018 to RUB 37,382 mln. The gross profit increase was mostly driven by a reduction in cost of trading stock (less supplier bonuses) as a percentage of revenue by 73 bps YoY, resulting from successful negotiations with suppliers enabling more favourable purchasing conditions to be secured and continues renewal and enhancement of the product mix. Gradual increase in logistics centralisation YoY along with growing level of logistics tariffs contributed to a logistics cost increase by 57 bps YoY. Shrinkage costs as a percentage of revenue remained almost flat YoY, while in absolute terms it decreased by 6.8%.

Group COGS structure as percent of revenue 2018 vs. 2017



RUB **37.4** bln

Gross profit in 2018

73 bps YoY

cost of trading stock (less supplier bonuses) decrease as percentage of revenue

[1] The Group has adopted IFRS 15 from 1 January 2018 which resulted in adjustments to presentation of revenue, comparable figures were restated respectively as described in the note 5 of Consolidated Financial Statements.

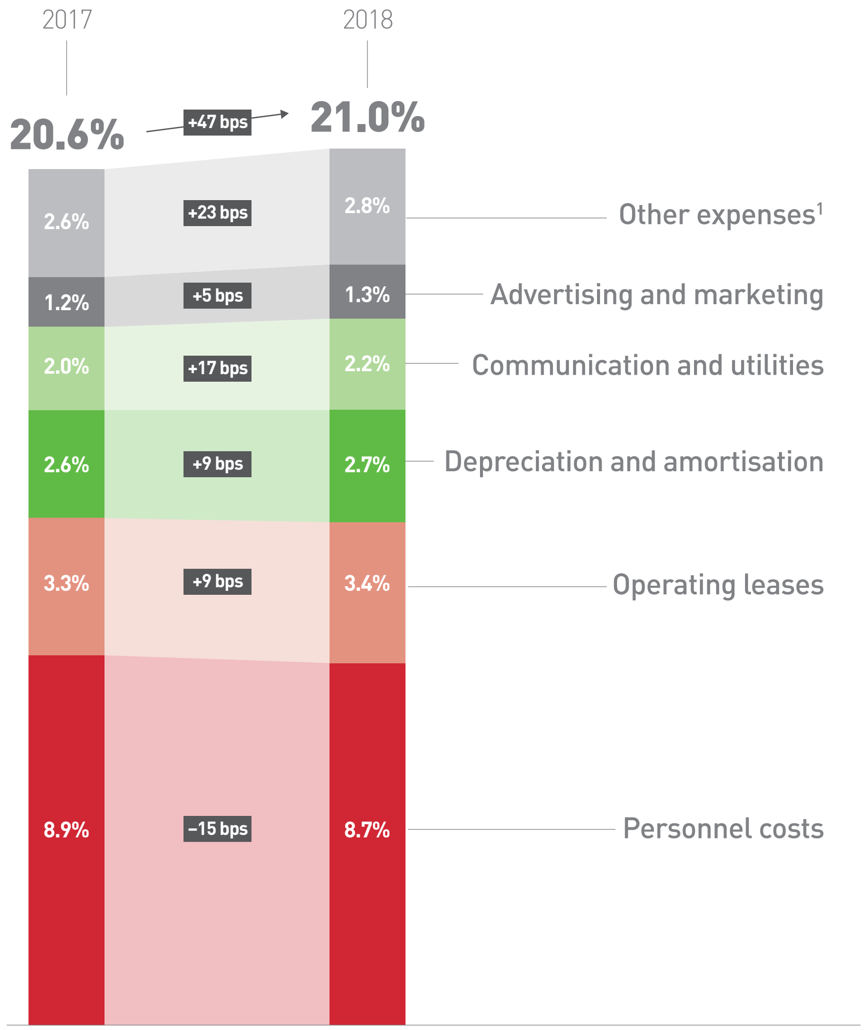
[2] The explanation of EBITDA calculation is provided in the note 6 of Consolidated Financial Statements.

[3] Including the impact of a one-off RUB 5,000 payout made to pensioners in January 2017.

General, selling, and administrative costs
General, selling, and administrative expenses as a percentage of revenue increased by 47 bps YoY in 2018. The graph below provides the general, selling, and administrative expenses breakdown for 2018 and 2017.

Personnel costs
During the year, we revised the work schedules of employees in hypermarkets, which along with ongoing business process optimisations aimed at efficiency increases per hour and per square metre at both store and head office levels, led to a personnel costs decrease by 15 bps YoY as a percentage of revenue. In 2019, the Group will maintain its focus on boosting the efficiency of business processes.

Group SG&A structure as percent of revenue 2018 vs. 2017



Operating leases
Operating lease costs as a percentage of revenue increased by 9 bps YoY to 3.4%, while in absolute terms it decreased by 5.8% YoY. The decrease, primarily attributable to the sale of the supermarket business, was partially offset by the continued rollout of discounters during the year, in line with approved plans. The operating lease expenses as a percentage of revenue are expected to decrease as the discounters continue to gain traction[2].

Communication and utilities costs
Communication and utilities expenses as a percentage of revenue increased by 17 bps YoY to 2.2%. The increase was primarily caused by the indexation of tariffs in the second half of 2017. The Group continues to work towards optimising related costs and achieving efficiency gains.

Advertising and marketing expenses
Advertising and marketing expenses as a percentage of revenue increased by 5 bps YoY to 1.3%, while in absolute terms it decreased by 3.9% YoY. During 2018, the Group was focused on marketing model optimisation, whereby the most efficient channels of communication were prioritised over those delivering poorer results.

Legal and professional expenses
Legal and professional expenses as a percentage of revenue increased by 10 bps YoY to 0.4%. The increase in legal and professional expenses was largely attributable to consulting costs arising from the sale of the supermarket business and marginal growth of software costs on the back of new IT systems implementation.

[1] Other expenses include repairs and maintenance, security expense, insurance and bank commissions, operating taxes, legal and professional expenses, materials and supplies and other costs.

[2] 2019 expected trends are presented without effect of adoption of new standard IFRS 16 'Leases' as described in note 36 (w) to Consolidated Financial Statements.

EBITDA[1]

	O'KEY			DA!			Group		
RUB mln	**2018**	**2017**	**Change, YoY**	**2018**	**2017**	**Change, YoY**	**2018**	**2017**	**Change, YoY**
Revenue	147,688	165,744	−10.9%	13,616	10,332	31.9%	161,303	176,076	−8.4%
EBITDA	10,416	11,359	−8.3%	−1,772	−2,024	−12.5%	8,644	9,335	−7.4%
EBITDA margin	7.1%	6.9%	20 bps	–	–	–	5,4%	5,3%	6 bps

The Group EBITDA margin grew by 6 bps YoY to 5.4%, while EBITDA decreased by 7.4% YoY to RUB 8,644 mln.

O'KEY's EBITDA margin increased by 20 bps YoY to 7.1%, while EBITDA fell 8.3% YoY to RUB 10,416 mln. The EBITDA margin increase was primarily driven by improved purchasing terms and increased operational efficiency across the Group.

EBITDA generated by DA! improved from negative RUB 2,024 mln (−19.6% of sales) in 2017 to negative RUB 1,772 mln (−13.0% of sales) in 2018, driven by increased efficiency.

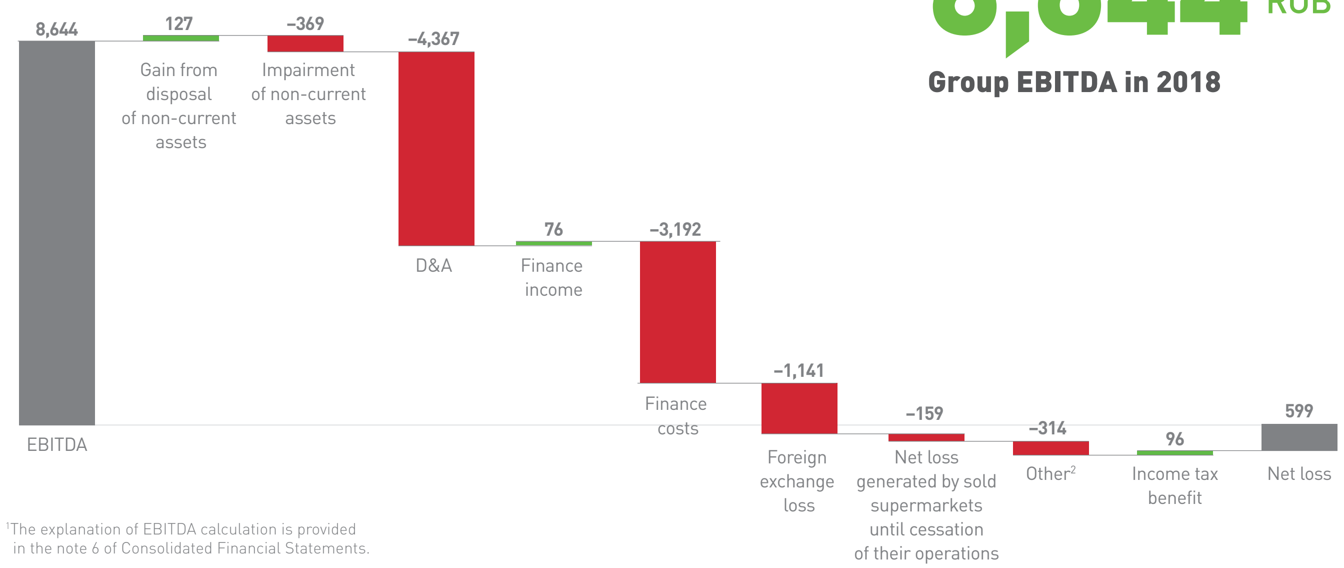
Depreciation and amortisation
Depreciation and amortisation as a percentage of revenue increased by 9 bps YoY to 2.7%, while in absolute terms it decreased by 5.4%. The D&A increase as a percentage of revenue was mainly driven by growth in intangible assets during the year and continued discounter rollouts.

Operating taxes
Operating taxes as a percentage of revenue increased by 8 bps YoY to 0.5%. The increase in operating taxes was mainly caused by changes in the Russian tax legislation leading to an increased cadastral value of real estate.

Net finance costs
While net finance costs as percentage of revenue remained almost unchanged in 2018, they fell in absolute terms by 8.8% YoY as a result of decreased finance costs amid the decline in the weighted average interest rate to 8.8% in 2018 from 9.8% in 2017.

Net loss
Net loss for the Group amounted to RUB 599 mln. The net loss was partly triggered by an increase in foreign exchange losses, arising from intragroup USD-denominated loans as well as opening of 19 new discounters.

EBITDA to Net Loss reconciliation, RUB mln



8,644 mln RUB
Group EBITDA in 2018

[1] The explanation of EBITDA calculation is provided in the note 6 of Consolidated Financial Statements.

[2] Revaluation of investment property, loss from write-off of receivables, impairment of receivables and other.

Cash flow and working capital

RUB mln	2018	2017
Net cash from operating activities	4,762	4,874
Net cash from/(used in) investing activities	3,479	–3,365
Net cash used in financing activities	–7,248	–5,187
Net increase/(decrease) in cash and cash equivalents	993	–3,678
Effect of exchange rate on cash and cash equivalents	–31	–35

RUB **993** mln

Net increase in cash and cash equivalents in 2018

Net cash from operating activities

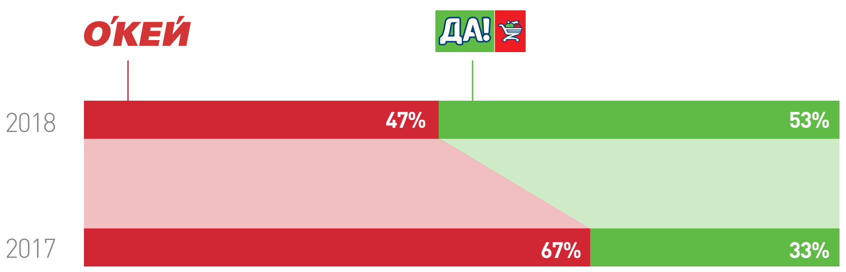
The gradual improvement in turnover of cash and cash equivalents, trade payables and trade receivables offset by marginal slowdown in inventories turnover led to a flat YoY change in working capital turnover in 2018. The inventory turnover slowdown in 2018 was largely caused by the transition to the new business model (hypermarkets and discounters), created after the sale of supermarket business at the end of 2017, as it took some time to adapt the business processes to its needs.

As a result, net cash from operating activities during the reporting period stayed almost at the previous year level, amounting to RUB 4,762 mln, while as at 31 December 2017 cash from operating activities amounted to RUB 4,874 mln.

Net cash from investing activities

Net cash from investing activities amounted to RUB 3,479 mln in 2018. The increase in this line item was primarily a result of the RUB 7,070 mln proceeds received from the sale of the supermarket business, which largely offset the Group's 2018 capital expenditures (CAPEX) of RUB 3,622 mln (excluding VAT). During the reporting period, the Group invested RUB 1,706 mln (excluding VAT) into the development of its hypermarket business and RUB 1,916 mln (excluding VAT) in growing its discounter business.

Group CAPEX structure 2018 vs. 2017



Debt

RUB mln	31 December 2018	31 December 2017
Total debt	34,426	36,109
Short-term debt[1]	2,462	11,430
Long-term debt	31,964	24,679
Cash and cash equivalents	8,712	7,750
Net Debt	25,714	28,359
Net debt/EBITDA	2.97x	3.03x

RUB **1.7** bn

YoY reduction of total debt in 2018

2.97x

Net Debt / EBITDA ratio by December 2018

Net cash used in financing activities

Net cash used in financing activities in 2018 amounted to negative RUB 7,248 mln. Over the reporting period, the Group attracted RUB 15,006 mln of financing primarily in the form of long-term credit lines, and made repayments totalling RUB 16,897 mln. In January 2018, the Group paid dividends in the total amount of RUB 1,879 mln. The dividend yield as at the day of the dividend's announcement amounted to 4.7%. As at 31 December 2018, the Group had RUB 12,207 mln of undrawn, committed borrowing facilities available in Russian roubles on a fixed and floating rate basis, for which all conditions have been met. The proceeds from these facilities may be used to finance operating and investing activities, if necessary.

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 at 31 December 2018, Net Debt/EBITDA was 2.97x, compared with 3.03x on 31 December 2017. The decrease was driven mainly by the reduction in total debt by RUB 1.7 bn YoY. We are maintaining a conservative approach to borrowing and expect Net Debt/LTM EBITDA to be below 3.0x by the end of 2019.

To download the latest financial statements in Microsoft Excel format please follow **the link** or scan the QR Code.

[1] Short-term debt does not include interest accrued on loans and borrowings.

IMPROVING RISK MANAGEMENT

Internal control and risk management system

Regarding the internal controls in the area of accounting and financial reporting, the following should be noted:

- Staff involved in the company's accounting and financial reporting are appropriately qualified and are kept up-to-date with relevant changes in International Financial Reporting Standards ('IFRS'). Additionally, specific training and written guidance on particular matters is provided where needed. Written guidance, regularly updated for business developments and regulatory changes, is available to all relevant staff members and provides a summary of the company's accounting and financial reporting policies and procedures.
- Controls have been established in the processing of accounting transactions to ensure appropriate authorisations for transactions, effective segregation of duties and the complete and accurate recording of financial information.
- Completeness and timely recording of financial information is ensured through regular reviews, monitoring of specific key performance indicators, validation procedures by functional leaders and as an additional check, the process of internal and external audit.
- The company relies on a comprehensive system of financial information and oversight. Strategic plans, business plans, budgets and the interim and full-year consolidated accounts of the company are drawn up and brought to the Board for approval. The Board also approves all significant investments. The Board receives monthly financial reports setting out the company's financial performance in comparison to the approved budget and prior year figures.
- Any weaknesses in the system of internal controls identified by either internal or external auditors are promptly and fully addressed.
- The external auditors perform a limited review of the company's half-year consolidated financial statements and a full audit of the annual consolidated financial statements.

In accordance with the requirements of IFRS, we disclose detailed information on the market, credit and foreign exchange risk to which it is exposed, as well as strategy for managing the risks.

The risk management system is aimed at providing a reasonable guarantee that the Company's strategic goals will be achieved in a timely manner and that the level of risks faced by the Group remains acceptable for 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 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.

In 2018, the Company ensured the effective functioning of its risk management system by identifying and assessing risks in a timely manner, developing and implementing measures to manage those risks. Senior management devoted significant attention to managing key risks that have a high impact and a high probability. The Board of Directors reviewed information on managing the Company's key risks on a quarterly basis.

In 2018, the Company continued to develop its risk management system:

- A declaration and provision on Company's risk appetite were approved by the Board of Directors. Risk appetite establishes the level of risk that is acceptable in terms of achieving the Company's goals and facilitates effective decision-making while taking risks into account.
- The Company's bylaws establishing a unified methodology and procedure for cooperation and responsibility regarding risk management were updated. No significant changes were made to the Company's corporate governance system in 2018 overall as a result of changes to the risk management system.

The Board of Directors

- Overall responsibility for the establishment and oversight of the Group's risk management framework

The Audit Committee

- Oversees how management monitors compliance with the Group's risk management policies and procedures
- Reviews the adequacy of the risk management framework in relation to the risks faced by the Group

Executive management

(CEO and Management Board)

- Oversees implementation of, and adherence to, risk management policies
- Monitors and manages risks relevant to job function
- Carries out risk identification and reporting
- Performs operational risk management

Internal Audit

- Assists the Group's Audit Committee in its oversight role
- Undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee

Map of principle risks

Strategic risks

1. Economic outlook
2. Competition risk
3. Political risk
4. Regulatory risk

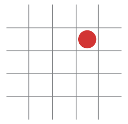
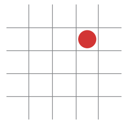
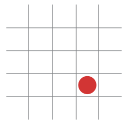
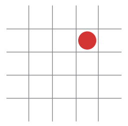
Operational review

5. Changing customer expectations
6. Employee recruitment and retention
7. Supply chain risk
8. IT platform developpment
9. IT security threats

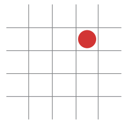
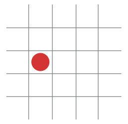
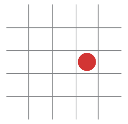
Financial risks

10. Providing sufficient level of financing
11. Tax regulations
12. Changes in working capital
13. Risks of currency and interest rates volatility
14. Risk of misstatements in financial statements

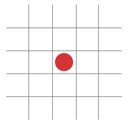
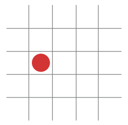
Strategic risks

Name of risk	Definition and potential impact	Mitigating actions
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 impact of the 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 are 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 continued our extended marketing campaigns based on the price-match guarantee across the wide range of top-selling products offered at our hypermarkets and discounters.
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, the state's political, economic and financial systems are still 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 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 following up and responding to changes in regulations and standards in a timely manner. The breaking return of goods with shelf life less than 30 days, new requirements for the marking of alcoholic & tobacco products and for digital veterinary certificate had significant influence on all players on the market. During the second half of 2017 and the first half of 2018, we timely developed and implemented essential changes in the Company's main business processes (such as goods ordering/receiving/return, stocktaking), updated relevant internal policies, procedures and information systems. Additionally, we successfully finished the implementation of the project on fiscal data transferring to Federal Tax Service via the internet in all stores: • software update for cash registers; • purchases of new equipment; • fiscal data operator selection; • sales process modifying & implementation in all stores.

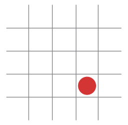
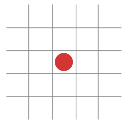
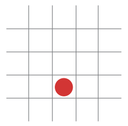
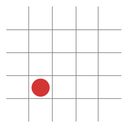
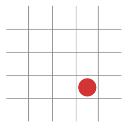
Operational risks

Name of risk	Definition and potential impact	Mitigating actions
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 development and changes in O'KEY positioning. As the result of these activities, in 2018 O'KEY Group has been named winner of the 'Consumer Choice' award in the 'Best Price' category at the 'Consumer Rights and Quality of Service' awards. The expert jury also recognised O'KEY as the 'Best Food Retail Chain' of 2018.
6 **Employee recruitment and retention** 	Competition for highly qualified management and store personnel remains intense in Russia. To meet our expansion plans 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 a material 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 trainings 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 risk of delays and interruptions to our supply chain because of natural disasters, in case we are unable to identify alternative sources of supply in a timely manner.	During 2018, we continued to increase logistics centralisation and the effectiveness of operations at store and head office levels. In line with the roll out plan of supply chain management system (Oracle RPAS) and with our centralisation rate, we already carried out the more transparent and efficient process of goods purchases in Q4 2018. The continuous and timely work with our suppliers resulted in improved indicators: • indicator OSA (On Shelf Availability, for central buying) of 93% at the end of 2018 (92% at the end of 2017); • indicator OOS (Out Of Stock, for central buying) of 2,2% at the end of 2018 (3,6% at the end of 2017).

Operational risks

Name of risk	Definition and potential impact	Mitigating actions
8 **IT Platform Development** 	Execution of our strategic targets requires adaptation the current IT infrastructure to the changing business needs. As the business grows the complexity of processes supporting it and diversity of tasks around such growth are increasing. Delayed or inappropriate decisions on development of the infrastructure can lead to failures in meeting Group goals and impede attainment of longer-term goals.	In Q2 2018, we finished the implementation of several key applications and systems in accordance with our strategy: • Axapta 2012 system in our stores; • new version of Manzana loyalty system that will enhance the possibility to propose timely personal offers to our clients; • new mobile application for online store that include the possibility not only to order goods and see the historical data from all online orders, but offline buying too. In addition, in the beginning of Q4 2018, we effectively closed the pilot phase of supply chain management system (Oracle RPAS) implementation and started the roll out process. Already in at the end of Q4 2018 we received positively improvement in the work of our store and head office processes.
9 **IT security threats** 	We are observing an increase in IT security threats and higher levels of professionalism in computer crime. Our systems and solutions, as well as those of our counterparties remain potentially vulnerable to attacks. 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, virus scanners and others) in attempt to reduce the threats to our IT & business infrastructure.

Financial risks

Name of risk	Definition and potential impact	Mitigating actions
10 **Providing sufficient level of financing** 	Recent changes in the macroeconomic situation might result in a liquidity squeeze and tightening of lending policies by Russian banks. Given the expansion programme in the coming periods, issues with availability of external financing or significant changes in its cost can negatively impact our Group's ability to execute its expansion 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 way of financing.
11 **Tax regulations** 	Russian tax law has complex tax rules, which may be interpreted in different ways and tax 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 manner and ensures we are aware of any changes that we may need to enforce.
12 **Changes in working capital** 	Inability to control and manage elements of the working capital can result in negative changes for the operating cash flow and lead 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 of 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 **Risks of currency and interest rates 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.	Certain currency risks are controlled through switching the payments into roubles, setting caps or hedged using derivative financial instruments. On 31 December 2018, 90% of portfolio are RIB loans, most of them are with fixed interest rate.
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 mainly automated. For a description of financial risks and exposure calculation, please refer to the note 30 in the Group Consolidated Financial Statements.

STAKEHOLDERS ENGAGEMENT

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.

Customers and partners

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.

Key areas

Customers
- The variety and quality of provided goods
- Guarantee of the best price
- High level of provided services

Partners
- Reliable supplies
- Mandatory compliance with contract provisions and legal requirements
- Rigorous due diligence of all partners to establish their integrity and solvency

What are we 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

Risks

- Changing customer expectations
- Economic outlook
- Competition risks

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

Employees

Why we engage

Efficiency, knowledge and loyalty of our employees are keys to achieving our strategic goals. We seek to create effective working environment for our people and provide them with opportunities for professional and career growth.

Key areas

- 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
- Adherence to human rights and diversity principle

What are we doing

- Implementation of updated HR Policy and Health and Safety Policy
- Employee satisfaction and employee engagement surveys
- Implementation of social programmes and financial incentive programmes
- Developing a system of internal communication and feedback
- Regular meetings between management and employees
- Ensuring safety in the workplace
- Various tools of financial and non-financial motivation
- Employee training and mentorship programme

Risks

- Employee recruitment and retention
- Competition risks
- Economic outlook

Shareholders and financial community

Why we engage

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 to facilitate our investors make deliberate decisions.

Key areas

- Corporate governance
- Financial and operational results
- Strategy and KPIs
- Risks

What are we doing

- 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

Risks

- All principle risks

Government and local authorities

Why we engage

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.

Key areas

- 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
- Compliance with federal and local laws and regulations

What are we doing

- 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

Risks

- Political risk
- Regulatory risk
- Tax regulations
- Risk of currency and interest rate volatility
- Risk of misstatements in financial statements

Local communities

Why we engage

Partnering with local communities in the areas we operate brings mutual benefits both to the company and population. 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.

Key areas

- Environmental safety
- Social infrastructure development and modernisation
- Supporting cultural events
- Supporting vulnerable population groups

What are we doing

- Meetings with representatives of local communities
- Maintaining contact with NGOs
- Economic, environmental and social initiatives
- Publications in local media
- Public hearings
- Raising funds for treatment

Risks

- Economic outlook
- Changing customer expectations
- Competition risk

Media

Why we engage

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.

Key areas

- 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

What are we doing

- Press releases on material issues and key events
- Interviews with management
- Press tours and press conferences

Risks

- Economic outlook
- Changing customer expectations
- Competition risk

OUR EMPLOYEES

O'KEY'S HR POLICY IS AIMED AT ATTRACTING AND RETAINING HIGHLY QUALIFIED AND EFFICIENT SPECIALIST STAFF. WE STRIVE TO CREATE A PRODUCTIVE WORKING ENVIRONMENT AND OPEN UP NEW OPPORTUNITIES FOR EMPLOYEES TO REALISE THEIR PROFESSIONAL AND PERSONAL POTENTIAL IN LINE WITH THE COMPANY'S HR STRATEGY. THE PRIORITIES OF THE COMPANY'S HR POLICY INCLUDE IMPROVING PERFORMANCE AND DEVELOPING A CULTURE OF FRIENDLY SERVICE[1].

Key Areas of the HR Strategy:

- introducing modern technology and automating HR services;
- building an effective organisational structure and management team;
- creating a positive image of the employer brand in the Russian labour market;
- creating a culture of engagement and effectiveness;
- systematic control of turnover;
- implementing the best HR practices.

In 2018, we focused on improving the efficiency of the organisational structure. To this end, we integrated departments and optimised one of the management levels in the organisational structure of the Company. Due to the restructuring, changes in work schedules in the retail division and the use of part-time work during peak hours we managed to increase labour productivity by almost 10% compared to the results for 2017.

In 2019, we plan to focus on the development of the corporate value of 'Impeccable service' and implementation of project aimed at developing a friendly service culture, increasing traffic and improving the Company's brand as an employer.

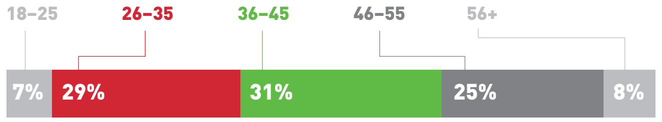
10%

Labour productivity growth in 2018

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

Breakdown of staff by gender

Breakdown of staff by age



Our Team in Numbers

In 2018, we continued to optimise and improve the efficiency of the Company's business processes, which allowed us to eliminate the duplication of functions. Relative to 2017, in 2018 the average number of employees was reduced by 10.8%. At the end of the year, the total number of employees at the Company was 18,402. Despite the complexity of changing the existing business processes and organisational structure in the retail division of the Company, we managed to achieve the best turnover indicators in the retail division for the last 5 years of the Company's operations, that is, 43%.

18,402

Total number of employees by the end of 2018

Corporate Culture

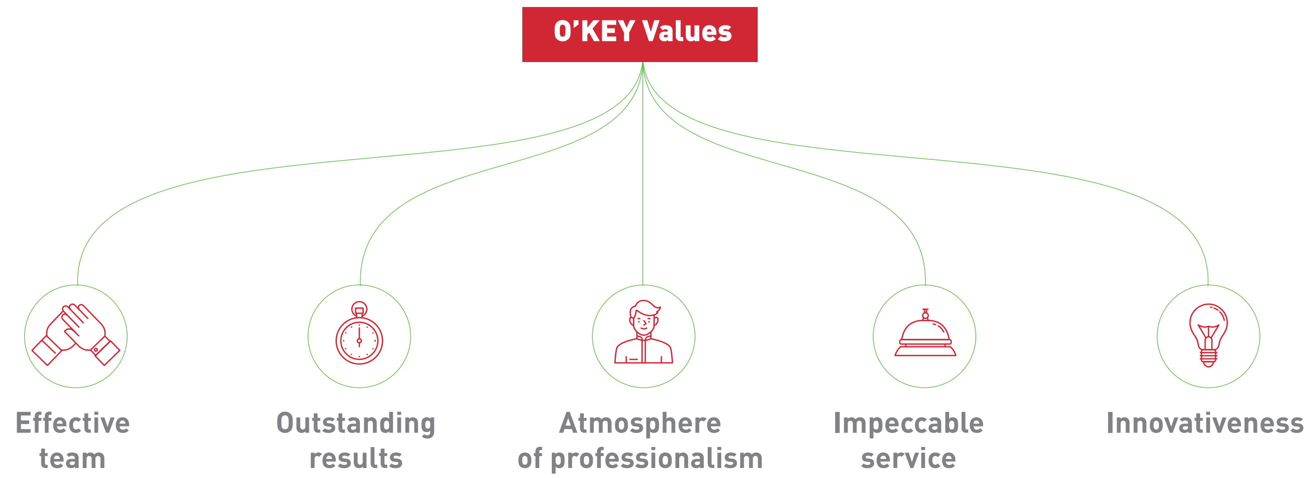
In 2018, the key focus in the Company's operations was efficiency. We continued to develop the four key areas of the HR policy:

- providing business with high-tech HR service;
- building an organisational structure of the Company that will ensure high speed decision making and enhance communication between the organisational units;
- creating a culture of engagement and effectiveness;
- building an efficient management team.

We also continued implementing the core of the HR strategy – creating an atmosphere that will ensure the growth of business competitiveness through effective human resource management.

In particular, O'KEY held an 'Excellence and Outlook into the Future' leadership forum, where participants presented projects and plans to change and improve the organisation, organised lectures, as well as a one-day training course on the theory of leadership in the modern world, conducted by Pierre Casse, a well-known professor from the SKOLKOVO and INSEAD business schools.

We launched the first '100% Professional' contest – a large-scale professional skills competition for specialists of three retail professions (chief, baker and cashier), which covered the entire company. About 600 employees took part in the contest, which consisted of 3 stages. Finally, we identified three winners: one professional in each occupation. The '100% Professional' contest received wide coverage in the corporate press and industry-related publications. In 2019, we plan to widen the scope of participating professions in the competition and to promote its winners as symbols of the O'KEY employer brand.



Staff Training and Development
O'KEY puts a lot of effort into the personal and professional growth of its employees and keeps its development as an organisation with self-learning culture.

In 2018, we continued the transformation of the training system, gradually introducing the blended learning format. The number of full-time training courses increased more than twice — from 16 to 38. At the same time, we kept improving the area of distance learning: 17 new distance training courses were developed during the year.

The Company completed a project to outline training courses which are mandatory for all new employees, and continued to develop the voluntary mentoring programme, launching it for managers at the level of Operational Directors and Regional Directors.

One of the key areas of the Company's HR strategy implementation in 2018 was the creation of an efficient management team. To ensure personnel succession in the retail division in 2018, we launched the Leadership School project to train and further develop potential store directors.

64 current deputy directors of our stores, who wish to further develop and build their careers in the Company, enrolled to study at the Faculty of Store Directors of the Leadership School.

Following the tough qualifying rounds, representatives of the business selected 15 employees. The participants, who are now part of the succession pool, began active training in the second quarter of 2018. In this development programme, we adhere to the 'golden formula' of learning and development — the '70-20-10 principle', according to which the employee develops by spending 10% of the time on training at formal classes and trainings, 20% — on interaction with the mentor, and 70% — on the implementation of new and complex projects.

In 2019, we will continue to focus our efforts on identifying and developing talented employees both in the retail division and in the office. Since the development of the 'Impeccable service' value is one of the vectors of the 2019 strategy, we intend to increase the number of training materials and activities as part of this task fulfillment. This includes further improvement of the distance learning portal, which is the fastest way to deliver training and development programmes to employees and also a part of the culture of self-learning in the organisation.

O'KEY Academy

157,233
total number of requests to receive training at O`KEY Academy in 2018

17
new training courses were developed and launched at the Company

>70
training courses are available for distance learning at the O'KEY Academy

Corporate Library

Operates in three formats:

1. **A public online library based on the distance learning system**
2. **An onine library with more than 1,000 books**
3. **The BookCrossing project in the Company's offices in all regions**

Staff Retention and Motivation
O'KEY effectively uses modern tools of material and non-material motivation, and provides its employees with competitive wages, which allows us to attract and retain the best specialists in line with the Company's development strategy.

The Company has a KPI system that takes into account both individual and corporate goals. A bonus amount, which constitutes a certain share of the salary, is normally determined depending on the achieved result.

In 2018, O'KEY increased the influence of the EBITDA value on the size of bonus payments to the Company managers. In addition, a progressive remuneration scale was introduced, which depends on the job category. At the same time, the positions were grouped according to the impact on general business results and the level of responsibility, which led to the creation of the pay band system, which is the basis for the distribution of all compensations and benefits in the Company. Moreover, this system boosts the motivation and loyalty of employees.

In 2018, a tender was held to select a supplier of medical insurance services, which made it possible to reduce costs and, at the same time, expand the benefits and privileges provided to employees. For example, many employees were able to take advantage of the opportunity to purchase voluntary medical insurance policies for their spouses and children with a discount of up to 90%.

The Company also agreed on partnership opportunities in acquiring various services for the Company staff, which allows them to save significant funds when organising family leisure activities and vacations.

In 2019, we will continue to improve and develop the policy for differentiating remuneration depending on the position's level of responsibility and its impact on the overall business results.

Compensation and Benefits
O'KEY provides the necessary social support to its employees in full compliance with the requirements of applicable laws, and also implements additional programmes aimed at creating the most comfortable conditions for the staff.

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

- voluntary medical insurance policies on the terms of co-financing in the amount of 80-90%;
- free meals;
- gift vouchers for purchases in the O'KEY chain stores, and gifts for children for holidays;
- financial aid to employees in difficult life situations;
- opportunity to pay for membership in fitness clubs in installments.

Reporting Violations
In order to create an atmosphere of transparency and trust, O'KEY has developed a whistleblowing policy, which regulates the issues related to the violation of ethics, labour laws, interaction between employees and managers. The Company has several channels for reporting violations: a call centre, defined hours for managers to have meetings with employees, and morning meetings.

O'KEY provides its employees with competitive wages, which allows us to attract and retain the best specialists in line with the Company's development strategy

303
reports were received in 2018

100%
of reports were processed and given feedback

HEALTH AND SAFETY

6,567

workplaces have passed special assessment of working conditions during 2018

1,546

people were trained in occupational safety

1,498

people were trained in fire safety

O'KEY has been gradually reducing the number of work-related injuries over the past four years. This great achievement is the result of effective occupational health and safety management system. We constantly reduce work-related hazards and make sure that our employees have safe working conditions, and our customers have a comfortable shopping environment.

O'KEY has implemented integrated systems for the regular tracking of working conditions and for logging all accidents and injuries. We have a Labour Protection and Occupational Health, Environmental, Industrial and Fire Safety Policy. In 2018, the current policy was extended until 2023. We have a systematic approach for investigating any accidents involving our employees or customers. In 2018, the total number of accidents amounted to 35, which is 15 less than in previous year. Two of these incidents were fatalities. Investigation proved that those incidents were not related to work and occurred due to natural reasons.

In order to minimise occupational safety-related risks, we conduct a regular audit of our stores, distribution centres and workplaces to ensure they are in full compliance with Russian legislation. In 2018, specialists from the Labour Protection Department conducted 446 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.

In 2019, we are going to assess working conditions on the rest of work places. O'KEY is going to develop Occupational Risk Management System and implement an action plan for the development of labour protection culture.

What we do:

- monitoring workplace conditions;
- monitoring employee health;
- training employees;
- investigating injury incidents;
- taking measures to prevent similar incidents in the future.

HUMAN RIGHTS AND DIVERSITY

Ethics and compliance

O'KEY Group believes that it has a responsibility to uphold fundamental human and labour rights. We are committed to maintaining the highest standards of ethics and integrity, to fully comply with internal rules and principles and regulatory requirements. The Group adheres to the principle of zero tolerance for any kind of discrimination.

Our employees are expected to abide by a set of clearly communicated formal policies, including:

- Supplier selection Policy and Policy of choosing a counterparty;
- Policy of interaction with state bodies.
- Anti-corruption policy

In any situations and circumstances, the actions of employees must comply with high professional and ethical standards and generally accepted moral values. We build our team on principles of partnership, mutual respect and common goals.

The Group has implemented training programmes for employees on compliance with legislation on consumer protection, interaction with government agencies and others. We keep these programmes up-to-date with best global practices and government legislation and regularly train employees.

In 2018, we managed to reduce the number of violations in procurement, occupational conditions and corruption. In 2019, the Group will continue to work on the organisation and strengthening of the compliance function. We will also continue the development of our training programmes.

Preventing Corruption

O'KEY Group has a zero-tolerance policy towards corruption. The Company is constantly upgrading its anti-corruption policies to enhance the level of transparency of all the related procedures and operations. As well as preventing any cases of corruption, the Company promotes the anti-corruption education for its employees.

O'KEY's Group is imposing its anti-corruption policy internally as well as on our suppliers and partners. Any suspicious behaviour is investigated according to our rules and policies and relevant measures are taken, including the information received inside the Company or from our partners via the hotline.

O'KEY Group realises the positive impact of diversity and of working with people of different nations and backgrounds. We are also trying to increase ethnic diversity throughout the business

In 2018 the Anti-corruption unit has refreshed the policy, and relevant briefings and trainings have been arranged for procurement departments as well to the real estate departments as they are the most exposed to corruption risks. We also implemented anti-corruption clause indicating our policy of zero tolerance to any type or kind of corruption at all levels. If suppliers or contractors do not comply with the policy, the Company is eligible to terminate the contract with them immediately. All O'KEY Group employees have voluntarily signed the consent to follow Group's anti-corruption policy.

We conduct pre-scanning of our potential employees prior to hiring.
Our potential suppliers and service providers are thoroughly checked before obtaining any contracts. We verify accuracy (transparency) of their financial reporting and the absence of affiliation to our other suppliers or our employees, as well as track any ongoing court cases and court decisions and credit rating. We expect our suppliers to sign an agreement where they accept all the closes related to preventing corruption.

To maintain decent transparency level and mitigate potential risks, we conduct constant monitoring of our employees of commercial and non-commercial buying as well the real estate department, every six months the contracts development is monitored and analysed.

Control procedures of the critical business processes (such as receiving, write-offs/scraping and returns) are conducted through relevant IT software in our stores. Additional monitoring is arranged for local suppliers.

We aim to raise our employees' awareness on preventing corruption by conducting regular thematic trainings in such departments as real estate, commercial and non-commercial buying, as well as in our stores.

We maintain a confidential whistleblower e-mail address for reporting potential conflicts to our internal audit and security departments. Anyone may use the call centre to complain and will be assured that the information being is promptly investigated by the anti-corruption team of the Risk Department. Discovered corruption cases are handed over to the police to ensure independent investigation.

In 2019 the commercial secret policy will be developed further and more complex methodologies and tools will be deployed to safeguard Company's commercial secrets. This complex solution is providing 'Red flag' reports which are contributing to fast discovery of any anomalies and violations to the Company's policies. Also we will be focused on the detection of possible corruption schemes.

Anonymous hotline numbers are displayed openly for all employees and service providers in the store

OUR COMMUNITIES

O'KEY has developed a charity and social investment programme designed to align the Group's objectives with addressing the broader social problems of the local communities. We work 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.

Treatment Support

In 2018 O'KEY continued cooperation with Rusfond to help children with serious illnesses. This year O'KEY and Rusfond have decided to focus on the targeted control of oncohematological diseases. The funds raised will be used for the treatment and rehabilitation of specific children requiring a bone marrow transplant, and also to develop the Russian marrow donor registry dedicated to Vasya Perevoshchikov. O'KEY will allocate a portion of the funds raised from the campaign to pay for the analysis and typing of potential marrow donors.

Our other loyal partner is 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 2018 to raise funds for AdVita and placed donation boxes next to check-outs for our customers to be able to help those in need.

Supporting Vulnerable Groups

We have an ongoing programme for helping vulnerable groups. For six 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.

Priorities of Charity Programmes

- Help children with serious illnesses
- Support of Russian marrow donor registry development
- Holistic support of large families, designed to improve their financial position

Major charities-partners in 2018:

- Rusfond
- AdVita

Directions of help:

- Targeted assistance
- Notification of consumers about the problem
- Attraction of benefactors

In 2018, 'Kind Purchase' event raised RUB 6.8 mln, which was donated to Rusfond

ENVIRONMENTAL RESPONSIBILITY

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 fundamental priority for O'KEY. To ensure compliance, we conduct regular internal audits.

We also 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.

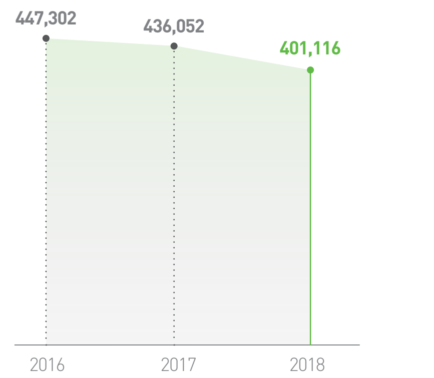
Energy efficiency

We equip our stores with modern recuperators and energy-efficient lights to reduce our total energy consumption. In 2018, the total energy consumption YoY decreased by 8%.

We have implemented various measures for improving energy efficiency, such as:

- replacing outdated luminescent lighting with led lamps;
- replacing outdated refrigeration elements and conditional systems with leading energy-saving devices;
- replacing neon signboards with led-signboards;
- control of energy use in our hypermarkets.

Energy consumption (net),
kW·h

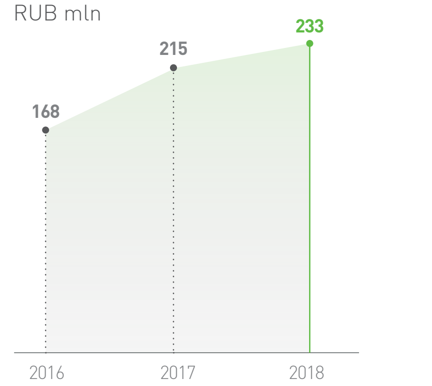


Waste management

We conduct separate waste collection in all our stores to reduce the amount of waste to be disposed of at city landfills. Biological waste and lamps are transported to special factories, recyclable waste such as polythene film, plastic boxes and wastepaper is pressed and sold for further recycling. We also collect and sell for recycling banana boxes, waste oil, pallets and metal scrap. All waste management processes are regulated by waste management policy which is implemented in all our stores.

We have also installed water-treatment facilities in our key locations of operation which include: 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. In 2018, we upgraded our water-treatment facilities in St. Petersburg, which ensured the reduction of any negative impact on water bodies.

Proceeds from sales of recyclable materials,
RUB mln



CORPORATE GOVERNANCE

Heigo Kera
Group Chairman

"We recognize our obligation to our shareholders to adopt highest standards of governance and control

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 the highest 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, and 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

Our Corporate Governance Principles

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.

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

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.

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.

GUIDING O'KEY STRATEGIC PERFORMANCE

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 2019. 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 2018, 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 fulfiled.

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).

Control System in Employee Share Scheme
The Company does not have an employee share scheme allowing employees to acquire equity in the Company.

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 fulfiled 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).

To view the documents for shareholders please follow the **link.**

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.

Board of Directors

The Company's Board of Directors is primarily responsible for 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 to 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 without approval of the shareholders meeting. The repurchase by the Company of its own shares is subject to the conditions set out in the Company Law and the Articles. By the resolution of the meeting of the shareholders held on April 27, 2018, the board is authorised to start a buyback programme with the parameters set out in aforementioned resolution. The authorisation is valid until April 27, 2020. As of March 25, 2019, the Company has not started the buyback programme.

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

Members	Board of Directors (3 meetings)	Audit Committee (4 meetings)	Remuneration Committee (1 meeting)
Heigo Kera	attended 3	attended 4	attended
Dmitry Troitskiy	3 by proxy	not a member	by proxy
Boris Volchek	3 by proxy	4 by proxy	by proxy
Mykola Buinycky	attended 3	attended 4	not a member
Dmitry Korzhev	attended 3	attended 1, 3 by proxy	not a member

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 2018, 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 2017;
- approval of the budget and business strategy for the year 2018;
- review of the quarterly financial results, approval of financial statements for 6 months of 2018 and monitoring of compliance with risk management strategy;
- determination of the Group's strategic and operational priorities;
- completion of 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;
- renegotiation of the depositary service fees charged from the holders of the depositary receipts by the depositary bank.

Remuneration of the Board of Directors

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 2018

Name	Date	Change
Armin Burger	13.09.2018	Chief Executive Officer of O'KEY Group
Pavel Remezov	25.05.2018	Real Estate Director
Artem Taraev	12.11.2018	Business to business Sales Director

Internal Audit department

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

The Audit Committee oversees the internal audit function, the effectiveness of risk management and the internal controls of the Company and the Group. It also approves and monitors the performance of the internal audit plan for the year. The Audit Committee assists the Boards of Directors in fulfilling its oversights 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 not fewer than three current members of the Board of Directors and shall be chaired by an independent director.

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 O'KEY Group that functionally reports to the Audit Committee of the Board of Directors and administratively reports to CFO.

In 2018, the department audited the following business processes: e-commerce, sales, government relations & public relations, logistics & warehouses processes, and inventory management.

The Internal Audit Department's plans for 2019 include auditing the following business processes: purchases of goods (local and import), purchases of software and license for information systems & software, marketing activities.

[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://okeygroup.lu/sharedocs

BOARD OF DIRECTORS

THE BOARD OF DIRECTORS IS PRIMARILY RESPONSIBLE FOR 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.

Remuneration Committee   Audit Committee

	Heigo **Kera** **Chairman, Non-executive Director**	Dmitry **Troitskiy** **Non-executive Director**	Boris **Volchek** **Non-executive Director**	Dmitry **Korzhev** **Non-executive Director**	Mykola **Buinyckyi** **Independent Director**
Committee Membership	Chairman				Chairman
Election	First elected to the Board of Directors in **June 2010**, and repeatedly re-elected since then	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then	First elected to the Board of Directors in **June 2010** and repeatedly re-elected since then	First elected to the Board of Directors in **October 2015**. He also served on the Board in 2010-2013
Education	**University degree** Tallinn Technical University (Estonia)	**University degree** State Marine Technical University of St. Petersburg	**University degree** Leningrad Institute of Railway Engineers (now St. Petersburg State University of Communications)	**University degree** State Marine Technical University of St. Petersburg	**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	• **2015–2017:** CEO of O'KEY 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	• **2005–2007:** Member of the Board of Directors of the Ochakovo Dairy Plant • **2005–2012:** Member of the Supervisory Board of Bank Saint Petersburg • **2005–present:** Development Director of Capital Group JSC (Neva-Rus CJSC)	• **1995-present:** President of the Union Group of companies • **2000-present:** General Director of St. Petersburg Automobile Museum	• **2005-2009:** Member of the Supervisory Board of Bank Saint Petersburg • **2005–present:** General Director of ZAO Sovmestniy Capital • **2015–present:** Director of Capital Group JSC	**Over 35 years** in international financial management and **over 20 years'** experience in Russia **7 years** as a management consultant with Coopers & Lybrand
Shares in O'KEY	Mr. Kera does not hold shares of O'KEY Group S.A.	**29.05%**	**29.52%**	**10.31%**	Mr. Buinyckyi does not hold shares of O'KEY Group S.A.

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 SCRUTINIZED PRIOR TO THE BOARD MEETINGS.

Heigo Kera
Chairman of Remuneration Committee

Remuneration Committee

Members

Heigo Kera
Committee Chairman, Chairman of the Board of Directors

Boris Volchek
Committee Member, Non-executive Director of the Board of Directors

Dmitry Troitskiy
Committee Member, Non-executive Director of the Board of Directors

Ilya Ilin
Committee Member, Non-director, external consultant

Irina Nikiforova
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).

Activities in 2018

- during the reporting period, the Remuneration Committee held one meeting;
- reviewed the report on the remuneration, bonuses and expenses of the Board and its Committees:
- reviewed the amount of remuneration to be allocated to the management of the Group in 2017;
- approved the Remuneration Committee Report;
- suggested the total maximum amount of remuneration of Directors for 2018 to be submitted for the approval of the shareholders of the Company;

Remuneration Committee ntroduced changes to KPIs and bonus policies:

- The influence of EBITDA results on management bonuses was increased. Progressive remuneration scale introduced based on the seniority. The main aim of these changes - to provide management a maximum motivation for achieving improvement in EBITDA results. The strategic aim - to provide competitive salary for the best personnel. In 2019 the group plans to keep the policy within these lines;
- Introduction of band system to make distribution of benefits and incentives more transparent (groups of positions with similar level of responsibility and influence over business results).

Plans for 2019

The Remuneration Committee and the Company continue to focus on following areas in 2019:

- In 2019 the Group plans to keep the bonus policy in line with 2018.

Mikola Buinyckyi
Chairman of Audit Committee

Audit Committee

Members

Mikola Buinyckyi
Committee Chairman, Independent Director of the Board of Directors

Boris Volchek
Committee Member, Non-executive Director of the Board of Directors

Ilya Ilin
Committee Member, Non-director, external consultant

Heigo Kera
Committee member, Chairman of the Board of Directors

Dmitry Korzhev
Committee Member, Non-executive Director of the Board of Directors

Irina Nikiforova
Committee Member, Non-director, external consultant

The Committee's remit includes:

- reviewing the IFRS financial statements for integrity and transparency;
- analysing financial reporting processes, including carrying out regular reviews and making recommendations;
- recommending appointment 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 drafting of recommendations for their improvement.

Acitivities in 2018

The Audit Committee performed the following duties during 2018:

- held four meetings;
- fulfiled oversight responsibilities relating to integrity of the Company's annual financial statements;
- fulfiled oversight responsibilities relating to integrity of the Company's half yearly financial statements;
- reviewed reports prepared by 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 per the Company's Whistleblowing Policy;
- planned and agreed the scope of the audit of financial statements for year ended 2018 with the external auditor of O'KEY Group;
- reviewed and approved provisions of non-audit services for the Company by the external auditor;
- approved the Internal Audit plan for the year 2019.

Plans for 2019

The Audit Committee and the Company continue to focus on following areas in 2019:

- 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 of internal business processes involved in preparation of financial reporting.

EXECUTIVE 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 2018.

Armin Burger

Chief Executive Officer, a member of the Management Board **since 2013**

University of Freiburg
Department of Economics

- **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

Chief Financial Officer, a member of the Management Board **since 2016**

Peter the Great St. Petersburg Polytechnic University
Department of Technical Cybernetics

St. Petersburg University
Department of Economics

Member of ACCA

- **2012-2016:** Various positions in O'KEY Group
- **Before 2012:** Various positions in PWC

Pavel Lokshin

Operating Director, a member of the Management Board **since 2019**

Moscow Aviation Technological University
Department of Economics

London Business School
Senior Executive Programme

- **2016-2018:** CEO of Perekrestok Express
- **2013-2016:** CEO of K-Rauta Russia
- **2001-2012:** Various positions in METRO Cash & Carry

Ivan Dropuljic

Commercial Director, a member of the Management Board **since 2017**

The University of Zagreb
Department of Economics

- **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

Bojan Barisik

Supply Chain Director, a member of the Management Board **since 2018**

University of Zagreb
Department of Traffic & Logistics

- **2016-2018:** Regional sales manager (North Italy), Pennymarket Italy / REWE
- **2013-2016:** Regional sales manager, Kaufland Croatia
- **2008-2013:** Sales manager, Valipiledoo

Anton Farlenkov

Corporate Development Director, a member of the Management Board **since 2016**

Urals State Technical University
Department of Physics and Technology

Stanford University
Innovation and Entrepreneurship Programme

- **2006-2016:** Head of EEMEA equity research at Goldman Sachs
- **2003-2006:** Various positions in Royal Dutch Shell, Infoshare

Elena Polozova

Human Resources Director, a member of the Management Board **since 2015**

Moscow International Higher School of Business (MIRBIS)
MBA

Lipetsk State Technical University
Department of Psychology

- **2013-2015:** Senior HR, O'KEY
- **2003-2013:** HR Business partner in Magnit

Pavel Remezov

Real Estate Director, a member of the Management Board **since 2018**

St. Lawrence University, USA
Department of Economics

- **2017-2018:** Real Estate and Development Director at OBI
- **2013-2017:** Format development Director at Lenta

Ivart Papli

Director for Security and Risk Management, a member of the Management Board **since 2015**

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)

- **2012-2015:** Risk & Security manager IKEA Russia
- **2002-2012:** Various positions at DHL

INFORMATION FOR SHAREHOLDERS AND INVESTORS

Veronika Kryachko
Head of Investor Relations

> In 2018, O'KEY continued to develop its investor relations in accordance with best practice. The Group focuses on ensuring timely disclosure and transparency

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. Dmitry Troitskiy (who indirectly owns approximately 29.05% of the outstanding share capital of O'KEY Group S.A.)
- Mr. Dmitry Korzhev (who indirectly owns approximately 10.31% of the outstanding share capital of O'KEY Group S.A.)
- Mr. Boris Volchek (who indirectly owns 29.52% of the outstanding share capital of O'KEY Group S.A.)

Share Capital Structure – Direct Holdings

Nisemax CO LTD	GSU LTD	Freefloat
44.79%	29.52%	25.69%

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

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 2018, GDRs represented 38.172% of O'KEY Group S.A. share capital.

No other securities have been issued by the Company.

Stock Exchange

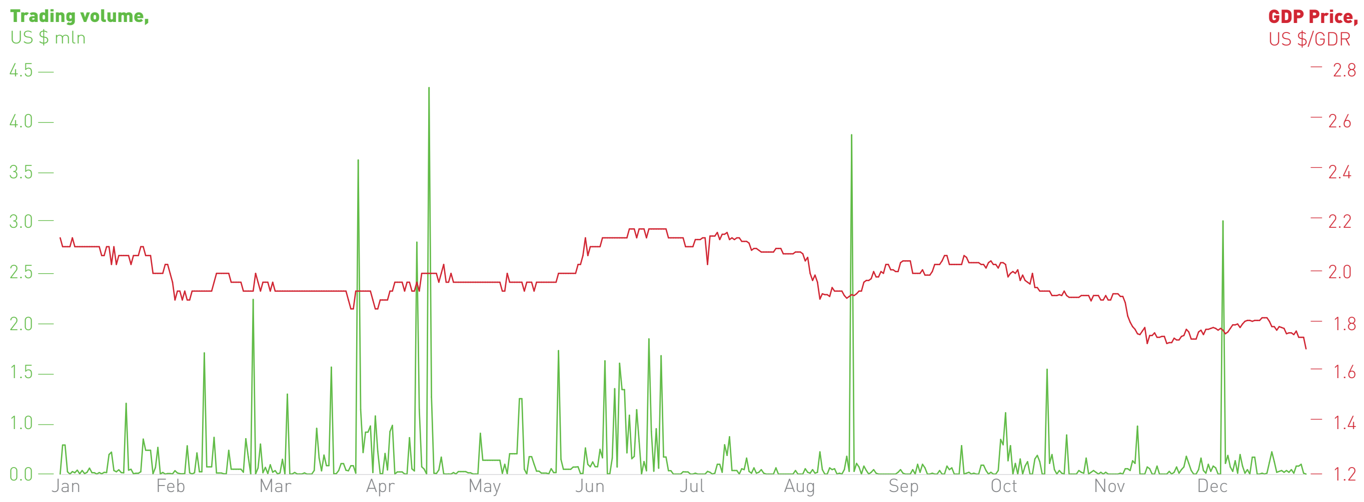
As of 31 December 2018, O'KEY Group S.A. GDRs were traded on the London Stock Exchange.

[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 2018

London stock exchange (GDRs)



Total Shareholder Return*

	O'KEY Group S.A	Peer average
TSR 2018	-46.00%	-45.60%
TSR 2017	-3.53%	-7.42%
TSR 2016	28.96%	24.64%

*For O'KEY and its competitors, Total Shareholder Return is calculated based on the change in share price for the period. O'KEY GDR price is adjusted for the amount of net dividend per GDR.

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

	2018	2017
Annual maximum price, US$	2.7	2.7
Annual minimum price, US$	1.4	1.8
Year-end price, US$	1.4	2.5
Trading volume (million units)	11.5	24.5

Credit Ratings

	RAEX
Credit rating	ruA-
Outlook	Positive
Last rating date	06 July 2018

Source: Bloomberg – applicable to all the tables above

In July 2018 RAEX (Expert RA) has assigned the Company a credit rating of 'ruA-' with positive outlook. In December 2018 Fitch international rating agency affirmed the Company's B+ rating with Negative outlook and simultaneously withdrew the rating due to commercial reasons.

Company	Analyst	Phone number
Aton	Victor Dima	+7 (495) 213-03-44
BCS	Maria Boyko	+7 (495) 213-15-94
Gazprombank	Marat Ibragimov	+7 (495) 980-41-87
Goldman Sachs	Yulia Gerasimova	+7 (495) 645-42-97
J. P. Morgan	Elena Jouronova	+7 (495) 967-38-88
Raiffeisen Bank	Egor Makeev	+7 (495) 221-98-51
Sberbank CIB	Mikhail Krasnoperov	+7 (495) 933-98-38
Sova Capital	Mikhail Terentiev	+7 (495) 213-18-34
VTB Capital	Maria Kolbina	+7 (495) 663-46-48

Analyst Coverage

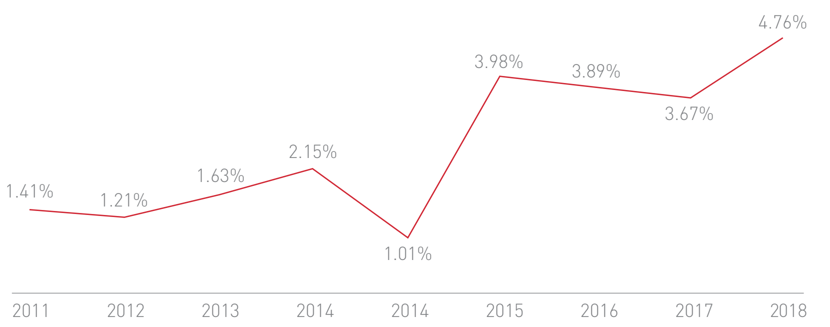
9 equity research analysts from leading banks, including Goldman Sachs, JP Morgan, VTB Capital and Sberbank CIB, follow the Company on a regular basis. O'KEY's IR team routinely monitors and communicates analyst consensus to the Company's top management.

Dividends

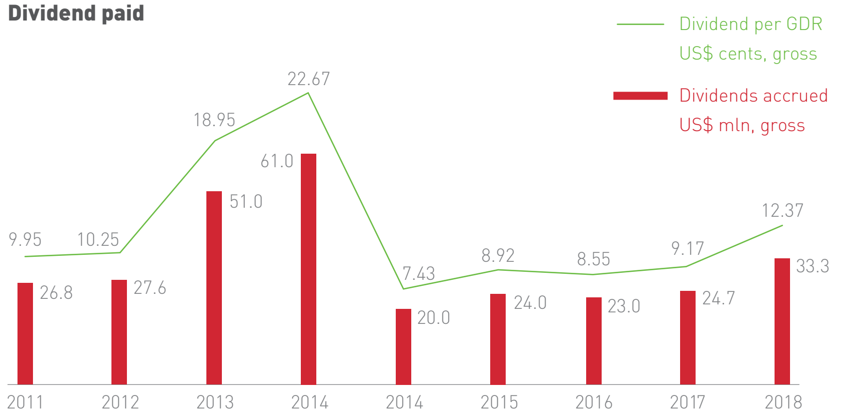
Dividend Policy

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.

Dividend yield,
%, as at record date



Dividend paid



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.

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 2018, O'KEY maintained active communications with investors through the following activities:

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

Investor Relations

Date	Event
29.01.2019	4Q 2018 and FY 2018 trading update
30.01.2019	Analyst Day
01.04.2019	FY 2018 IFRS coonference call and Annual report publication
03.04.2019	Annual report 2018 publication
26.04.2019	1Q 2019 trading update
29.07.2019	2Q and 1H 2019 trading update
29.08.2019	1H 2019 IFRS conference call
24.10.2019	3Q and 9M 2019 trading update

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:

Web

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

O'KEY website: the Company publishes releases on important events and financial results, as well as providing 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 the O'KEY official social media:

https://facebook.com/okmarket.ru

https://vk.com/okmarketru

https://ok.ru/okmarket

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 2018 compared

* Information provided from page 4 to page 81 of the Annual report fully corresponds to Consolidated Directors' Report.

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, 25 March 2019

Dmitry Korzhev
Member of the Board of Director

Mykola Buinyckiy
Member of the Board of Director

Armin Burger
CEO

Heigo Kera
Chairman

Konstantin Arabidis
CFO

CONSOLIDATED FINANCIAL STATEMENTS

Contents

INDEPENDENT AUDITORS' REPORT

Report on the audit of the consolidated financial statements

Our opinion
In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of O'KEY GROUP S.A. (the 'Company') and its subsidiaries (together the 'Group') as at 31 December 2018, 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.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited
The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with the EU Regulation No 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 No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the 'Responsibilities of the 'Réviseur d'entreprises agréé' for the audit of the consolidated financial statements' section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are 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. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 10 to the consolidated financial statements.

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our adit addressed the Key audit matter
Recognition of bonuses from suppliers Refer to Notes 4 and 23 to the consolidated financial statements of the Group. The Group receives various types of bonuses from suppliers relating to purchase of goods for resale. The bonuses are provided in the form of volume discounts, slotting fees and other counter payments. Recognition of these bonuses leads to a significant reduction to the cost of goods sold and inventory value. While the major portion of the bonuses is recognised and settled within the year, a material amount remains outstanding within trade and other receivables as at the reporting date. Recognition of bonuses from suppliers was a matter of most significance in our audit because their impact on the Group's cost of goods sold, inventory and trade and other receivable balances is material, the number of underlying contracts with suppliers is large and their terms can be complex. Further, recognition of amounts receivable from suppliers as at the reporting date and allocation of the bonuses to cost of goods sold and the inventory balance requires a certain level of judgement by the Group, including that in relation to timing of fulfilment of the performance conditions that entitle the Group to the bonuses and evidence thereof.	Our audit procedures to address the key audit matter included the following: • understanding and evaluation of design of relevant control activities that the Group has established in relation to recognition of bonuses from suppliers; • understanding and evaluation of the accounting policy applied by the Group for accounting for bonuses from suppliers; • reading significant contracts with suppliers and understanding if the Group complies with the conditions that entitle the Group to bonuses from suppliers; • retrospective analysis of prior year bonuses receivable against subsequent settlements to assess accuracy of Group's estimates in the current year; • analytical procedures over the accuracy and completeness of the bonuses recognised in the current year based on historical data • detailed testing, on a sample basis, of bonuses recognised and settled during the year by agreeing to respective primary documentation; • agreeing bonuses receivable as at the reporting date to external confirmations obtained from suppliers on a sample basis, or alternative procedures through tracing the amounts recognised against underlying agreements and other relevant documentation; • independently recalculating the effect of reduction in the cost of inventories due to allocation of bonuses to unsold goods and comparing the results to those of Group; • confirming that accounting policy for offsetting of bonuses receivable from suppliers against trade payables is in line with IFRS and that the factual offsetting is in line with the accounting policy; • considering adequacy of disclosures of information about the bonuses from suppliers in the consolidated financial statements of the Group.

Key audit matter	How our adit addressed the Key audit matter
Non-current assets impairment assessment Refer to Notes 4, 17, 18 and 19 to the consolidated financial statements of the Group. As at 31 December 2018, the carrying value of the Group's non-current assets that are subject to impairment assessment under IAS 36 amounts to RUB 54,537,169 thousand, representing 64% of total assets. These non-current assets are primarily attributable to the Group's stores. As at the reporting date, the Group assessed whether there is any indication that the carrying value of the non-current assets may not be recoverable and carried out an impairment testing for those individual assets or cash-generating units (CGUs) represented by individual stores where such indication was noted. Impairment loss was identified in the impairment testing performed. This is one of key audit matters due to the magnitude of the carrying value of these non-current assets, judgement exercised by the Group in determining whether or not there are specific indicators of impairment and judgements made for the calculation of the value in use of these assets. In addition, the observed volatility in the Russian retail market, increasing competition and changes in consumer behaviour heighten the uncertainty of accounting estimates and the risk of significant adjustments in future periods to the carrying value of the Group's non-current assets recognised in the consolidated financial statements.	Our audit procedures to address the key audit matter included the following: • we obtained understanding and evaluated the design of Group's relevant control activities around the impairment review. • we also assessed whether the Group's approach to determination of CGUs and identification and use of the indicators that the Group's stores and other non-current assets may be impaired is reasonable. For those significant CGUs where impairment indicators were identified, we assessed whether the value in use approach applied by the Group to determine recoverable amount is appropriate in the circumstances. We further obtained and analysed value in use calculations prepared by the Group for impairment testing. Our audit procedures were carried out with the involvement of valuation experts and included: • reviewing the adequacy and consistency of methods applied to calculations, and the calculations' mathematical accuracy; • evaluating the reasonableness of the Group's key assumptions and forecasts in the prior period, in order to assess the accuracy of Group's forecasts for future periods; • verifying the appropriateness of budgets of the CGUs for projected periods used in the calculations through inquiries of management, corroborating management's explanations, examining supporting documentation and comparing inputs against available external industry data; • analysing and assessing in detail the key assumptions that significantly affect future cash flows of the CGUs and the discount rate applied by the Group to calculate the recoverable amount, by comparing it to the weighted-average cost of capital determined for the Group with due regard to its inherent risks; • performing sensitivity analyses of the results of Group's assessment to reasonably possible changes to key assumptions; • testing the presentation and disclosure of information about the impairment test as carried out by the Group in the consolidated financial statements of the Group for its consistency with requirements of IAS 36 and its adequacy in the context of the consolidated financial statements as a whole.

Key audit matter	How our adit addressed the Key audit matter
Recoverability of deferred tax assets recognised for the carryforward of unused tax losses Refer to Notes 4 and 15 to the consolidated financial statements of the Group. As at 31 December 2018, the carrying value of the Group's deferred tax assets amounts to RUB 2,438,928 thousand, including RUB 2,357,531 thousand arising on the accumulated tax losses carried forward by LLC Fresh Market that develops the Group's chain of discounter stores under the DA! brand starting from 2015. A deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The Group performed the assessment of and concluded on the recoverability of the deferred tax assets. This analysis was based on the long-term financial projections for LLC Fresh Market, which includes estimates of future profits. This area was significant to our audit because of the history of tax losses generated by LLC Fresh Market, the complexity and subjectivity of the assessment process, which is based on assumptions that are inherently uncertain and affected by the expected pace of new openings of the discounters. In addition, we considered increased uncertainty in the Russian retail market and other relevant factors.	The audit procedures we have performed to address the key audit matter with involvement of internal tax specialists consisted of the following: • understanding and evaluation of design of relevant control activities that the Group has in place in relation to recognition of current and deferred income taxes and long-term budget preparation; • comparing the Group's forecasts in the long-term budget prepared in prior year to actual performance to assess adequacy of Group's estimates in the current year; • assessing accuracy of the deferred tax calculations; • considering any limitations to the amount and timing of utilisation of the unused tax losses as established by the Russian tax legislation; • obtaining the long-term budget prepared by the Group for LLC Fresh Market and challenging the expected future profits and assumptions regarding future earnings as reflected therein, including by comparing to actual results to date and industry trends; • analysing the treatment of differences between accounting and tax books in the planning of future taxable profit; • considering adequacy of disclosures on the deferred tax positions and assumptions used in assessing recoverability of the deferred tax assets from tax losses carryforward in the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information.

The other information comprises the information stated in the Annual report including the consolidated directors' report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report 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 identified above 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 that 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 an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 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 No 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 scepticism 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 the 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 audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities 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 audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The consolidated directors' report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the consolidated directors' report. 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 have been appointed as 'Réviseur d'Entreprises Agréé' of the Group by the General Meeting of the Shareholders on 24 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

Other matter

The Corporate Governance Statement includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Gilles Vanderweyen

Luxembourg, 25 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

'000 RUB	Note	31 December 2018	31 December 2017
Non-current assets			
Investment property	16	1,047,000	1,075,010
Property, plant and equipment	17	43,770,640	44,964,135
Construction in progress	17	3,754,546	3,313,175
Lease rights	18	4,312,159	4,437,856
Intangible assets	19	1,294,214	961,108
Deferred tax assets	15	2,438,928	1,917,572
Other non-current assets	21	1,405,610	1,817,452
Total non-current assets		**58,023,097**	**58,486,308**
Current assets			
Inventories	22	13,684,473	13,524,236
Trade and other receivables	23	3,402,946	10,275,841
Prepayments	20	1,389,038	1,280,658
Other current assets		25,466	10,290
Cash and cash equivalents	25	8,712,253	7,750,177
Non-current assets held for sale	24	-	129,589
Total current assets		**27,214,176**	**32,970,791**
Total assets		**85,237,273**	**91,457,099**

Equity and liabilities

'000 RUB	Note	31 December 2018	31 December 2017
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)
Retained earnings		12,200,119	15,025,513
Translation reserve		1,595,368	639,633
Total equity		**22,481,181**	**24,250,979**
Non-current liabilities			
Loans and borrowings	28	31,964,302	24,679,352
Deferred tax liabilities	15	679,921	888,997
Other non-current liabilities		112,047	121,890
Total non-current liabilities		**32,756,270**	**25,690,239**
Current liabilities			
Loans and borrowings	28	2,461,437	11,429,881
Interest accrued on loans and borrowings	28	97,364	231,897
Trade and other payables	29	26,861,848	28,854,731
Current income tax payable		579,173	999,372
Total current liabilities		**29,999,822**	**41,515,881**
Total liabilities		**62,756,092**	**67,206,120**
Total equity and liabilities		**85,237,273**	**91,457,099**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

'000 RUB	Note	2018	2017
	5		Restated
Revenue	9	161,303,411	176,075,867
Cost of goods sold		(123,921,850)	(135,631,464)
Gross profit		**37,381,561**	**40,444,403**
General, selling and administrative expenses	10	(33,914,624)	(36,189,311)
Other operating income and expenses, net	11	95,045	3,335,349
Operating profit		**3,561,982**	**7,590,441**
Finance income	13	76,286	114,239
Finance costs	13	(3,192,959)	(3,532,915)
Foreign exchange (loss)	14	(1,141,353)	(376,375)
(Loss)/profit before income tax		**(696,044)**	**3,795,390**
Income tax benefit/(expense)	15	96,289	(628,477)
(Loss)/profit for the year		**(599,755)**	**3,166,913**
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		609,117	(80,668)
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of hedges and reclassification from hedging reserve	13	124,826	(30,665)
Income tax on items within other comprehensive income	15	(24,965)	6,133
Other comprehensive income/(loss) for the year, net of income tax		**708,978**	**(105,200)**
Total comprehensive income for the year		**109,223**	**3,061,713**
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share	27	(2.2)	11.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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**
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					(30,665)			(30,665)
Income tax on items within other comprehensive income					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 declared	26					(1,465,798)		(1,465,798)
Total transactions with owners recorded directly in equity						**(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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2018

'000 RUB	Note	Share capital	Legal reserve	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2018		**119,440**	**10,597**	**8,555,657**	**(99,861)**	**15,025,513**	**639,633**	**24,250,979**
Comprehensive income for the year								
Loss for the year						(599,755)		(599,755)
Other comprehensive income								
Foreign currency translation differences							609,117	609,117
Change in fair value of hedges and reclassification from hedging reserve	13				124,826			124,826
Income tax on items within other comprehensive income					(24,965)			(24,965)
Reclassification within equity						(346,618)	346,618	
Total other comprehensive loss					**99,861**	**(346,618)**	**955,735**	**708,978**
Total comprehensive income for the year					**99,861**	**(946,373)**	**955,735**	**109,223**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Dividends declared	26					(1,879,021)		(1,879,021)
Total transactions with owners recorded directly in equity						**(1,879,021)**		**(1,879,021)**
Balance at 31 December 2018		**119,440**	**10,597**	**8,555,657**		**12,200,119**	**1,595,368**	**22,481,181**

CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows from operating activities

'000 RUB	Note	2018	2017
Cash receipts from customers		185,385,687	202,566,776
Other cash receipts		1,021,735	497,880
Interest received		54,545	104,391
Cash paid to suppliers and employees		(177,167,778)	(194,385,579)
Taxes other than on income		(859,009)	(672,429)
Other cash payments		(80,216)	(125,740)
VAT paid		(2,513,869)	(2,182,232)
Income tax paid		(1,079,307)	(928,829)
Net cash from operating activities		**4,761,788**	**4,874,238**
Purchase of property, plant and equipment and lease rights (excluding VAT)		(3,150,785)	(3,112,061)
Purchase of other intangible assets (excluding VAT)		(470,989)	(439,980)
Proceeds from sale of supermarkets (excluding VAT)	8	7,069,951	-
Proceeds from sale of property, plant and equipment and intangible assets (excluding VAT)		31,084	186,870
Net cash from/(used in) investing activities		**3,479,261**	**(3,365,171)**
Proceeds from loans and borrowings	28	15,006,000	7,685,500
Repayment of loans and borrowings	28	(16,896,776)	(7,663,017)
Interest paid	28	(3,337,810)	(3,655,488)
Dividends paid	26	(1,879,021)	(1,465,798)
Other financial payments		(140,850)	(88,340)
Net cash used in financing activities		**(7,248,457)**	**(5,187,143)**
Net increase/(decrease) in cash and cash equivalents		**992,592**	**(3,678,076)**
Cash and cash equivalents at beginning of the year	25	7,750,177	11,463,467
Effect of exchange rate fluctuations on cash		(30,516)	(35,214)
Cash and cash equivalents at end of the year	**25**	**8,712,253**	**7,750,177**

O'KEY GROUP OF COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

1. Background

(a) The Group and its operations

These consolidated financial statements for the year ended 31 December 2018 have been prepared for O'KEY GROUP S.A. (the 'Company') and its subsidiaries (together referred to as the 'Group').

The Company was incorporated and is domiciled in Luxembourg. The Company is a public limited company (société anonyme) and was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Company does not have an immediate parent or an ultimate controlling party.

As at 31 December 2018 and 2017, the Company's major indirect shareholders are Mr. Troitskii, Mr. Volchek and Mr. Korzhev.

As at 31 December 2018 and 2017, as well as throughout the years then ended, 38.172% of the Company's shares were admitted to trading on the London Stock Exchange in the form of global depositary receipts ('GDRs').

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

The Group's principal business activity is operation of retail chains in Russia under the brand names 'O'KEY' (hypermarkets) and 'Da!' (discounter stores). At 31 December 2018 the Group operated 160 stores including 82 discounter stores (31 December 2017: 149 stores including 67 discounter stores) in major Russian cities, including but not limited to Moscow and Moscow region, 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 which displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and 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 economy continued to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ('ECL') the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Refer to Note 30.

2. Basis of preparation

(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 under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of investment properties and financial instruments categorised at fair value through profit or loss ('FVTPL').

These consolidated financial statements were authorised for issue by the Board of Directors on 25 March 2019.

Any changes to these consolidated financial statements after issue require approval of the Board of Directors.

3. Functional and presentation currency

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

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at the date of transaction;
- components of equity are translated at the historic rate;
- all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2018 the principal rates of exchange used for translating foreign currency balances were USD 1 = RUB 69.4706; EUR 1 = RUB 79.4605 (31 December 2017: USD 1 = RUB 57.6002; EUR 1 = RUB 68.8668).

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 taxation in several jurisdictions. The major part of the tax burden refers to the Russian tax legislation, which is subject to varying interpretations when being applied to the transactions and activities of the Group. Significant judgement is required in determining whether the tax positions and interpretations the Group has taken can be sustained. Refer to Note 33.

Bonuses from suppliers. The Group receives various bonuses from suppliers which represent a significant reduction in cost of goods sold 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 calculation and allocation of the bonuses to inventory cost has some element of judgement.

Determination of recoverable amount of non-current assets. For those non-current assets 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 assessment performed as at 31 December 2018 refer to Notes 17, 18 and 19.

Recoverability of deferred tax asset. Significant judgment is required in assessment of recoverability of deferred tax asset on tax losses of LLC Fresh Market, the Group's entity that develops a discounter chain and does not yet generate profit. The Group performs analysis of future taxable profit to cover the accumulated tax losses on the basis of the long-term budget for the entity. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to the long-term budget. Refer to Note 15.

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. New and amended standards and interpretations adopted by the Group

A number of new standards, amendments to standards and interpretations became effective from 1 January 2018, including the following:

IFRS 9 "Financial Instruments". The Group adopted IFRS 9 from 1 January 2018. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group elected not to restate comparative figures and to recognise any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, 'Financial Instruments: Disclosures', have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year. The significant new accounting policies applied in the current period and those applied prior to 1 January 2018 as applicable to the comparative information are described in Note 36.

The adoption of the new standard from 1 January 2018 resulted in changes in the Group's accounting policies but did not have a significant impact on the amounts recognised in the consolidated financial statements, so no adjustments in the opening retained earnings were recorded.

On 1 January 2018, the date of initial application of IFRS 9, the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. Based on the analysis performed, the financial assets previously classified into 'loans and receivables' ('L&R') measurement category under IAS 39, as represented by all classes of cash and cash equivalents disclosed in Note 25 and all financial assets within trade and other receivables disclosed in Note 23, were reclassified into those measured at amortised cost ('AC') under IFRS 9 at the adoption of the standard, with no impact on their measurement. The changes in classification categories did not result in changes of presentation in the consolidated statement of financial position. At 31 December 2017, all of the Group's non-derivative financial liabilities were carried at AC. There were no changes to the classification and measurement of financial liabilities. No retrospective adjustments were required in relation to the Group's loans and borrowings, as none of the loans and borrowings outstanding on 1 January 2018 had been refinanced in prior periods. The expected credit losses ('ECL') for cash and cash equivalents balances were insignificant. The provision for impairment of receivables as of 31 December 2017 measured under IAS 39 in the amount of RUB 33,903 thousand (Note 30) approximates the credit loss allowance at 1 January 2018 measured under IFRS 9.

IFRS 15 "Revenue from Contracts with Customers". The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies outlined in Note 36 and adjustments to the amounts recognised in the consolidated statement of profit or loss and other comprehensive income. In accordance with the transition provisions in IFRS 15, the Group has elected full retrospective method of transition without using the practical expedient for completed contracts and contract modifications and restated comparatives for 2017. Since there is no effect of the retrospective application of IFRS 15 on the information presented in the consolidated statement of financial position as of 1 January 2018 and 1 January 2017, the third statement of financial position as of 1 January 2017 is not presented.

Outlined in the following table are effects from the adoption of IFRS 15 on the consolidated profit or loss amounts for the year ended 31 December 2017 presented as comparatives in these consolidated financial statements:

'000 RUB	Year ended 31 December 2017 – as originally presented	Reclassifications	Year ended 31 December 2017 – as restated
Revenue	177,454,848	(1,378,981)	176,075,867
Cost of goods sold	(137,010,445)	1,378,981	(135,631,464)

The above impact resulted from the Group's analysis of its revenue streams with reference to the detailed guidance on application of the revenue recognition principles outlined in IFRS 15. In a view of more precise definition of revenue recognition criteria, in particular in respect of counter services to counterparties, the Group reconsidered its approach for accounting treatment of advertising income and now accounts for such income consistently with treatment of bonuses from suppliers and records them as a reduction to cost of goods purchased. The Group believes that the new approach also closely aligns to the industry practice and will aid comparability. Prior to this change in the policy, the Group presented income from advertising services within revenue.

The following amended standards and interpretations also became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 'Share-based Payment';
- Amendments to IFRS 4 – 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts';
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 – 'Transfers of Investment Property'.

6. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The CODM has been determined as the CEO of the Group and the Board of Directors of the Company.

The Group is engaged in management of retail stores located in the Russian Federation. Although the Group is not exposed to concentration of sales to individual customers, all of the Group's sales are made 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 CODM to analyse performance and allocate resources within the Group.

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

- O'Key – chain of modern Western European style hypermarkets under the 'O'KEY' brand (reinforced by O'KEY supermarkets throughout the Russian Federation, prior to its sale in December 2017 – April 2018, as disclosed in Note 8);
- Da! – chain of discounter stores in Moscow and Central region.

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

All business components within each reportable segment 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 CODM assesses the performance of the operating segments based on revenue and earnings before interest, tax, depreciation and amortisation adjusted for certain one-off items outlined below ('EBITDA'). The 'EBITDA' term is not defined in IFRS. Other information provided to the CODM 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 the accounting policies applied for the consolidated financial statements (Note 36).

Basis of segmentation used in these consolidated financial statements is consistent with that used in the prior year.

The segment information

'000 RUB	Note	O'KEY		DA!		Total	
		2018	2017	2018	2017	2018	2017
Sales of trading stock		139,793,834	157,032,677	13,558,958	10,282,160	153,352,792	167,314,837
Sales of self-produced catering products		6,027,584	7,022,505			6,027,584	7,022,505
Revenue from contracts with customers		**145,821,418**	**164,055,182**	**13,558,958**	**10,282,160**	**159,380,376**	**174,337,342**
Rental income		1,866,148	1,688,373	56,887	50,152	1,923,035	1,738,525
Total revenue	9	**147,687,566**	**165,743,555**	**13,615,845**	**10,332,312**	**161,303,411**	**176,075,867**
EBITDA		**10,415,634**	**11,358,589**	**(1,771,626)**	**(2,023,596)**	**8,644,008**	**9,334,993**

A reconciliation of EBITDA to (loss)/profit

'000 RUB	Note	2018	2017
EBITDA		**8,644,008**	**9,334,993**
Revaluation of investment property	11, 16	(50,142)	(200,000)
Gain from disposal of non-current assets	11	127,209	3,905,402
Impairment of non-current assets	11	(368,585)	(279,174)
Loss from write-off of receivables	11	(22,883)	(436,256)
Impairment of receivables	11	(28,048)	(3,625)
Depreciation and amortisation	10	(4,367,254)	(4,613,172)
Finance income	13	76,286	114,239
Finance costs	13	(3,192,959)	(3,532,915)
Foreign exchange loss	14	(1,141,353)	(376,375)
Net loss generated by sold supermarkets until cessation of their operations		(159,298)	-
Other expenses		(213,025)	(117,726)
(Loss)/profit before income tax		(696,044)	3,795,390
Income tax benefit/(expense)	15	96,289	(628,477)
(Loss)/profit for the year		**(599,755)**	**3,166,913**

7. Principal subsidiaries

Details of the Company's significant subsidiaries at 31 December 2018 and 31 December 2017, all wholly owned and registered in the Russian Federation, are as follows:

Subsidiary	Nature of operations
LLC O'KEY	Retail
LLC Fresh Market	Retail and real estate
JSC Dorinda	Real estate
LLC O'KEY group	Managing company
LLC O'KEY Logistics	Import operations

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 comprised a series of transactions. Total consideration according to the agreement was 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 recognised in 2017 respective income 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 remaining 4 stores were transferred to the buyer in April 2018 and respective income in the amount of RUB 545,000 thousand was recognised in 2018. 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 208,985 thousand.

RUB 7,069,951 thousand of the total consideration net of VAT were settled by the buyer in cash in 2018, and the remaining balance of RUB 120,686 thousand outstanding as at 31 December 2018 is due in 2019 in accordance with the agreement terms and is included in trade and other receivables (Note 23).

9. Revenue

'000 RUB	Note	2018	2017
	5		Restated
Sales of goods for resale		153,352,792	167,314,837
Sales of self-produced catering products		6,027,584	7,022,505
Revenue from contracts with customers		**159,380,376**	**174,337,342**
Rental income		1,923,035	1,738,525
Total revenue		**161,303,411**	**176,075,867**

Disaggregated information about revenue from contracts with customers by operating segment is presented in Note 6.

10. General, selling and administrative expenses

'000 RUB	Note	2018	2017
Personnel costs	12	14,067,602	15,619,123
Operating leases	31	5,425,712	5,757,744
Depreciation and amortisation	17, 18, 19	4,367,254	4,613,172
Communication and utilities		3,503,234	3,525,377
Advertising and marketing		2,011,700	2,115,888
Repairs and maintenance costs		1,230,022	1,253,737
Insurance and bank commission		816,606	818,668
Operating taxes		802,929	730,401
Security expenses		736,473	869,282
Legal and professional expenses		629,781	520,419
Materials and supplies		294,030	329,541
Other costs		29,281	35,959
Total general, selling and administrative expenses		**33,914,624**	**36,189,311**

Fees billed to the Group by PricewaterhouseCoopers, Société coopérative, the Company's incumbent independent auditors, and affiliated companies thereof during the year ended 31 December 2018, and the fees billed to the Group by KPMG Luxembourg Societe coopérative, the Company's predecessor independent auditors, and other member firms of the KPMG network during the year ended 31 December 2017 are as follows:

'000 RUB	2018	2017
Fees for statutory audit of annual and consolidated accounts	14,517	12,988
Fees charged for other assurance services	4,027	4,259
Fees charged for tax advisory services	9,090	2,458
Fees charged for other non-audit services	3,700	-
Total auditors' remuneration	**31,334**	**19,705**

11. Other operating income and expenses, net

'000 RUB	Note	2018	2017
Net gain from disposal of non-current assets		127,209	3,905,402
Impairment of non-current assets	17, 18	(368,585)	(279,174)
Loss from write-off of receivables		(22,883)	(436,256)
Impairment of receivables		(28,048)	(3,625)
Loss from revaluation of investment property	16	(50,142)	(200,000)
Sundry income and expense, net		437,494	349,002
Total other operating income and expenses, net		**95,045**	**3,335,349**

Net gain from disposal of non-current assets for the year ended 31 December 2018 includes gain on sale of the supermarkets business in the amount of RUB 336,015 thousand (2017: gain of RUB 4,645,203 thousand) described in Note 8, and loss on disposal of other non-current assets in the amount of RUB 208,806 thousand (2017: loss of RUB 739,801 thousand).

12. Personnel costs

'000 RUB	2018	2017
Wages and salaries	8,959,215	9,701,832
Social security contributions	2,872,502	3,236,031
Bonuses to personnel	1,259,695	1,654,997
Other employee benefits	976,190	1,026,263
Total personnel costs	**14,067,602**	**15,619,123**

During the year ended 31 December 2018 the Group employed ca. 20 thousand employees on average (2017: ca. 23 thousand employees on average). Approximately 95% of the employees (2017: 94% of the employees) are store and warehouse employees and the remaining part is office employees.

13. Finance income and finance costs

'000 RUB	2018	2017
Recognised in profit or loss		
Interest income on bank deposits	69,313	113,467
Other finance income	6,973	772
Total finance income	**76,286**	**114,239**
Interest expense on loans and borrowings	(3,166,730)	(3,585,772)
Finance costs on interest rate swap contracts	(26,229)	52,857
Total finance costs	**(3,192,959)**	**(3,532,915)**
Net finance costs recognised in profit or loss	**(3,116,673)**	**(3,418,676)**

The above finance income and costs are entirely attributable to financial assets and liabilities not at fair value through profit or loss, except for those arising on interest rate swap contracts.

In 2018, the Group discontinued hedge accounting and recycled the cumulative loss of RUB 124,826 thousand from other comprehensive income to profit or loss.

During 2018 the Group has capitalised borrowing costs in the amount of RUB 208,013 thousand (2017: RUB 243,571 thousand) arising on financing directly attributable to the construction of the Group's new stores. The capitalisation rate was 9.97% (2017: 10.11%).

14. Foreign exchange loss

The Group's risk management policy is to receive loans and borrowings in the same currency in which revenues are generated (RUB). As at 31 December 2018, the share of the Group's USD-denominated loans and borrowings did not exceed 5% of total loans and borrowings. Major amount of foreign exchange differences is caused by intragroup USD-denominated loans. The Group's exposure to currency risk is disclosed in Note 30.

In 2018 the Group did not use hedging instruments to hedge foreign exchange risks.

15. Income tax

'000 RUB	2018	2017
Current tax expense	(659,108)	(1,065,737)
Deferred tax benefit	755,397	437,260
Total income tax benefit/(expense)	**96,289**	**(628,477)**

Reconciliation between the tax benefit/(expense) and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2018 and 2017 income is 20%, the income tax rate established by the Russian tax legislation. A reconciliation between the expected and the actual taxation benefit/charge is provided below

'000 RUB	2018	2017
(Loss)/profit before income tax	**(696,044)**	**3,795,390**
Theoretical income tax at applicable tax rate of 20%	139,209	(759,083)
Effect of income taxed at different rates	82,337	649,935
Tax effect of items which are not deductible for taxation purposes:		
Inventory shrinkage expenses	(85,927)	(97,870)
Other non-deductible expenses	(12,421)	(91,096)
Tax withheld on dividends received from subsidiaries	-	(150,966)
Adjustments to current income tax for previous periods	(19,428)	(197,370)
Other items	(7,481)	17,973
Income tax benefit/(expense) for the year	**96,289**	**(628,477)**

Adjustments to current income tax for previous periods for 2018 and 2017 primarily relate to additional charges following completed tax inspections covering previous years.

Deferred tax assets and liabilities

(a) Deferred taxes in respect of subsidiaries

The Group has not recorded a deferred tax liability in respect of temporary differences of RUB 25,453,488 thousand (31 December 2017: RUB 23,909,664 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. If the temporary difference reversed in form of distributions remitted to the Company, then an enacted tax rate of 5-15% would apply.

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

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

Starting from 1 January 2017 the amendments to the Russian tax legislation became effective in respect of tax loss carry forwards. The amendments affect tax losses incurred and accumulated since 2007 that have not been utilised. The 10-year expiry period for tax loss carry-forwards that was in effect prior to 2017 no longer applies, and the accumulated tax losses can now be carried forward for utilisation in future periods without any time limitation, with exception of limitation on utilisation of tax loss carry forwards that applies during the period from 2017 to 2020. The amount of losses that can be utilised each year during that period is limited to 50% of annual taxable profit.

The Group determined that future taxable profits will be available in the foreseeable future against which the accumulated losses can be utilised. In making this assessment the Group considered that according to the discounter chain's long-term budget the tax losses accumulated as at 31 December 2018 will be utilised in full by 2025. Key assumptions in the discounter chain's long-term budget covering 2019-2025 are annual expansion of up to 30 new discounters per year, double digit annual growth in revenue and gradual decrease of share of expenses due to economies of scale. Recognition of the deferred tax asset is contingent on the ability of the Group management to adhere to these key assumptions in the long-term budget.

(c) Movement in temporary differences during the year

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards

'000 RUB	1 January 2018	Recognised in profit or loss	Recycled from other comprehensive income	31 December 2018
Investment property	69,975	10,028		80,003
Property, plant and equipment	(624,512)	(287,020)		(911,532)
Construction in progress	(261,521)	263		(261,258)
Intangible assets	(94,649)	(20,456)		(115,105)
Other non-current assets	(102,825)	27,494		(75,331)
Inventories	500,080	(102,086)		397,994
Trade and other receivables and payables	(280,970)	586,027	(24,965)	280,092
Long-term investments	6,613	-		6,613
Tax loss carry-forwards	1,816,384	541,147		2,357,531
Net deferred tax assets	**1,028,575**	**755,397**	**(24,965)**	**1,759,007**
Recognised deferred tax assets	1,917,572			2,438,928
Recognised deferred tax liabilities	(888,997)			(679,921)

'000 RUB	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2017
Tax effect of deductible/ (taxable) temporary differences and tax loss carry forwards				
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
Net deferred tax assets	**585,182**	**437,260**	**6,133**	**1,028,575**
Recognised deferred tax assets	1,277,273			1,917,572
Recognised deferred tax liabilities	(692,091)			(888,997)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

16. Investment property

'000 RUB	Note	
Investment properties at fair value as at 1 January 2017		**572,542**
Transfer from owner occupied premises	17	702,468
Fair value gains less losses	11	(200,000)
Investment properties at fair value as at 31 December 2017		**1,075,010**
Investment properties at fair value as at 1 January 2018		**1,075,010**
Expenditure on subsequent improvements		22,132
Fair value gains less losses	11	(50,142)
Investment properties at fair value as at 31 December 2018		**1,047,000**

(a) Reconciliation of carrying amount
As at 31 December 2018 the Group's investment property comprises three buildings (31 December 2017: three buildings).

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

(b) Measurement of fair value
The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuator who has recent experience in valuing similar properties in the Russian Federation.

The carrying values of investment properties at 31 December 2018 and 31 December 2017 agree to the valuations reported by the external valuators with the use of a combination of the market approach with reference to comparable prices for orderly transactions with similar properties and the income approach with reference to estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions underlying the estimation of the fair value with reference to the income approach are those relating to: the annual net rent rate of RUB 2,511 –16,281 per sq. m. (31 December 2017: RUB 5,387 – 8,467 per sq. m.); expected occupancy of 15% – 95% during the first year (31 December 2017: 30% – 95%) and 92.9 – 95% in the following years (31 December 2017: 95% – 98%); and appropriate discount rate of 11.4% – 14.5% (31 December 2017: 13.7% – 14.4%).

These valuations are regularly compared to actual market yield data and actual transactions by the Group, and those reported by the market.

The fair value measurement of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

OKEY GROUP OF COMPANIES

17. Property, plant and equipment and construction in progress

'000 RUB	Land	Buildings	Leasehold improvements	Machinery and equipment, auxiliary facilities and other fixed assets	Total property, plant and equipment	Construction in progress	Total property, plant and equipment and construction in progress
Cost							
Balance at 1 January 2017	**5,021,476**	**38,602,235**	**7,707,573**	**15,545,367**	**66,876,651**	**3,485,879**	**70,362,530**
Additions	53,106	10,539	-	998,789	**1,062,434**	2,820,278	**3,882,712**
Transfers	-	2,113,770	633,431	204,107	**2,951,308**	(2,951,308)	
Reclassification to assets held for sale (Note 24)	-	-	(144,151)	(312,305)	**(456,456)**	-	**(456,456)**
Transfer to investment property (Note 16)	-	(1,114,282)	-	-	**(1,114,282)**	-	**(1,114,282)**
Disposals	(140,106)	(1,605,877)	(887,694)	(1,507,618)	**(4,141,295)**	(41,674)	**(4,182,969)**
Balance at 31 December 2017	**4,934,476**	**38,006,385**	**7,309,159**	**14,928,340**	**65,178,360**	**3,313,175**	**68,491,535**
Balance at 1 January 2018	**4,934,476**	**38,006,385**	**7,309,159**	**14,928,340**	**65,178,360**	**3,313,175**	**68,491,535**
Additions	15,487	18,131	-	1,148,013	**1,181,631**	2,686,878	**3,868,509**
Transfers	39,568	940,242	719,511	372,890	**2,072,211**	(2,072,211)	
Disposals	(14,472)	(81,720)	(117,748)	(791,250)	**(1,005,190)**	(173,296)	**(1,178,486)**
Balance at 31 December 2018	**4,975,059**	**38,883,038**	**7,910,922**	**15,657,993**	**67,427,012**	**3,754,546**	**71,181,558**
Depreciation and impairment losses							
Balance at 1 January 2017	**-**	**(6,265,941)**	**(2,365,988)**	**(10,002,854)**	**(18,634,783)**		**(18,634,783)**
Depreciation for the year	-	(1,316,609)	(647,413)	(2,156,386)	**(4,120,408)**	-	**(4,120,408)**
Impairment losses	-	(271,640)	(7,534)	-	**(279,174)**	-	**(279,174)**
Reclassification to assets held for sale (Note 24)	-	-	43,657	219,192	**262,849**	-	**262,849**
Transfer to investment property (Note 16)	-	411,814	-	-	**411,814**	-	**411,814**
Disposals	-	420,398	411,590	1,313,489	**2,145,477**	-	**2,145,477**
Balance at 31 December 2017	**-**	**(7,021,978)**	**(2,565,688)**	**(10,626,559)**	**(20,214,225)**	**-**	**(20,214,225)**
Balance at 1 January 2018	**-**	**(7,021,978)**	**(2,565,688)**	**(10,626,559)**	**(20,214,225)**	**-**	**(20,214,225)**
Depreciation for the year	-	(1,282,196)	(609,582)	(1,970,791)	(3,862,569)	-	(3,862,569)
Impairment losses	-	(351,195)	(17,390)	-	(368,585)	-	(368,585)
Disposals	-	63,423	57,321	668,263	789,007	-	789,007
Balance at 31 December 2018	**-**	**(8,591,946)**	**(3,135,339)**	**(11,929,087)**	**(23,656,372)**	**-**	**(23,656,372)**
Net book value							
At 1 January 2017	**5,021,476**	**32,336,294**	**5,341,585**	**5,542,513**	**48,241,868**	**3,485,879**	**51,727,747**
At 31 December 2017	**4,934,476**	**30,984,407**	**4,743,471**	**4,301,781**	**44,964,135**	**3,313,175**	**48,277,310**
At 31 December 2018	**4,975,059**	**30,291,092**	**4,775,583**	**3,728,906**	**43,770,640**	**3,754,546**	**47,525,186**

Depreciation expense of RUB 3,862,569 thousand has been charged to selling, general and administrative expenses (2017: RUB 4,120,408 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. At the date of transfer, the Group determined fair value of these buildings and recognised related fair value loss in the amount of RUB 149,877 thousand.

Impairment assessment

At the end of each reporting period, the Group assesses whether there is any indication that its non-current assets including property, plant and equipment, lease rights and other non-current assets may be impaired. Where the non-current assets relate to the Group's stores, these stores are treated as separate CGUs, and impairment assessment is performed in respect of the aggregate carrying value of the non-current assets attributable to these CGUs.

For the CGUs subject to impairment testing, recoverable amount was determined based on value-in-use calculations using cash flow projections based on financial budgets and forecasts approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an expected growth rate for each particular CGU which depends on its maturity and other relevant factors. The discount rates are pre-tax and reflect management's estimate of the risks specific to the Group.

As the result of the impairment test performed as at 31 December 2018, the Group recognised an impairment loss in the amount of RUB 368,585 thousand, primarily in respect of mature low-performing CGUs, including RUB 314,000 thousand in O'Key segment and RUB 54,585 thousand in Da! segment. The impairment loss was entirely attributable to property, plant and equipment. The total recoverable amount of the impaired CGUs determined based on value in use amounted to RUB 1,722,306 thousand.

The post-tax discount rate used in the assessment was 14,1%. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the CGUs had been 1% higher than management's estimates, the Group would need to recognise additional impairment of property, plant and equipment of RUB 120,375 thousand.

Pledged assets

At 31 December 2018, 4 stores with carrying value of RUB 2,338,054 thousand have been pledged to third parties as collateral for bank borrowings (31 December 2017: 4 stores were pledged with carrying value of RUB 2,471,050 thousand).

18. Lease rights

Lease rights include rights for favourable operating leases of land and premises acquired in business combinations, key money paid to incumbent tenants and other costs directly attributable to obtaining the leases.

Lease rights are amortised over the period of the lease: 49 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	Land lease	Lease of premises	Total
Cost			
Balance at 1 January 2017	**5,120,643**	**904,117**	**6,024,760**
Additions	107,695	-	107,695
Disposals	(153,720)	(105,978)	(259,698)
Balance at 31 December 2017	**5,074,618**	**798,139**	**5,872,757**
Balance at 1 January 2018	**5,074,618**	**798,139**	**5,872,757**
Additions	49,103	-	49,103
Transfer	(43,695)	-	(43,695)
Balance at 31 December 2018	**5,080,026**	**798,139**	**5,878,165**
Amortisation and impairment losses			
Balance at 1 January 2017	**(1,140,670)**	**(305,555)**	**(1,446,225)**
Amortisation for the year	(110,275)	(33,865)	(144,140)
Disposals	49,487	105,977	155,464
Balance at 31 December 2017	**(1,201,458)**	**(233,443)**	**(1,434,901)**
Balance at 1 January 2018	**(1,201,458)**	**(233,443)**	**(1 434 901)**
Amortisation for the year	(73,508)	(32,895)	(106,403)
Transfer to property, plant and equipment upon purchase of assets previously leased	4,553	-	4,553
Other	(29,255)	-	(29,255)
Balance at 31 December 2018	**(1,299,668)**	**(266,338)**	**(1,566,006)**
Carrying amounts			
At 1 January 2017	**3,979,973**	**598,562**	**4,578,535**
At 31 December 2017	**3,873,160**	**564,696**	**4,437,856**
At 31 December 2018	**3,780,358**	**531,801**	**4,312,159**

Amortisation of RUB 106,403 thousand has been charged to selling, general and administrative expenses (2017: RUB 144,140 thousand).

Lease rights are assessed for indication of potential impairment as at each reporting date. For those assets, where impairment indicators exist, the Group estimates recoverable amount being higher of its value in use and fair value less cost of disposal, on either individual asset or CGU level. No indicators of impairment were identified for the Group's lease rights that represent individual assets and do not relate to stores in operation as at 31 December 2018 and 2017. For those lease rights that relate to the Group's stores and are therefore assessed for impairment on the store level together with the other non-current assets attributable to the stores, impairment assessment has been performed as disclosed in Note 17. No impairment attributable to the lease rights was identified as at 31 December 2018 and 2017.

19. Intangible assets

'000 RUB	Software	Other intangible assets	Total
Cost			
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**
Balance at 1 January 2018	**1,739,629**	**190,726**	**1,930,355**
Additions	729,922	13,948	743,870
Disposals	(723,886)	(23,427)	(747,313)
Balance at 31 December 2018	**1,745,665**	**181,247**	**1,926,912**
Amortisation and impairment losses			
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)**
Balance at 1 January 2018	**(901,112)**	**(68,135)**	**(969,247)**
Amortisation for the year	(367,045)	(31,237)	(398,282)
Disposals	711,643	23,188	734,831
Balance at 31 December 2018	**(556,514)**	**(76,184)**	**(632,698)**
Carrying amounts			
At 1 January 2017	**790,673**	**102,430**	**893,103**
At 31 December 2017	**838,517**	**122,591**	**961,108**
At 31 December 2018	**1,189,151**	**105,063**	**1,294,214**

Amortisation of RUB 398,282 thousand has been charged to selling, general and administrative expenses (2017: RUB 348,624 thousand).

No indicators of impairment were identified for the Group's intangible assets as at 31 December 2018 and 2017.

20. Prepayments

'000 RUB	Note	31 December 2018	31 December 2017
Prepayments for lease to entities under control of shareholder group	34	353,232	201,127
Prepayments for goods		369,365	251,540
Prepayments for services		312,440	292,206
Prepayments for lease – third parties		249,496	394,050
Other prepayments		104,505	141,735
Total prepayments		**1,389,038**	**1,280,658**

21. Other non-current assets

'000 RUB	Note	31 December 2018	31 December 2017
Prepayments for lease to entities under control of shareholder group	34	733,254	906,496
Prepayments for non-current assets		280,711	613,421
Long-term deposits to lessors		391,645	297,535
Total other non-current assets		**1,405,610**	**1,817,452**

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	31 December 2018	31 December 2017
Goods for resale	13,415,173	13,261,136
Raw materials and consumables	777,487	671,255
Write-down to net realisable value	(508,187)	(408,155)
Total inventories	**13,684,473**	**13,524,236**

The Group tested the inventories for obsolescence and wrote down the inventories to their net realisable value, which resulted in a decrease of the carrying value of inventories by RUB 508,187 thousand as at 31 December 2018 (31 December 2017: RUB 408,155 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.

23. Trade and other receivables

'000 RUB	31 December 2018	31 December 2017
Financial assets within trade and other receivables		
Trade receivables	416,038	449,882
Bonuses receivable from suppliers	1,818,948	1,732,884
Other financial receivables	348,931	818,629
Receivables from sale of supermarkets (Note 8)	120,686	6,671,686
Total financial assets within trade and other receivables	**2,704,603**	**9,673,081**
Other trade and other receivables		
VAT receivable	528,326	376,414
Prepaid taxes other than income tax	125,542	179,532
Prepaid income tax	44,475	46,814
Total trade and other receivables	**3,402,946**	**10,275,841**

The Group's exposure to credit and currency risks and credit loss allowance as at 31 December 2018 / impairment loss allowance as at 31 December 2017 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**
Disposals	(100,493)	(29,096)	(129,589)
Balance at 31 December 2018	**-**	**-**	**-**

Non-current assets held for sale as at 31 December 2017 represented property, plant and equipment of 4 supermarkets that were disposed in 2018 (see Note 8). These assets were measured at net book value which was lower than their fair value less costs of disposal. 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	31 December 2018	31 December 2017
Cash on hand	236,175	235,348
Bank current accounts	4,172,848	1,203,654
Term deposits	2,570,420	4,145,533
Cash in transit	1,732,810	2,165,642
Total cash and cash equivalents	**8,712,253**	**7,750,177**

Term deposits had original maturities of less than three months. The Group's exposure to currency risk related to cash and cash equivalents is disclosed in Note 30.

26. Equity

As at 31 December 2018 and 31 December 2017, the Group's authorised, issued and fully paid share capital of RUB 119,440 thousand, the RUB equivalent of EUR 2,691 thousand, is represented by 269,074,000 ordinary shares with a par value of 0.01 EUR each. Each share is entitled to one vote, except as may be otherwise provided by the Articles of incorporation or by applicable law.

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. As at 31 December 2018 and 2017, the legal reserve was formed in full.

Additional paid-in capital represents the excess of contributions received over par value of shares issued. There were no movements in additional paid-in capital during the years ended 31 December 2018 and 31 December 2017.

In January 2018 the Company declared and paid interim dividends to shareholders in the amount of RUB 1,879,021 thousand (USD 33,276 thousand) (2017: RUB 1,465,798 thousand (USD 24 666 thousand). Dividends declared were recognised as distribution to owners in the consolidated statement of changes in equity. Dividends per share for the year ended 31 December 2018 amounted to RUB 7.0 (USD 0.1) (2017: RUB 5.5 (USD 0.1)).

27. (Loss)/earnings per share

Basic (loss)/earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted (loss)/earnings per share equals the basic (loss)/earnings per share.

(Loss)/earnings per share is calculated as follows:

'000 RUB	2018	2017
(Loss)/profit for the year	(599,755)	3,166,913
Weighted average number of ordinary shares in issue (thousands)	269,074	269,074
Basic and diluted (loss)/earnings per ordinary share (in RUB per share)	**(2.2)**	**11.8**

28. Loans and borrowings

'000 RUB		31 December 2018		31 December 2017	
	Currency	Maturity	Carrying value	Maturity	Carrying value
Non-current loans and borrowings					
Secured bank loans	RUB	2025	4,500,000	-	-
Unsecured bank facilities	RUB	2020-2023	22,200,000	2019-2021	19,466,346
Unsecured bonds	RUB	2020-2021	5,264,302	2020-2021	5,213,006
Total non-current loans and borrowings		**-**	**31,964,302**	**-**	**24,679,352**
Current loans and borrowings					
Secured bank loans	RUB	-	-	2018	1,600,000
Unsecured bank facilities	RUB	2019	1,393,500	2018	3,913,823
Unsecured bonds	RUB	-	-	2018	5,030,112
Unsecured loans from related parties (Note 34)	USD	On demand	1,065,087	On demand	883,096
Unsecured loans from third parties	RUB	2019	2,850	2018	2,850
Total current loans and borrowings		**-**	**2,461,437**	**-**	**11,429,881**
Unsecured bonds interest	RUB	-	83,844	-	213,776
Interest accrued on loans	RUB	-	13,520	-	18,121
Interest accrued on loans and borrowings		**-**	**97,364**	**-**	**231,897**
Total current loans and borrowings, including interest accrued		**-**	**2,558,801**	**-**	**11,661,778**
Total loans and borrowings		**-**	**34,523,103**	**-**	**36,341,130**

Information about property, plant and equipment pledged as collateral for the Group's loans and borrowings is disclosed in Note 17.

As at 31 December 2018 the Group had RUB 12,206,500 thousand (31 December 2017: RUB 13,800,000 thousand) of undrawn committed borrowing facilities available in RUB on fixed and floating rate basis until March 2019-November 2022 in respect of which all conditions have been met. Proceeds from these facilities may be used to finance operating and investing activities, if necessary.

During 2013 – 2017 the Group placed unsecured bonds on Moscow exchange bearing coupon rates of 8.9% – 11.7% p.a. Total amount of the bonds outstanding as at 31 December 2018 is RUB 5,264,302 thousand (31 December 2017: RUB 10,243,118 thousand). Holders of the bonds in the amount of RUB 5,000,000 thousand issued in April 2016 and maturing in April 2021 had an option to claim early repayment in October 2018, which was fully exercised.

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 waive their rights to demand early redemption.

At 31 December 2018 and 31 December 2017 and during the years then ended the Group complied with all its loan covenants.

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

The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the consolidated statement of cash flows:

'000 RUB	Note	Loans and borrowings	Interest rate swap liability (Note 29)	Dividends payable	Total
Balance at 1 January 2018		**36,341,130**	**124,827**		**36,465,957**
Cash flows from financing activities					
Proceeds from loans and borrowings		15,006,000	-	-	15,006,000
Repayment of loans and borrowings		(16,896,776)	-	-	(16,896,776)
Interest paid		(3,337,810)	-	-	(3,337,810)
Dividends paid	26	-	-	(1,879,021)	(1,879,021)
Other financial payments		(140,850)	-	-	(140,850)
Total cash flows from financing activities		**(5,369,436)**	**-**	**(1,879,021)**	**(7,248,457)**
Non-cash changes					
Accrued interest		3,374,743	-	-	3,374,743
Dividends declared	26	-	-	1,879,021	1,879,021
Changes in fair value of interest rate swap	29	-	(98,598)	-	(98,598)
Effect of changes in foreign exchange rates		176,666	-	-	176,666
Total non-cash changes		**3,551,409**	**(98,598)**	**1,879,021**	**5,331,832**
Balance at 31 December 2018		**34,523,103**	**26,229**	**-**	**34,549,332**

'000 RUB	Note	Loans and borrowings	Interest rate swap liability (Note 29)	Dividends payable	Total
Balance at 1 January 2017		**36,295,208**	**147,019**		**36,442,227**
Cash flows from financing activities					
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 cash flows from financing activities		**(3,658,145)**	**(63,200)**	**(1,465,798)**	**(5,187,143)**
Non-cash changes					
Accrued interests		3,766,143	63,200	-	3,829,343
Dividends declared	26	-	-	1,465,798	1,465,798
Reclassification from hedging reserve		-	(52,857)	-	(52,857)
Changes in fair value of hedge recognised in other comprehensive income		-	30,665	-	30,665
Effect of changes in foreign exchange rates		(62,076)	-	-	(62,076)
Total non-cash 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	31 December 2018	31 December 2017
Financial liabilities at AC		
Trade payables	24,238,896	25,946,694
Other financial payables	271,175	147,841
Total financial liabilities at AC	**24,510,071**	**26,094,535**
Financial liabilities at FVTPL		
Interest rate swap liability	26,229	124,827
Total financial liabilities at FVTPL	**26,229**	**124,827**
Payables to staff	1,171,213	1,216,184
Taxes payable other than income tax	690,035	990,862
Advances received from lessors	373,395	322,048
Contract liability related to gift cards	90,905	106,275
Total trade and other payables	**26,861,848**	**28,854,731**

All of the Group's contract liabilities relate to contracts with customers for periods of less than one year. RUB 106,275 thousand of revenue was recognised in the current reporting period related to the contract liabilities as at 1 January 2018, all of which related to gift cards.

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

30. Financial risk management

(a) Overview

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

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 cash and cash equivalents, trade receivables and bonuses receivable.

(i) Exposure to credit risk

The carrying amounts of financial assets in the consolidated statement of financial position represent the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUB	Note	Carrying amount	
		31 Dec 2018	31 Dec 2017
Trade and other receivables	23	2,704,603	9,673,081
Cash and cash equivalents	25	8,476,078	7,514,829
Total		**11,180,681**	**17,187,910**

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 creditworthiness.

(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 services. Usually the Group provides advertising services to suppliers of goods sold in the Group's stores. Thus, the credit risk in part of trade receivables is mostly managed through procedures for selection of suppliers and tenants. Other receivables are primarily represented by bonuses receivable from suppliers.

Credit loss allowance

The Group adopted IFRS 9 'Financial Instruments' that introduces the expected credit loss (ECL) measurement from 1 January 2018. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses for trade and other receivables, those have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The ECL for bonuses receivable from suppliers is determined on portfolio level based on historical default percentages applied to the total amount of bonuses receivable from suppliers, adjusted to reflect relevant current and forward-looking information.

The credit loss allowance as at 31 December 2018 determined with the use of provision matrix is summarised in the table below.

'000 RUB	Gross amount	Lifetime ECL	Carrying amount
Trade receivables	431,619	(15,581)	416,038
Bonuses receivable from suppliers	1,873,767	(54,819)	1,818,948
Other financial receivables	355,191	(6,260)	348,931
Total	**2,660,577**	**(76,660)**	**2,583,917**

Impairment loss allowance as at 31 December 2017

Prior to adoption of IFRS 9, the Group was establishing an allowance for impairment under IAS 32 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.

The ageing of trade and other receivables as at 31 December 2017 was:

'000 RUB	Gross amount	Impairment loss allowance
Not overdue and less than 90 days overdue	9,496,464	-
90-180 days overdue	39,160	-
181-360 days overdue	63,386	-
More than 360 days overdue	107,974	(33,903)
Total financial assets within trade and other receivables	**9,706,984**	**(33,903)**

The movement in the allowance for impairment in respect of trade and other receivables during 2017 was as follows:

'000 RUB	2017
Balance at 1 January	**31,257**
Allowance for impairment during the year	2,646
Balance at 31 December	**33,903**

(iii) Cash and cash equivalents

The Group assesses credit risk for cash and cash equivalents based on external ratings that are available publicly. 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 Net Debt / EBITDA ratio should not exceed 4.0, where Net Debt is the total of long-term and short-term loans and borrowings less cash and cash equivalents as presented in the consolidated financial statements;
- 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 table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows may differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 December 2018

'000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years
Financial liabilities at AC					
Secured bank loans	4,502,160	6,338,722	197,640	198,720	5,942,362
Unsecured bonds	5,348,146	6,485,121	331,926	254,482	5,898,713
Unsecured bank facilities	23,604,828	28,377,991	2,390,294	975,150	25,012,547
Unsecured loans from related parties	1,065,087	1,107,340	1,107,340	-	-
Unsecured loans from third parties	2,882	2,882	32	2,850	-
Trade and other payables	24,510,071	24,510,071	24,510,071	-	-
Financial liabilities at FVTPL					
Interest rate swap	26,229	26,229	26,229	-	-
Total	**59,059,403**	**66,848,356**	**28,563,532**	**1,431,202**	**36,853,622**

As at 31 December 2018, the Group's current liabilities exceeded its current assets by RUB 2,785,646 thousand (31 December 2017: RUB 8,545,090 thousand). An excess of current liabilities over current assets is usual for the retail industry. The Group uses excess of trade and other payables over inventory to finance its investing activities. The Group has reviewed its cash flow forecasts in the context of current and projected market conditions, as well as available undrawn credit facilities disclosed in Note 28, and is confident that it will be able to meet its obligations as they fall due.

31 December 2017

'000 RUB	Carrying amount	Contractual cash flows	Demand and less than 6 months	From 6 to 12 months	From 1 to 5 years
Non-derivative financial liabilities					
Secured bank loans	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	2,879	2,879	-	-
Trade and other payables	26,094,535	26,094,535	26,094,535	-	-
Derivative financial instruments					
Interest rate swap	124,827	124,827	41,143	57,455	26,229
Total	**62,560,492**	**69,471,146**	**30,475,687**	**10,519,785**	**28,475,674**

(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. Management sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(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.

Exposure to currency risk

The Group's exposure to currency risk in relation to the USD, the major foreign currency for the Group's Russian subsidiaries, was as follows based on notional amounts:

'000 RUB	31 December 2018	31 December 2017
Trade and other receivables	11,064	2,025
Cash and cash equivalents	26,108	7,853
Unsecured loans from related parties	(1,065,087)	(883,096)
Trade and other payables	(387,766)	(439,046)
Total	**(1,415,681)**	**(1,312,264)**

Sensitivity analysis

A 20% weakening/strengthening of the RUB against the USD at 31 December 2018 would have decreased/increased equity and profit or loss by RUB 283,136 thousand (2017: decrease/increase would comprise RUB 262,453 thousand). This analysis was performed only for USD denominated monetary balances of the Group's entities whose functional currency is the RUB and 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 2017.

(ii) Interest rate risk

The Group has material exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Profile

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

'000 RUB	31 December 2018	31 December 2017
Fixed rate instruments		
Cash and cash equivalents	6,743,268	5,349,187
Loans and borrowings	(29,519,373)	(28,637,411)
Variable rate instruments		
Loans and borrowings	**(5,003,730)**	**(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 2017.

'000 RUB	Profit or loss		Equity	
	500 bp increase	500 bp decrease	500 bp increase	500 bp decrease
31 December 2018				
Variable rate instruments	(250,186)	250,186	-	-
Cash flow sensitivity (net)	**(250,186)**	**250,186**	**-**	**-**
31 December 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**	**90,205**	**(102,946)**

(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 consolidated statement of financial position. This is because, while generally there is an intention to settle on net basis, 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, unless otherwise stated in the agreement.

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

31 December 2018

'000 RUB	Trade and other receivables	Trade and other payables
Gross amounts before offsetting	5,755,557	27,561,025
Amounts offset	(3,050,954)	(3,050,954)
Net amounts presented in the consolidated statement of financial position	**2,704,603**	**24,510,071**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,597,344)	(1,597,344)
Net amount	**1,107,259**	**22,912,727**

31 December 2017

'000 RUB	Trade and other receivables	Trade and other payables
Gross amounts before offsetting	11,701,014	28,122,468
Amounts offset	(2,027,933)	(2,027,933)
Net amounts presented in the consolidated statement of financial position	**9,673,081**	**26,094,535**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,604,183)	(1,604,183)
Net amount	**8,068,898**	**24,490,352**

The net amounts presented in the consolidated 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 comprise mainly trade payables for goods and bonuses receivable from suppliers.

(f) 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 (typically 49 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 for 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 2018 RUB 5,532,115 thousand was recognised as an expense (including amortisation of lease rights amounting to RUB 106,403 thousand) in profit or loss in respect of operating leases (2017: RUB 5,901,884 thousand, including amortisation of lease rights amounting to RUB 144,140 thousand). Contingent rent recognised as an expense for the year ended 31 December 2018 amounted to RUB 178,385 thousand (2017: RUB 241,081 thousand).

The future minimum lease payments under non-cancellable operating leases were as follows:

RUB 000'	31 December 2018	31 December 2017
Less than one year	3,078,471	2,831,840
Between one and five years	10,962,334	11,119,850
More than five years	22,927,867	25,419,104
Total operating lease commitments	**36,968,672**	**39,370,794**

Leases as lessor
The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2018 RUB 1,923,035 thousand was recognised as rental income in the consolidated statement of profit or loss and other comprehensive income (2017: RUB 1,738,525 thousand). All leases where the Group is the lessor are cancellable.

The Group has contingent rent arrangements. The contingent rent recognised as income amounted to RUB 105,196 thousand for the year ended 31 December 2018 (2017: RUB 100,828 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, mostly relating to construction of stores, and intangible assets amounting to RUB 659,616 thousand as at 31 December 2018 (31 December 2017: RUB 867,441 thousand). The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

(b) Tax contingencies
Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's length basis. Management has implemented internal controls to comply with this transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group applies its judgement in interpretations of such uncertain areas. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities.

Impact of any of the challenges mentioned above cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, management estimates that as at 31 December 2018, the Group has other possible obligations of approximately RUB 1,900,000 thousand (31 December 2017: RUB 1,300,000 thousand) from exposure to other than remote tax risks arising from certain transactions. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

34. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties of the Group fall into the following categories:

1. The Company's major indirect shareholders (see Note 1);

2. Other related parties under control of the major indirect shareholders;

3. Members of the Board of Directors of the Company and other key management personnel.

(a) Transactions with key management personnel
Key management received the following remuneration during the year, which is included in personnel costs (see Note 12):

'000 RUB	2018	2017
Short-term employee benefits:		
Salaries and short-term bonuses	396,575	339,537
Social security contributions	13,767	14,490
Other short-term payments	3,600	6,900
Long-term employee benefits:		
Long-term service bonus	38,000	163,120
Total	**451,942**	**524,047**

In addition, members of the Company's Board of Directors received remuneration in the amount of RUB 59,341 thousand for the year ended 31 December 2018 (2017: RUB 48,531 thousand) which is included in legal and professional expenses. There are no commitments and contingent obligations towards key management personnel.

(b) Transactions with other related parties

(i) Revenue

'000 RUB	Income		Receivables	
	2018	2017	31 December 2018	31 December
Sale of services	2,910	2,402	579	289
Total revenue	**2,910**	**2,402**	**579**	**289**

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

(ii) Expanses

'000 RUB	Expense		Prepayments	
	2018	2017	31 December 2018	31 December 2017
Lease of premises, including:	(833,368)	(831,117)	1,094,483	1,082,999
Rental fee	(713,458)	(702,645)	-	-
Reimbursement of utilities	(62,464)	(57,771)	-	-
Reimbursement of other expenses	(57,446)	(70,701)	-	-
Other services received	(40,273)	(1,618)	7,484	3,608
Finance costs	(77,287)	(71,483)	-	-
Total expenses	**(950,928)**	**(904,218)**	**1,101,967**	**1,086,607**

The outstanding balances above, 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 or impaired.

The outstanding balance of RUB 1,094,483 thousand as at 31 December 2018 (31 December 2017: RUB 1,082,999 thousand) comprises prepayments for rent of hypermarkets for the period until 2034 amounting to RUB 1,086,486 thousand (31 December 2017: RUB 1,107,623 thousand) and current assets for rent of hypermarkets in the amount of RUB 7,997 thousand (31 December 2017: RUB 26,624 thousand). Long-term part of the prepayments amounting to RUB 733,254 thousand as at 31 December 2018 (31 December 2017: 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.

(iii) Loans received

'000 RUB	31 December 2018	31 December 2017
Loans received	1,065,087	883,096

The loans from other related parties are denominated in USD, bear interest at 8% per annum and are payable on demand but not later than 2021. There were no movements in the loans received from related parties, except for the foreign exchange gain in the amount of RUB 181,991 thousand in 2018 (2017: foreign exchange loss amounted to RUB 46,864 thousand).

35. Fair value disclosures

Fair value measurements are analysed and categorised by level in the fair value hierarchy as follows:

(i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Financial instruments carried at fair value. Interest swaps are carried in the consolidated statement of financial position at their fair value. Fair value of the swaps 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).

(b) Non-recurring fair value measurements

Fair value of the investment property is updated by the Group annually on 31 December applying the income approach and market approach. Refer to Note 16.

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair value was determined by the Group for initial recognition of financial assets and liabilities which are subsequently measured at amortised cost.

Fair value of the Group's financial assets and liabilities measured at amortised cost approximates their carrying amounts. Fair value of the Group's bonds listed on Moscow Exchange was determined for disclosure purposes based on active market quotations (Level 1 fair value). Fair value of the Group's other financial assets and liabilities at amortised cost belongs to level 2 measurements in the fair value hierarchy.

36. Significant accounting policies

Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, the principal accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. 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 gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the cost cannot be recovered.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

(b) Foreign currency

(i) Foreign currency transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ('CBRF') at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as a separate line item.

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain 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 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.

(c) Financial instruments – accounting policies since 1 January 2018

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

Non-derivative financial instruments represented by cash and cash equivalents and trade and other receivables are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

(ii) Non-derivative financial assets – classification and subsequent measurement
All of the Group's non-derivative financial assets belong to the AC measurement category. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ('hold to collect contractual cash flows'), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ('hold to collect contractual cash flows and sell') or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of 'other' business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ('SPPI').

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(iii) Financial assets impairment – credit loss allowance for ECL
The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

(iv) Financial assets – write-off
Non-derivative financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(v) Financial assets – derecognition
The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(vi) Financial liabilities – measurement categories
Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments, if any.

(vii) Financial liabilities – derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

(viii) Non-derivative financial assets – measurement
The Group's non-derivative financial assets are represented by trade and other receivables and cash and cash equivalents and are classified as measured subsequently at amortised cost. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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 consolidated statement of cash flows.

(ix) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

(x) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

(xi) Trade and other receivables
Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

(xii) Trade and other payables
Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

(xiii) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at AC using the effective interest method.

(xiv) Capitalisation of borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

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

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

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

(d) Financial instruments – accounting policies before 1 January 2018

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

(ii) 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.

(iii) 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.

(iv) 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.

(v) Derivative financial instruments
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 consolidated 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.

(e) Financial assets impairment – impairment loss allowance

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.

(f) Transactions with owners

(i) Ordinary shares/share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Any excess of the fair value of consideration received over the par value of shares issued is recorded as additional paid-in capital in equity.

(ii) Distributions to owners/contributions from owners

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

(g) Property, plant and equipment and construction in progress

(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 operating income and expense' 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

Land and construction in progress are not depreciated. Other 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.

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**
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.

(h) 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. Properties that are mainly occupied by the Group and insignificant portion of which is leased out to third parties mainly for offering additional customer service are presented within property, plant and equipment.

Investment property, including assets under construction for future use as investment property, is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value with any change therein recognised in profit or loss within other operating income and expenses. 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 the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same 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 deemed cost for subsequent accounting.

Earned rental income is recorded in profit or loss for the year within revenue.

(i) 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	**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.

(j) 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 lease term.

(ii) Lease rights

Where the Group incurs initial direct costs to negotiate and enter into new leases, such as key money payments to incumbent tenants, or where rights for favourable operating leases are acquired in business combinations, such costs are capitalised as lease rights and amortised using straight-line method over the lease term being up to 49 years for lease of land and up to 8-19 years for lease of premises. If the Group subsequently acquires the asset previously leased, the carrying amount of the related lease rights is reclassified into property, plant and equipment and included in the cost of the asset acquired.

(iii) 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 contractual cash flows from reporting date). The interest cost is charged to the profit or loss over the lease period using the effective interest method.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving weighted 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.

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, 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 of disposal. 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.

(m) Employee benefits

(i) Short-term employee benefits

Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are measured on an undiscounted basis and accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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.

(ii) Long-term employee benefits

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

(n) 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 a finance cost.

(o) Revenue

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of VAT, returns and discounts.

(i) Revenue from contracts with customers

Revenue from contracts with customers is represented by retail sales of goods for resale and self-produced catering products.

Revenue from sale of goods and self-catering products is recognised when control of the goods and products has transferred to the customer, normally for the retail customers it is occurred in the store at the point of sale. No element of financing is deemed present, as payment of the transaction price is due immediately.

In accordance with the Russian consumer protection legislation, the customers have the right of return of goods in a range of categories within 14 days after the purchase. Such estimated returns are assessed at each reporting date. Based on historical data about returns, it is probable that a significant reversal in the cumulative revenue recognised will not occur.

Gift cards issued by the Group are recorded as a contract liability within trade and other payables upon sale when prepaid by customers until they are redeemed or expire.

The Group does not operate any loyalty programme where customers accumulate award points for purchases made which entitle them to discount on future purchases.

From time to time, the Group holds promotional campaigns where the Group provides discount coupons to the customers that purchase goods with total value above a pre-determined amount. The discount coupons entitle the customers to a free purchase or a discount on selected goods immediately after the campaign ends. Such coupons represent a material right to the customers and give rise to a separate performance obligation to deliver the customers additional goods. The total transaction price is allocated on the portfolio basis to the initial and the additional performance obligations on a relative stand-alone selling price basis. Revenue attributable to the performance obligation not yet satisfied at the reporting date is recognised as a contract liability within trade and other payables until the right of the customers to obtain additional goods is realised or expires.

(ii) Rental income

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.

(p) Cost of goods sold

Cost of goods sold 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, slotting fees and counter services to suppliers directly related to the purchases made. These bonuses decrease the cost of inventory and are recorded as reduction of cost of sales as the related inventory is sold.

Losses from inventory shortages are recognised in cost of goods sold.

(q) 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, if any. 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.

(r) Income tax

Income taxes have been provided in the consolidated financial statements in accordance with the respective legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they are recognised in other comprehensive income or directly in equity because they relate to transactions that are also recognised, in the same accounting period, in other comprehensive income or directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Taxes other than on income are recorded within general, selling and administrative expenses.

Deferred tax is recognised in respect of tax loss carried forward and 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 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, therefore deferred tax assets and liabilities are offset only within the individual companies of the Group.

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.

(s) Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of participating shares outstanding during the year.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Operating segments whose revenue, results or assets are ten percent or more of all the segments are reported separately.

(u) 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 has not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

(v) Presentation of the consolidated 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' within cash flows from operating activities.

(w) New accounting pronouncements

Certain new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board (IASB) and adopted by the European Union that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 'Leases'. The Group will adopt the standard from 1 January 2019 with modified retrospective application and the practical expedients detailed below. IFRS 16 introduces a single lease accounting model, requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Thus, most leases classified as operating leases with lease payments recorded in the consolidated statement of profit or loss and other comprehensive income under the existing policy will be included in the consolidated statement of financial position.

The new treatment of leases will result in an increase in non-current assets and financial liabilities as these leases are capitalised as well as a decrease in lease expenses, offset by an increase in amortisation and an increase in finance charges. This will result in a higher operating profit. The amortisation charge is constant over the lease term, but finance charges decrease as the remaining lease liability decreases, resulting in a smaller increase of net profit in the early part of a lease arrangement and a larger positive profit impact towards the end of the contract.

Cash generated from operations is expected to increase due to certain lease expenses no longer being recognised as operating cash outflows, but this will be offset by a corresponding increase in cash used in financing activities due to repayments of the principal on lease liabilities. Net cash flow will remain unchanged.

Some lease agreements of the Group are short-term in nature and not individually material in value. The Group has elected to apply a practical expedient which excludes lease agreements which are short-term in nature and not individually material in value from being classified as leases in terms of IFRS 16.

The Group has also elected to adopt the transitional practical expedient such that the IFRS 16 definition of a lease would only be applied to assess whether contracts entered into after the date of initial application (1 January 2019) are, or contain leases. All contracts previously assessed not to contain leases are not revisited.

Lease rights currently presented as a separate item in the consolidated statement of financial position are in substance payments made to take over the Group's leases, and as such meet the definition of initial direct costs. The Group elected not to apply the practical expedient available in IFRS 16 for the modified retrospective approach that allows to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and therefore the carrying value of lease rights as at 1 January 2019 will be derecognised and adjust the carrying amount of the right-of-use asset by a corresponding amount.

The Group's assessment of the impact of adopting this standard is in the process of being finalised, but the estimated range of potential impact on the Group's total assets and liabilities is to increase them by approximately RUB 34 billion +/-5%.

The following new amendments to standards and interpretations issued by the IASB and adopted by the European Union that are mandatory for the annual periods beginning on or after 1 January 2019 or later, are not expected to affect significantly the Group's consolidated financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

A number of new standards and amendments to standards have also been issued by the IASB that have not yet been endorsed by the European Union:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued by the IASB on 11 September 2014);
- IFRS 17 'Insurance Contracts' (issued by the IASB on 18 May 2017);
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued by the IASB on 12 October 2017);
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued by the IASB on 12 December 2017);
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued by the IASB on 7 February 2018);
- Amendments to the Conceptual Framework for Financial Reporting (issued by the IASB on 29 March 2018);
- Definition of a business – Amendments to IFRS 3 (issued by the IASB on 22 October 2018);
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued by the IASB on 31 October 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements when adopted by the European Union and become effective for the Group.

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

Blended learning
A style of education in which students learn via electronic and online media as well as traditional face-to-face teaching

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

ERP (Enterprise Resource Planning)
A modular software system designed to integrate the main functional areas of an organisation's business processes into a unified system

Global Food Safety Initiative (GFSI)
A private organisation, established and managed by the international trade association the Consumer Goods Forum under Belgian law in May 2000, the GFSI maintains a scheme to benchmark food safety standards for manufacturers as well as farm assurance standards

Gross revenue
The money generated by all its operations before deductions are taken for expenses

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

LFL (like–for–like)
The method of comparing current year sales figures to prior year's sales figures excluding the expansion effect

Net revenue
The amount of a company's gross revenue plus all negative revenue items

On-shelf availability
Availability of product for sale to a shopper, in the place he expects it and at the time he wants to buy it, impacted by a host of different factors, all along the supply chain

Planogram
A diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases

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

Real disposable income
The post-tax and benefit income available to households after an adjustment has been made for price changes

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

SKU (stock keeping unit)
A number assigned to a particular product to identify the price, product options and manufacturer of the merchandise

Traffic
The number of tickets issued for the period under review

Abbreviations

CEO
Chief Executive Officer

CFO
Chief Financial Officer

CJSC
Closed joint stock company

CRM
Client Relationship Management

DC
Distribution centre

EBITDA
Earnings before interest, taxes, depreciation and amortisation

EDI
Electronic data interchange

GDR
Global depositary receipts

HR
Human resources

IFRS
International Financial Reporting Standards

IPO
Initial Public Offering

IT
Information Technology

JSC
Joint Stock Company

K m²
A thousand square metres

KPI
Key Performance Indicators

LSE
London Stock Exchange

M&A
Mergers & Acquisitions

m²
Square metre

NGO
Non-governmental organisation

p.p.
Percentage point

Q
Quarter of the year

QoQ
Quarter over quarter

RUB
Russian rouble

VAT
value-added tax

WHT
withholding tax

WMS
warehouse management system

YoY
Year Over Year

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