

X5 Retail Group N.V.

**Condensed Consolidated Interim
Financial Statements**

Six months ended 30 June 2018

Provided under IAS 34 as adopted by the EU

Contents

DIRECTORS' RESPONSIBILITY STATEMENT

INDEPENDENT AUDITOR'S REVIEW REPORT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION	1
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS	2
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME	3
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS	4
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY	5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1	PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE	6
2	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	6
3	CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES	7
4	ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS	7
5	SEGMENT REPORTING	10
6	ACQUISITION OF BUSINESSES	12
7	RELATED PARTY TRANSACTIONS	13
8	PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS	14
9	GOODWILL	14
10	TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS	15
11	PROVISIONS AND OTHER LIABILITIES	15
12	CONTRACT LIABILITIES	15
13	BORROWINGS	16
14	SHARE CAPITAL	16
15	EARNINGS PER SHARE	17
16	REVENUE	17
17	EXPENSES	17
18	FINANCE INCOME AND COSTS	18
19	SHARE-BASED PAYMENTS	18
20	INCOME TAX	18
21	SEASONALITY	19
22	FINANCIAL RISKS MANAGEMENT	19
23	FAIR VALUE OF FINANCIAL INSTRUMENTS	19
24	COMMITMENTS AND CONTINGENCIES	20
25	SUBSEQUENT EVENTS	22

X5 Retail Group N.V.
Directors' Responsibility Statement

This report contains the half-yearly condensed consolidated financial statements of X5 Retail Group N.V. (the "Company") for the six months ended 30 June 2018 and the responsibility statement by the Company's Management Board (the "Management Board"), which have been reviewed by the independent auditor and are not audited.

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the review report, is made with a view to distinguishing the respective responsibilities of the Management Board and those of the independent auditors in relation to the condensed consolidated interim financial statements of X5 Retail Group N.V. and its subsidiaries (the "Group").

The Management Board is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2018, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting*.

In preparing the condensed consolidated interim financial statements, the Management Board is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS issued by the International Accounting Standards Board and adopted by the European Union have been followed, subject to any material departures disclosed and explained in the condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The Management Board is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with International Accounting Standard 34 *Interim Financial Reporting*;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The Management Board hereby declares that to the best of their knowledge, the half-yearly financial statements included in this interim report, which have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the half-yearly management report includes a fair review of the information required pursuant to section 5:25d (8)/(9) of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

Review report

To: the Supervisory Board and Shareholders of X5 Retail Group N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of X5 Retail Group N.V., Amsterdam, which comprise the condensed consolidated interim statement of financial position as at 30 June 2018, the condensed consolidated interim statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 13 August 2018

Ernst & Young Accountants LLP

signed by G.A. Arnold

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position
at 30 June 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

	Note	30 June 2018	31 December 2017*
Assets			
Non-current assets			
Property, plant and equipment	8	290,497	278,928
Investment property		5,380	5,488
Goodwill	9	92,169	90,276
Other intangible assets	8	19,103	18,442
Other non-current assets		7,969	7,708
Deferred tax assets		5,292	5,143
		420,410	405,985
Current assets			
Inventories		102,947	99,300
Indemnification asset		35	106
Trade, other accounts receivable and prepayments	10	11,620	15,531
Current income tax receivable		3,690	2,384
VAT and other taxes receivable		10,634	14,347
Cash and cash equivalents		13,774	27,605
		142,700	159,273
Total assets		563,110	565,258
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	2,458	2,458
Share premium		46,194	46,212
Retained earnings		102,378	109,655
Share-based payment reserve	19	96	117
		151,126	158,442
Total equity		151,126	158,442
Non-current liabilities			
Long-term borrowings	13	160,772	135,622
Deferred tax liabilities		6,893	5,670
Long-term contract liabilities		4	5
Other non-current liabilities		148	1,344
		167,817	142,641
Current liabilities			
Trade accounts payable		118,013	130,766
Short-term borrowings	13	63,392	58,674
Interest accrued		1,859	1,642
Short-term contract liabilities	12	1,951	1,815
Current income tax payable		573	635
Provisions and other liabilities	11	58,379	70,643
		244,167	264,175
Total liabilities		411,984	406,816
Total equity and liabilities		563,110	565,258

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 4.

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

The accompanying notes on pages 6 to 22 are an integral part of these condensed consolidated interim financial statements.

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Profit or Loss
for the six months ended 30 June 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

	Note	Six months ended 30 June	
		2018	2017*
Revenue	5, 16	734,077	613,879
Cost of sales		(558,619)	(466,646)
Gross profit		175,458	147,233
Selling, general and administrative expenses	17	(152,804)	(118,525)
Net impairment losses on financial assets		(275)	(160)
Lease/sublease and other income		5,092	3,950
Operating profit		27,471	32,498
Finance costs	18	(8,748)	(7,969)
Finance income	18	97	38
Net foreign exchange loss		(173)	(20)
Profit before tax		18,647	24,547
Income tax expense	20	(4,334)	(5,849)
Profit for the period		14,313	18,698
Profit for the period attributable to:			
Equity holders of the parent		14,313	18,698
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	15	210.83	275.44
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in RUB per share)	15	210.81	275.39

* Certain amounts shown here do not correspond to the condensed consolidated interim financial statements for the six months ended 30 June 2017 and reflect adjustments described in Note 4.

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Comprehensive Income
for the six months ended 30 June 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Profit for the period	14,313	18,698
Total comprehensive income for the period, net of tax	14,313	18,698
Total comprehensive income for the period attributable to:		
Equity holders of the parent	14,313	18,698

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Cash Flows
for the six months ended 30 June 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

		Six months ended 30 June	
	Note	2018	2017*
Profit before tax		18,647	24,547
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment of property, plant and equipment, investment property and intangible assets		22,666	17,502
Gain on disposal of property, plant and equipment, investment property and intangible assets		(120)	(13)
Finance costs, net	18	8,651	7,931
Net impairment losses on financial assets		275	160
Impairment of prepayments		29	31
Share-based compensation expense	19	49	29
Net foreign exchange loss		173	20
Other non-cash items		(310)	74
Net cash from operating activities before changes in working capital		50,060	50,281
Decrease in trade, other accounts receivable and prepayments		7,191	13,224
Increase in inventories		(3,647)	(8,966)
Decrease in trade payable		(12,711)	(31,884)
(Decrease)/increase in other accounts payable and contract liabilities		(847)	1,839
Net cash flows generated from operations		40,046	24,494
Interest paid		(8,117)	(7,363)
Interest received		48	30
Income tax paid		(4,345)	(6,256)
Net cash flows from operating activities		27,632	10,905
Cash flows from investing activities			
Purchase of property, plant and equipment		(35,869)	(34,545)
Acquisition of businesses, net of cash acquired	6	(11,586)	(1,122)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		289	241
Purchase of other intangible assets		(2,287)	(1,349)
Net cash flows used in investing activities		(49,453)	(36,775)
Cash flows from financing activities			
Proceeds from loans		114,205	56,718
Repayment of loans		(84,500)	(42,200)
Purchase of treasury shares		(88)	(63)
Dividends paid to equity holders of the parent	14	(21,590)	–
Net cash flows generated from financing activities		8,027	14,455
Effect of exchange rate changes on cash and cash equivalents		(37)	4
Net decrease in cash and cash equivalents		(13,831)	(11,411)
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		27,605	18,190
Net decrease in cash and cash equivalents		(13,831)	(11,411)
Cash and cash equivalents at the end of the period		13,774	6,779

* Certain amounts shown here do not correspond to the condensed consolidated interim financial statements for the six months ended 30 June 2017 and reflect adjustments described in Note 4.

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

The accompanying notes on pages 6 to 22 are an integral part of these condensed consolidated interim financial statements.

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Changes in Equity
for the six months ended 30 June 2018
(expressed in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the parent						Total
	Number of shares	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total shareholders' equity	
Balance as at 1 January 2017	67,884,340	2,458	46,251	70	78,261	127,040	127,040
Profit for the period	–	–	–	–	18,698	18,698	18,698
Total comprehensive income for the period	–	–	–	–	18,698	18,698	18,698
Share-based payment compensation (Note 19)	–	–	–	29	–	29	29
Transfer and waiving of vested equity rights (Note 19)	2,408	–	(39)	(24)	–	(63)	(63)
Balance as at 30 June 2017	67,886,748	2,458	46,212	75	96,959	145,704	145,704
Balance as at 1 January 2018	67,886,748	2,458	46,212	117	109,655	158,442	158,442
Profit for the period	–	–	–	–	14,313	14,313	14,313
Total comprehensive income for the period	–	–	–	–	14,313	14,313	14,313
Dividends (Note 14)	–	–	–	–	(21,590)	(21,590)	(21,590)
Share-based payment compensation (Note 19)	–	–	–	49	–	49	49
Transfer and waiving of vested equity rights (Note 19)	3,701	–	(18)	(70)	–	(88)	(88)
Balance as at 30 June 2018	67,890,449	2,458	46,194	96	102,378	151,126	151,126

Igor Shekhterman
Chief Executive Officer
13 August 2018

Svetlana Demyashkevich
Chief Financial Officer
13 August 2018

The accompanying notes on pages 6 to 22 are an integral part of these condensed consolidated interim financial statements.

1 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These condensed consolidated interim financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries (the "Group").

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

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2018 the Group operated a retail chain of 13,178 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express" (each representing separate format) in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg (31 December 2017: 12,121 proximity stores, supermarket, hypermarket and express stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok Express"). The Group's multiformat store network comprises 12,314 proximity stores under "Pyaterochka" brand, 691 supermarkets under "Perekrestok" brand, 93 hypermarkets under "Karusel" brand, 80 express stores (31 December 2017: 11,225 proximity stores under "Pyaterochka" brand, 638 supermarkets under "Perekrestok" brand, 93 hypermarkets under "Karusel" brand, 165 express stores).

As at 30 June 2018 the principal shareholder exerting significant influence over the Company is CTF Holdings S.A. ("CTF"). CTF owns 47.86% of total issued shares in the Company, indirectly through Luxaro Retail Holding S.a.r.l. As at 30 June 2018 the Company's shares were listed on the London and Moscow Stock Exchanges in the form of Global Depositary Receipts (GDRs) with each GDR representing an interest of 0.25 in an ordinary share (Note 15).

In 2018 X5 Retail Group N.V. has issued a liability statement as mentioned in article 403 sub 2 of Book 2 of the Dutch Civil Code regarding its subsidiary X5 Finance B.V. In compliance with these and other conditions as included in article 403, the financial statements of the X5 Finance B.V. for the year ended 31 December 2017 have been prepared on a condensed basis and have not been audited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2017 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2018. Management prepared these condensed consolidated interim financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 22).

On 13 August 2018, the Management Board authorised the condensed consolidated interim financial statements for issue. Publication is on 14 August 2018. The condensed consolidated interim financial statements have been reviewed, not audited.

2.2 Foreign currency translation and transactions

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Taxes

Taxes on income in the interim periods are accrued using the tax rate that is expected to be applicable to total annual profit or loss.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017 except for an estimate of provision for impairment of trade and other receivables. As a result of adoption of IFRS 9 in estimating an allowance for uncollectible accounts receivable the Group takes into account lifetime expected losses related to the outstanding accounts receivable balances (refer to Note 4).

Judgements that have the most significant effect on the amounts recognised in the condensed consolidated interim financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 24).

Property, plant and equipment, Investment property, Lease rights and Goodwill

The Group performs the impairment test for assets where there is any indicator of impairment. The Group estimates the recoverable amount of the asset or cash generating unit and groups of cash-generating units (for the purposes of impairment testing of goodwill) and if it is less than the carrying amount of an asset or cash generating unit and group of cash-generating units an impairment loss is recognised in the consolidated statement of profit or loss. For the six months ended 30 June 2018 the Group recognised an impairment loss in the amount of RUB 1,040 (six months ended 30 June 2017: RUB 1,535) and reversed the impairment loss previously recognised in the amount of RUB nil (six months ended 30 June 2017: RUB 886) based on the actual results.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements for year ended 31 December 2017 except for the adoption of new Standards that are mandatory for financial annual periods beginning on 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. As a result of the change in accounting policy financial assets were classified as those to be measured subsequently at amortised cost and with no need for retrospective adjustments due to absence of changes in classification of assets measured at amortised cost.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments (continued)

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

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

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

As a result of IFRS 9 adoption the Group changed presentation of its condensed consolidated interim statement of profit or loss by reclassification of net impairment losses on financial assets of RUB 275 out of selling, general and administrative expenses, where these losses were included in previous periods (six months ended 30 June 2017: RUB 160). The Group also amended comparative information in the condensed consolidated interim statement of profit or loss to reflect this change.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

	31 December 2017 as originally presented	IFRS 15 Reclassification adjustments	31 December 2017 as restated
Condensed consolidated interim statement of financial position			
Long-term deferred revenue	5	(5)	–
Short-term deferred revenue	1,701	(1,701)	–
Provisions and other liabilities	70,757	(114)	70,643
Long-term contract liabilities	–	5	5
Short-term contract liabilities	–	1,815	1,815
	Six months ended 30 June 2017 as originally presented	IFRS 15 Reclassification adjustments	Six months ended 30 June 2017 as restated
Condensed consolidated interim statement of cash flows			
Increase in other accounts payable	1,839	(1,839)	–
Increase in other accounts payable and contract liabilities	–	1,839	1,839

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The Group is in the retail business and sells its goods both through stores operated by the Group and through franchisees (agents) acting as a principal. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of the asset is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

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

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 16 for the disclosure on disaggregated revenue.

The following other new standards and amendments to IFRSs effective for the financial year beginning 1 January 2018 do not have a material impact on the Group and do not result in change of the Group's accounting policy:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – deletion of short-term exemptions for first-time adopters.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

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

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

* Subject to EU endorsement.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial positions in the period of initial application except for IFRS 16 *Leases* described in the consolidated financial statements for the year ended 31 December 2017 and IFRIC 23 *Uncertainty over Income Tax Treatments* described below.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

The Group will apply the Interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures.

5 SEGMENT REPORTING

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

The following significant operating functions are decentralised by formats:

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

5 SEGMENT REPORTING (continued)

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

The Management Board assesses the performance of the operating segments based on a measure of sales and adjusted earnings before interest, tax, depreciation, amortisation and impairment (EBITDA). Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements.

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

The segment information for the period ended 30 June 2018, comparative figures for earlier periods and reconciliation of EBITDA to profit for the period is provided as follows:

Six months ended 30 June 2018	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate centre	Total
Revenue	574,275	111,015	44,723	4,064	–	734,077
EBITDA	43,683	6,975	2,041	(275)	(2,287)	50,137
Depreciation, amortisation and impairment						(22,666)
Operating profit						27,471
Finance cost, net						(8,651)
Net foreign exchange result						(173)
Profit before income tax						18,647
Income tax expense						(4,334)
Profit for the period						14,313
Capital expenditure	27,493	7,637	1,346	7	390	36,873
30 June 2018						
Inventories	80,461	14,085	7,966	435	–	102,947
Six months ended 30 June 2017	Pyaterochka	Perekrestok	Karusel	Other segments	Corporate centre	Total
Revenue	474,103	90,534	43,225	6,017	–	613,879
EBITDA	43,080	6,353	2,517	128	(2,078)	50,000
Depreciation, amortisation and impairment						(17,502)
Operating profit						32,498
Finance cost, net						(7,931)
Net foreign exchange result						(20)
Profit before income tax						24,547
Income tax expense						(5,849)
Profit for the period						18,698
Capital expenditure	27,360	5,492	1,275	56	104	34,287
31 December 2017						
Inventories	75,304	14,627	8,472	897	–	99,300

6 ACQUISITION OF BUSINESSES

Acquisitions in 2018

For the six months ended 30 June 2018 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

For the six months ended 30 June 2018 the acquired businesses contributed revenue of RUB 1,225 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the six months ended 30 June 2018 as though the acquisition date had been the beginning of that period.

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

	Provisional fair values at the acquisition date
Property, plant and equipment (Note 8)	642
Other intangible assets (Note 8)	61
Deferred tax assets	282
Trade, other accounts receivable and prepayments	62
VAT and other taxes receivable	71
Cash and cash equivalents	28
Deferred tax liabilities	(47)
Provisions and other liabilities	(70)
Net assets acquired	1,029
Goodwill (Note 9)	1,893
Purchase consideration	2,922
Net cash outflow arising from the acquisition	1,228

The Group assigned provisional fair values to net assets acquired. In estimating provisional values of intangible assets and property, plant, equipment direct references to observable prices in an active market and estimates of the independent appraisal were used (market approach). The Group will finalise the purchase price allocation within 12 months from the acquisition date.

The purchase consideration for the reporting period comprised the transfer of cash and cash equivalents of RUB 1,256 and RUB 1,666 as deferred consideration measured at fair value and payable in 2018.

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

During six months ended 30 June 2018 the Group transferred RUB 10,358 as deferred payments for the prior periods acquisitions.

Acquisitions in 2017

For the six months ended 30 June 2017 the Group acquired 100% of several businesses of other retail chains in Russian regions. The acquisitions were individually immaterial.

For the six months ended 30 June 2017 the acquired businesses contributed revenue of RUB 1,504 from the date of acquisition. As the businesses were not acquired as separate legal entities, it is impracticable to disclose net profit from the date of acquisition. These businesses did not prepare relevant financial information immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the six months ended 30 June 2017 as though the acquisition date had been the beginning of that period.

6 ACQUISITION OF BUSINESSES (continued)

Acquisitions in 2017 (continued)

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

	Finalised fair values at the acquisition date
Property, plant and equipment (Note 8)	270
Other intangible assets (Note 8)	66
Deferred tax assets	108
Net assets acquired	444
Goodwill (Note 9)	838
Purchase consideration	1,282
Net cash outflow arising from the acquisition	1,122

The goodwill recognised was attributable to: i) the business concentration in the Russian regions; ii) expected cost synergies from the business combination and iii) acquired traffic from existing customers. The goodwill related to these acquisitions was allocated to Pyaterochka and Perekrestok segments. During the six months ended 30 June 2018 the Group has finalised fair value assessment of business combinations occurred during six months ended 30 June 2017 resulting in no change in the amount of goodwill initially recognised at provisional values.

The purchase consideration comprised the transfer of cash and cash equivalents of RUB 1,122 and RUB 160 as contingent consideration measured at fair value and paid in 2018.

7 RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. There were no material changes in the volume of transactions and outstanding balances between the Group and related parties compared to the Group's consolidated financial statements as at 31 December 2017.

At 30 June 2018 trade accounts payable to other related parties amounted to RUB 365 (31 December 2017: RUB 298), trade accounts receivable amounted to RUB 20 (31 December 2017: RUB 19). For the six months ended 30 June 2018 purchases from other related parties net of bonuses amounted to RUB 1,130 (six months ended 30 June 2017: RUB 830). Other related parties represent entities under control by the entity with significant influence over the Company.

Key management personnel

The Group 'key management personnel' consists of members of the Supervisory Board, the Management Board and certain members of the Executive Board, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. The total direct compensation for members of the Management Board and other key management personnel consists of a base salary, a performance related short-term incentive and a performance related long-term incentive. Members of the Supervisory Board receive an annual base compensation in cash and share-based payments.

For the six months ended 30 June 2018 members of the Management Board and the Supervisory Board, and other key management personnel, were entitled to a total short-term and long-term compensation of RUB 505 (six months ended 30 June 2017: RUB 681), including accrued short-term incentive rewards of RUB 90 (six months ended 30 June 2017: RUB 81) payable on an annual basis subject to meeting annual performance targets, accrued rewards under the long-term incentive plan of RUB 134 (six months ended 30 June 2017: RUB 346), social security costs of RUB 39 (six months ended 30 June 2017: RUB 69), share-based compensation of RUB 49 (six months ended 30 June 2017: RUB 29). As at 30 June 2018 the total number of restricted stock units awarded to members of the Supervisory Board under the Restricted Stock Unit Plan was 125,943 (31 December 2017: 152,097).

8 PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

	2018		2017	
	Property, plant and equipment	Other intangible assets	Property, plant and equipment	Other intangible assets
Cost				
At 1 January	391,788	44,998	326,314	40,676
Additions	32,230	2,047	31,443	1,670
Assets from acquisitions (Note 6)	642	61	270	66
Disposals	(4,826)	(94)	(4,059)	(53)
At 30 June	419,834	47,012	353,968	42,359
Accumulated depreciation, amortisation and impairment				
At 1 January	(112,860)	(26,556)	(93,998)	(24,296)
Depreciation and amortisation charge	(20,116)	(1,415)	(15,424)	(1,380)
Impairment charge	(1,008)	(32)	(1,449)	(86)
Reversal of impairment	–	–	77	96
Disposals	4,647	94	3,820	49
At 30 June	(129,337)	(27,909)	(106,974)	(25,617)
Net book value at 1 January	278,928	18,442	232,316	16,380
Net book value at 30 June	290,497	19,103	246,994	16,742

Depreciation and amortisation charge, impairment charge, reversal of impairment were included in selling, general and administrative expenses in the condensed consolidated interim financial statement of profit or loss for the six months ended 30 June 2018 and 30 June 2017.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 24).

For the six months ended 30 June 2018 the additions of other intangible assets were attributable to additions of software in the amount of RUB 1,929 (for the six months ended 30 June 2017: RUB 1,498) and lease rights in the amount of RUB 118 (for six months ended 30 June 2017: RUB 172).

The Group analysed external and internal sources of information and did not identify any impairment indicators for property, plant and equipment and other intangible assets as at 30 June 2018. As a result the Group did not perform an impairment test.

The impairment charge for the six months ended 30 June 2018 and 30 June 2017 arose primarily from impairment of assets attributable to the stores closed during the reporting period and impairment of technically obsolete equipment. At the same time the Group recognised the reversal of previously recorded impairment charges due to improved performance of certain stores.

9 GOODWILL

Movements in goodwill arising on the acquisition of businesses at 30 June 2018 and 30 June 2017 are:

	2018	2017
Cost		
Gross book value at 1 January	156,874	146,681
Acquisition of businesses (Note 6)	1,893	838
Gross book value at 30 June	158,767	147,519
Accumulated impairment losses		
Accumulated impairment losses at 1 January	(66,598)	(66,312)
Accumulated impairment losses at 30 June	(66,598)	(66,312)
Carrying amount at 1 January	90,276	80,369
Carrying amount at 30 June	92,169	81,207

9 GOODWILL (continued)

Goodwill impairment test

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

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

No events indicating triggers of goodwill impairment occurred in the six months ended 30 June 2018. The Group will perform an annual impairment test of goodwill at 31 December 2018.

10 TRADE, OTHER ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2018	31 December 2017
Trade accounts receivable	8,259	11,770
Other receivables	2,082	1,912
Provision for impairment of trade and other receivables	(1,329)	(1,468)
Total trade and other accounts receivable	9,012	12,214
Prepayments	2,920	3,567
Advances made to trade suppliers	331	445
Provision for impairment of prepayments and advances	(643)	(695)
Total prepayments	2,608	3,317
Total	11,620	15,531

11 PROVISIONS AND OTHER LIABILITIES

	30 June 2018	31 December 2017
Other accounts payable and accruals	14,095	24,725
Accrued salaries and bonuses	15,106	15,386
Taxes other than income tax	14,448	11,804
Accounts payable for property, plant and equipment	11,278	15,228
Advances received	1,615	1,638
Payables to landlords	1,505	1,368
Provisions and liabilities for tax uncertainties	332	494
Total	58,379	70,643

12 CONTRACT LIABILITIES

	30 June 2018	31 December 2017
Current contract liabilities		
Short-term contract liabilities related to loyalty programmes	1,810	1,701
Advances received from wholesales customers	66	41
Advances received from other customers	75	73
Total current contract liabilities	1,951	1,815

13 BORROWINGS

The Group had the following borrowings at 30 June 2018 and 31 December 2017:

Current	Final maturity year	Fair value		Carrying value	
		2018	2017	2018	2017
RUB Bonds X5 Finance series BO-04	2019	5,235	–	4,998	–
RUB Bonds X5 Finance series BO-05	2018	5,039	5,100	4,999	4,998
RUB Bonds X5 Finance series BO-06	2019	5,045	–	4,998	–
RUB Bonds X5 Finance series BO-07	2019	5,066	–	4,997	–
RUB Bilateral Loans	2018	43,400	53,676	43,400	53,676
Total current borrowings		63,785	58,776	63,392	58,674
Non-current					
RUB Bonds X5 Finance series BO-04	2019	–	5,243	–	4,996
RUB Bonds X5 Finance series BO-06	2019	–	5,002	–	4,996
RUB Bonds X5 Finance series BO-07	2019	–	5,095	–	4,995
RUB Bonds X5 Finance series 001P-01	2019	15,255	15,480	14,991	14,987
RUB Bonds X5 Finance series 001P-02	2020	10,200	10,135	9,987	9,985
RUB Bonds X5 Finance series 001P-03	2020	9,862	–	9,983	–
RUB Eurobond X5 Finance B.V.	2020	20,377	20,490	19,911	19,872
RUB Bilateral Loans	2021	106,325	76,571	105,900	75,791
Total non-current borrowings		162,019	138,016	160,772	135,622
Total borrowings		225,804	196,792	224,164	194,296

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

The weighted average effective interest rate on X5's total borrowings for the six months ended 30 June 2018 comprised 8.59% per annum (six months ended 30 June 2017: 9.85%).

All borrowings at 30 June 2018 are shown net of related transaction costs of RUB 226 which are amortised over the term of the loans using the effective interest method (31 December 2017: RUB 303). Borrowing costs capitalised for the six months ended 30 June 2018 amounted to RUB 149 (six months ended 30 June 2017: RUB 129). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 8.50% (six months ended 30 June 2017: 9.69%).

Change in total borrowings in amount of RUB 29,868 for the six months ended 30 June 2018 equals to the proceeds from borrowings in amount of RUB 114,205, repayment of borrowings in amount of RUB 84,500 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 149 and other non-cash changes of RUB 14. Change in total borrowings in amount of RUB 14,602 for the six months ended 30 June 2017 equals to the proceeds from borrowings in amount of RUB 56,718, repayment of borrowings in amount of RUB 42,200 (the Condensed Consolidated Interim Statement of Cash Flows) plus amortisation of transaction costs in amount of RUB 84.

In accordance with loan agreements the Group maintains an optimal capital structure by tracking certain covenants, such as the maximum level of Net Debt/EBITDA (4.00/4.25 during 2 quarters after acquisition). The Group's Eurobond documentation implies 3.75 leverage ratio threshold but with additional permitted indebtedness baskets and exclusions. At 30 June 2018 the Group complied with this covenant and Net Debt/EBITDA was equal to 2.18 (31 December 2017: 1.73).

14 SHARE CAPITAL

As at 30 June 2018 the Group had 190,000,000 authorised ordinary shares of which 67,890,449 (31 December 2017: 67,886,748) ordinary shares were outstanding and 3,989 ordinary shares (31 December 2017: 6,470) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

Dividends approved for distribution at the General Meeting in May 2018 have been paid in the amount of RUB 21,590 during the six months ended 30 June 2018.

15 EARNINGS PER SHARE

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

Earnings per share were calculated as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit attributable to equity holders of the parent	14,313	18,698
Weighted average number of ordinary shares in issue	67,887,607	67,884,899
Effect of share options granted to employees, number of shares	6,671	11,398
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,894,278	67,896,297
Basic earnings per share for profit for the period (expressed in RUB per share)	210.83	275.44
Diluted earnings per share for profit for the period (expressed in RUB per share)	210.81	275.39

16 REVENUE

	Six months ended 30 June 2018				
	Pyaterochka	Perekrestok	Karusel	Other segments	Total
Revenue from sale of goods through own stores (at a point of time)	568,660	109,563	44,077	3,401	725,701
Revenue from sale of goods through franchisees (at a point of time)	4,653	845	–	–	5,498
Revenue from wholesale of goods (at a point of time)	874	540	597	658	2,669
Revenue from other services (over time)	88	67	49	5	209
Total	574,275	111,015	44,723	4,064	734,077

	Six months ended 30 June 2017				
	Pyaterochka	Perekrestok	Karusel	Other segments	Total
Revenue from sale of goods (at a point of time)	468,243	87,807	42,631	4,978	603,659
Revenue from sale of goods through franchisees (at a point of time)	4,604	2,085	–	–	6,689
Revenue from wholesale of goods (at a point of time)	1,205	579	557	1,031	3,372
Revenue from other services (over time)	51	63	37	8	159
Total	474,103	90,534	43,225	6,017	613,879

17 EXPENSES

Among cost of sales and selling, general and administrative expenses charged for the six months ended 30 June 2018 were operating lease expenses of RUB 39,010 (six months ended 30 June 2017: RUB 30,086).

18 FINANCE INCOME AND COSTS

	Six months ended 30 June 2018	Six months ended 30 June 2017
Interest expense	8,335	7,744
Interest income	(55)	(32)
Other finance costs, net	371	219
Total	8,651	7,931

19 SHARE-BASED PAYMENTS

Employee stock plan

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

During the six months ended 30 June 2018 a total number of 35,918 RSUs were awarded under tranche 9. A total number of 62,072 RSUs vested, including 47,438 RSUs awarded under tranche 6 in 2015, and 14,634 RSUs under tranches 7 and 8 due to accelerated vesting following the stepping down of Supervisory Board members Christian Couvreur and Pawel Musial. Vested RSUs were converted to GDRs and partly allocated to cover tax, resulting in 32,547 GDRs, subject to a two-year lock-in period during which the GDRs cannot be traded, or accelerated release as per Supervisory Board approval. Tranches 7, 8 and 9 will vest on 19 May 2019, 19 May 2020 and 19 May 2021 respectively.

In total during the six months ended 30 June 2018 the Group recognised an expense related to the RSU plan in the amount of RUB 49 (expense during six months ended 30 June 2017: RUB 29). At 30 June 2018 the equity component was RUB 96 (31 December 2017: RUB 117). The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding during the six months ended 30 June 2018 and 30 June 2017 were as follows:

	30 June 2018		30 June 2017	
	Number of conditional rights	Weighted average fair value, RUB	Number of conditional rights	Weighted average fair value, RUB
Outstanding at the beginning of the period	152,097	1,397.63	155,464	1,030.77
Granted during the period	35,918	1,858.22	36,116	2,114.26
Vested during the period	(62,072)	1,133.34	(39,483)	608.64
Waived of previously vested	47,268	981.87	29,851	673.04
Forfeited during the period	(47,268)	981.87	(29,851)	673.04
Outstanding at the end of the period	125,943	1,659.24	152,097	1,397.63

20 INCOME TAX

	Six months ended 30 June 2018	Six months ended 30 June 2017
Current income tax charge	3,025	6,273
Deferred income tax charge/(benefit)	1,309	(424)
Income tax charge for the period	4,334	5,849

21 SEASONALITY

The Group experiences seasonal effects on its business – increased customer activity in December results in an increase in sales made by the Group (approximately 25-40% higher than annual monthly average). The majority of expenses have the same trend as sales with the following exceptions: utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

22 FINANCIAL RISKS MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. There have been no changes in the risk management department since year end or in any risk management policies.

Market risk – Interest rates risk

As at 30 June 2018 the Group had no significant floating interest-bearing assets and liabilities, the Group's income, expenses and operating cash inflows and outflows are substantially independent of changes in market interest rates.

Liquidity risk

Compared to 31 December 2017, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

At 30 June 2018 the Group had net current liabilities of RUB 101,467 (31 December 2017: RUB 104,902) including short-term borrowings of RUB 63,392 (31 December 2017: RUB 58,674).

At 30 June 2018 the Group had available bank credit limits of RUB 295,919 (31 December 2017: RUB 314,838).

At 30 June 2018 the Group had RUB bonds available for issue on MICEX of RUB 15,000 (31 December 2017: RUB 25,000).

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Financial assets carried at amortised cost

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

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

Liabilities carried at amortised cost

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

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of bonds traded on the MICEX and the ISE is determined based on active market quotations and amounted to RUB 76,079 at 30 June 2018 (31 December 2017: RUB 66,545). The measurement is classified in level 1 of the fair value hierarchy. The carrying value of these bonds amounted to RUB 74,864 at 30 June 2018 (31 December 2017: RUB 64,829) (Note 13). The fair value of long-term borrowings amounted to RUB 106,325 at 30 June 2018 (31 December 2017: RUB 76,571). The measurement is classified in level 3 of the fair value hierarchy and is determined based on expected cash flows discounted using interest rate of similar instruments available on the market. The sensitivity analysis shows that the increase/decrease of the market interest rate by 10% leads to the decrease/increase of fair value of long-term borrowings by RUB 1,719 at 30 June 2018. The fair value of short-term borrowings was not materially different from their carrying amounts.

24 COMMITMENTS AND CONTINGENCIES

Operating environment of the Group

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

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

Commitments under operating leases

At 30 June 2018, the Group operated 11,312 stores through rented premises (31 December 2017: 10,303 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable (contingent rent). For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUB and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments.

The Group entered into a number of short-term and long-term lease agreements. The expected annual lease payments under these agreements amount to RUB 37,730 (net of VAT) (31 December 2017: RUB 36,860).

Capital expenditure commitments

At 30 June 2018 the Group contracted for capital expenditure of RUB 10,377 (net of VAT) (31 December 2017: RUB 9,830).

Legal contingencies

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued at 30 June 2018.

New LTI programme

In May 2018 the General Meeting of Shareholders approved a new LTI programme. The new LTI is a cash incentive programme over a three-year period until 31 December 2020, with an extension component of deferred, conditional payouts in order to maintain the focus on long-term goals and to provide for an effective retention mechanism. Targets under the LTI focus on maintaining leadership in terms of revenue and, as additional long-term objective, leadership in terms of enterprise value multiple relative to competition. Additionally, the LTI includes triggers relating to (i) the EBITDA margin to ensure that profitability is not sacrificed and (ii) the net debt/EBITDA ratio to retain focus on prudent financial and balance sheet management. Under the conditional payout scheme of the programme, 50% of the total award is deferred to 2022 subject to maintaining a certain level of EBITDA margin during 2021. The total available fund for all payouts under the LTI programme is capped at 5% of average EBITDA during the three-year period of the programme.

24 COMMITMENTS AND CONTINGENCIES (continued)

New LTI programme (continued)

For the six months ended 30 June 2018 the Group recognized expenses related to the new programme in the amount of RUB 148. In addition to the accrued amount the Group currently assesses the possible additional expenses attributable to the new programme, that are more than remote, but for which no liability is required to be recognised under IFRS, as RUB 148.

Taxation environment

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

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

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

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist.

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

The concept of beneficial ownership

The possibility to apply the reduced tax rates to the income paid to foreign companies of the Group allowed under double tax treaties (DTTs) will depend on whether the company receiving such income is its beneficial owner. When determining the beneficial owner status of a foreign company the functions it performs and the risks it undertakes should be tested. It will be also considered whether such income was transferred (fully or in part) to another company. Given that the concept of beneficial ownership is rather new and the practice is not yet developed, the impact of any challenge of application of the reduced tax rates to the income paid to foreign Group companies cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

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

24 COMMITMENTS AND CONTINGENCIES (continued)

Broader rules for determining the tax residency of legal entities

Starting 2015, more specific and detailed rules were put in place establishing when foreign entities can be viewed as managed from Russia and consequently can be deemed Russian tax residents. Russian tax residency means that such legal entities' worldwide income will be taxed in Russia. The Group comprises companies incorporated outside of Russia. The tax liabilities of the Group were determined on the assumption that these companies were not subject to Russian profits tax, because they did not have a permanent establishment in Russia and were not Russian tax residents by way of application of the new tax residency rules. This interpretation of relevant legislation in regard to the Group companies incorporated outside of Russia may be challenged. Given that the concept of the Russian broader rules for determining the tax residency of legal entities is rather new and the practice is not yet developed, the impact of any such challenge cannot be precisely estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

25 SUBSEQUENT EVENTS

There were no significant events after the reporting date.