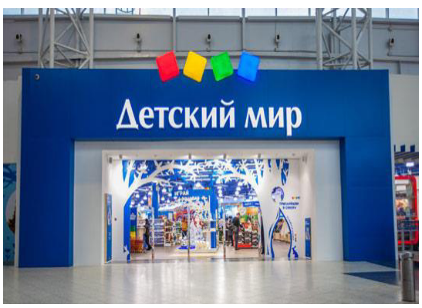
PRELIMINARY APPROVED
by the Resolution of the Board of Directors of
PJSC Detsky Mir May 25, 2017
Minutes No. 9 dated May 29, 2017

APPROVED
by the General Meeting of Shareholders of
PJSC Detsky Mir June 28, 2017
Minutes No. u/n dated June 30, 2017

ANNUAL REPORT OF

PJSC DETSKY MIR

FOR 2016



Prepared in accordance with the requirements of the Federal Law "On Securities Market". The financial information contained in this Annual Report relies on the accounting statements prepared in accordance with the law of the Russian Federation

Contents

Vladimir Chirakhov,

Chief Executive Officer of PJSC Detsky Mir:

"2016 proved difficult for the Russian economy. Many players in the retail sector closed retail outlets, the trading networks development programs remained "frozen". Nevertheless, for our Company it turned out to be successful and high-performance.

As part of the development strategy of Detsky Mir Group of Companies in 2016, our main goal was to increase the market share while maintaining financial and economic performance. We have successfully completed the tasks set by the shareholders.

According to Ipsos Comcon, the Company's share in the children's goods market has grown from 13 to 17%. The revenue of the Group of Companies in 2016 increased by 31.4% to 79.5 billion rubles.

Its significant growth was due to the high level of sales of the like-for-like stores of Detsky Mir chain in Russia, which accounted for 12.3%, as well as the full capacity of stores opened in 2015-2016.

Selling, general and administrative expenses as a percentage of the revenue have fallen by more than 2 p.p. This result was achieved, among other things, by implementing a number of projects aimed at automating business processes, which, for example, allowed increasing performance in the stores.

Being the anchor tenant of most shopping centers, Detsky Mir GC managed to significantly reduce rental costs as a percentage of revenue and increase the operational performance of the chain stores.

As a result, Detsky Mir Group of Companies earned a record profit amount for the year of 3.8 billion rubles and paid a record amount of dividends for the entire history of the Company – 4.4 billion rubles. This is another confirmation of the high investment attractiveness of the business.

In the reporting period, Detsky Mir Group of Companies exceeded its own targets to expand the geography of the business: instead of 50 stores, 100 stores of Detsky Mir chain and 1 ELC store were opened. The first Detsky Mir stores began operating in the south of the country in the Chechen Republic (Grozny), the Republic of Ingushetia (Magas, Nazran), the Republic of Dagestan (Makhachkala), in the cities of the Moscow Region, Eastern and Western Siberia and other regions.

The Kazakhstan market remains a promising area for the development of Detsky Mir chain. By the end of 2016, like-for-like sales growth was 35% in tenge. In the reporting period, the chain expanded to 5 new stores, the first supermarkets appeared in Aktobe, Kostanay, Uralsk. Thus, Detsky Mir retail chain in Kazakhstan is represented in 7 cities (Almaty, Astana, Aktobe, Karaganda, Kostanay, Uralsk, Shymkent) and has 12 stores.

The online segment development is a key element in the implementation of the Company's multi-channel strategy. Internet commerce is still the fastest growing sales channel of the Group of Companies. By the end of 2016, the revenue of this sector has more than doubled.

In 2017, the Group of Companies will continue the dynamic development of its retail chain in Russia and Kazakhstan. The Company plans to open at least 70 stores. In the medium term, we are planning to open at least 250 stores.

We are encouraged by the high market interest in our initial public offering (IPO) held in February 2017 at the Moscow Stock Exchange, and are pleased to welcome the new shareholders of the Group of Companies. The Company's IPO was the result of its successful performance achieved over the past few years."

1. DESCRIPTION OF THE PRIMARY ACTIVITY

1.1. History of development

1947 – 1996
Establishment of "Detsky Mir" brand

In 1947, the first "Detsky mir" (or "Children's world") store was opened in the centre of Moscow. The "Detsky mir" brand was the only well-known brand for children's goods after its introduction in 1947. Moreover, following the establishment of the Detsky mir store in Moscow, all large children's stores in the Soviet Union were named "Detsky mir" although they may not have used the "Detsky mir" logo. By the 1970s, a network of Detsky mir stores had evolved into one of the largest trade groups in the Soviet Union in the consumer sector.

In 1991, following the dissolution of the Soviet Union, the Moscow city government established a joint stock company named Detsky mir under applicable laws at the time to own and operate the Detsky mir department store at Lubyanka in Moscow (the "Lubyanka Store Operator")

In 1994, Sistema acquired control over a 43% share in the Lubyanka Store Operator. At that time, the Lubyanka Store Operator did not own other stores in Russia under the Detsky mir brand or other stores generally using the "Detsky mir" name.

1997 – 2002
Establishment of the Company

In 1997, Sistema established JSC Detsky mir-Center, a predecessor of the Company, to operate its assets in the children's retail sector.

In 2001, we acquired a 50% stake in "Detsky mir—Oriol" JSC in the Central Region of Russia from the Orel city government. In August 2016, following our acquisition of the remaining 50% stake, "Detsky mir—Oriol" JSC became our fully-owned subsidiary. "Detsky mir—Oriol" JSC operated a department store specialising in children's goods in Orel in the partially owned premises.

In 2002, we acquired Dom Igrushki (or "Toy's House"), a department store at Bolshaya Yakimanka Street in Moscow, which we subsequently transformed into a luxury store for children under the Yakimanka Gallery name. Following our decision to discontinue operations in the premium segment we in December 2014 sold 100% of our interest in LLC Detskaya Galereya "Yakimanka", which owned and operated the Yakimanka Gallery, and recorded a RUB1,164 million gain in disposal of a building for 2014.

2003 – 2011
Establishment and national expansion of the modern Detsky Mir retail chain

In 2003, Sistema approved a five-year plan to develop the Detsky Mir retail chain. In 2005-2006, we acquired two stores in Rostov and Tambov. Pursuant to the plan, between 2003 and 2007, we opened 85 new stores in Russia, expanding our business to the Central, North-Western, Volga, Ural, Siberian, and Southern regions. During this period, we increased total selling space of the retail chain by approximately 145,000 square metres and became the largest Russian children's goods retailer.

In 2007, we registered the trademark "Детский мир" (or "Detsky mir") that we currently use in our operations

In 2011, we established TOO "Detsky mir—Kazakhstan" and opened our first store in Astana, Kazakhstan.

In 2011, we launched our online sales platform.

2012 – 2016
New management appointment and business turnaround

In July 2012, we acquired 100% of Sparthema Limited which owned "Cub-Market", LLC that is the owner and operator of the ELC stores in Russia under a franchise agreement with Early Learning Centre Limited, a large U.K. retail chain and a member of the Mothercare Group. The purchase price was U.S.$15.3 million. The ELC retail chain has small format stores and is focused on the smart toys product category.

In the second half of 2012, new senior management was appointed under Mr. Vladimir Chirakhov, our General Director, with a view to implementing a new growth strategy. In particular, the new management team has transformed our commercial operations, which has been key to increasing our market share, as well as implemented a wide range of cost-cutting and efficiency measures allowing us to improve our profitability.

In December 2013, we opened a store under our new store design concept at the "Mega Belaya Dacha" shopping mall in the Moscow region. The new store design concept aimed to increase sales density at a store by providing better in-store activities for children, an in-store navigation system and a brighter selling space.

In August 2014, at the site of the former store Voentorg on Vozdvizhenka Street in Moscow, we opened a flagship store with a selling space of 7,000 square meters, the biggest store in our retail chain. The store has a number of interactive and entertainment zones for children of different ages. The store has become a place of choice to visit for parents with children and a tourist destination.

In August 2015, we opened our 70,000 square metre distribution center in Bekasovo, the Moscow region.

In December 2015, FLOETTE HOLDINGS LIMITED and EXARZO HOLDINGS LIMITED purchased from Sistema a 23.1% stake in the Company, for an aggregate consideration of RUB9.75 billion.

1.2. Priority areas of activities

We are the largest specialized children's goods retailer in Russia with a diversified product portfolio comprising toys, products for newborns, fashion (apparel and footwear), large items and other products. As of 31 December 2016 PJSC "Detsky Mir", "Cub-Market", LLC (ELC), Detsky Mir GmbH*, TOO "Detsky mir—Kazakhstan", "Detsky mir—Oriol" JSC, Sparthema Limited*.

PJSC "Detsky mir" is the parent company of the Group that owns the "Detsky mir" brand and operates all Detsky Mir stores, implementing a unified policy in procurement, marketing, information technology, logistics, support and development of the network.

The main Company's activities are the following drivers:

- optimization of business processes;
- store network expansion;
- growth of like-for-like revenue and gross profit per sq.m;
- increase in omni-channel sales through online shopping development;
- development of IT and logistics infrastructure.

In the coming year, the Company plans to open at least 70 stores under the "Detsky Mir" brand, increasing its market share and offering buyers the best prices for the widest assortment.

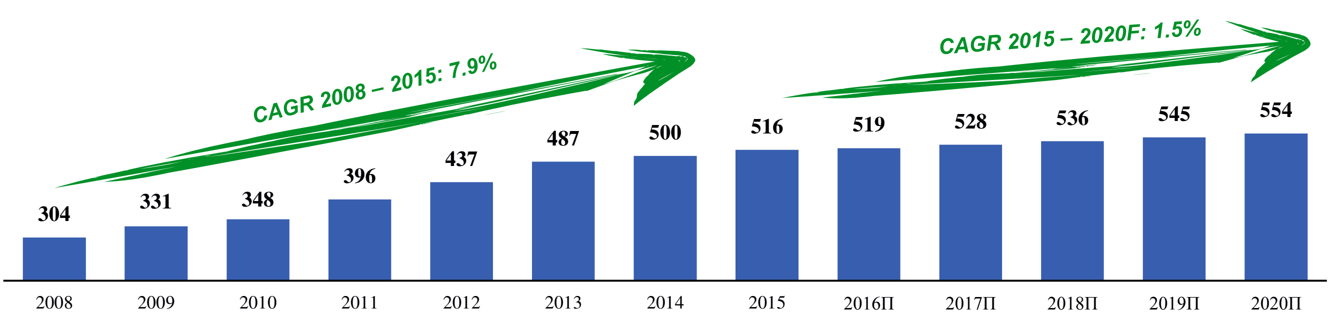
1.3. Situation in the industry

"Detsky Mir" is the leader of children's goods retailing in CIS

We principally operate in the Russian children's goods market through our network of specialized stores as well as our online channel and compete with other specialized retailers, hypermarkets and supermarkets, e-commerce players and the non-organized, traditional retailers.

We are active in all five main product categories in the market, encompassing toys, products for newborns, fashion (apparel and footwear), large items and other (including stationery). In addition to our operations in Russia, we are also present in Kazakhstan.

According to Ipsos Comcon's estimates Russian children's goods market volume in 2016 amounted to RUB 519.5 billion. Analysts expect market to grow on average at 1,5% annually and by 2020 the market will reach RUB 554.4 billion.



Source: Ipsos Comcon

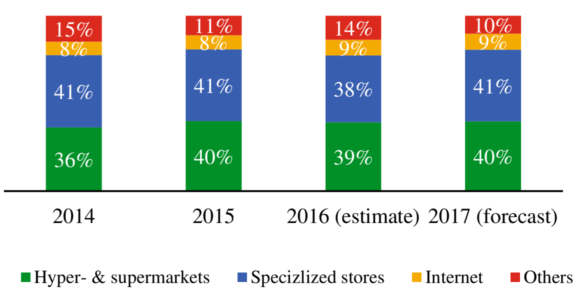
After double-digit growth in 2011-2013 the market was in a long-term stagnation. Current economic situation caused Russians to reconsider their approach to the purchase of children's goods. In 2015, price has become the most important factor. Consumer behavior changed, shifting the emphasis towards cheaper products. As a result, this led to the outflow of consumer demand from the premium and medium-price segments into the mass market and the low-price segment. Great popularity is gained by domestic goods and private-label products, prices for which are lower than those for similar foreign or branded goods. Internet is an increasingly popular sales channel, offering both a wide range of products and reasonable prices, as well as opportunities for evaluation, selection and consultation.

At the same time, the children's goods market is the most resilient to the crisis (along with the goods of daily demand). The market showed growth both after the crises of 2008-2009 and 2014-2015.

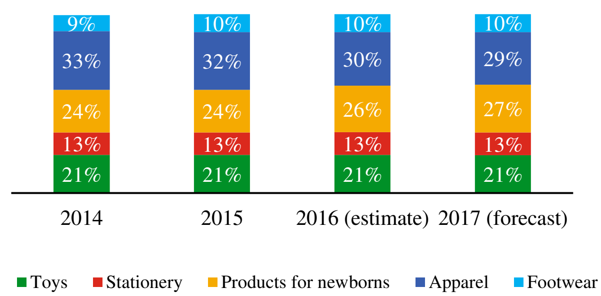
In 2016, some players left the market causing reduction in market share of specialized retailers, which, nevertheless, are not sales channels with hyper- and supermarkets. The share of E-commerce is steadily growing, it is expected that in 2017 it will be more than 9%.

In the last three years, the largest share of the market has been consistently occupied by children's clothing (30%), baby goods (26%) and toys (21%). At the same time, a higher growth rate is observed in the category of products for newborns.

Children’s goods market structure in Russia



Source: Ipsos Comcon

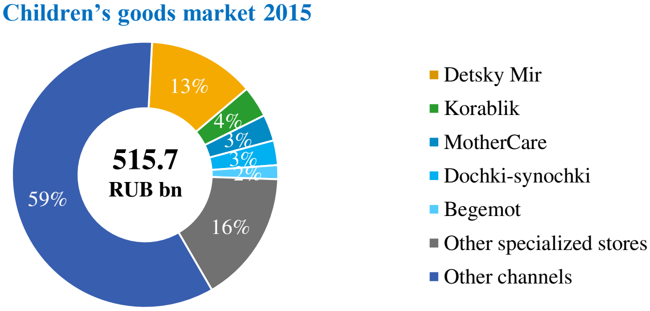


Source: Ipsos Comcon

Sales of children’s goods in Russia differ by regions due to differences in the populations of the regions as well as income levels. According to Ipsos Comcon’s estimate for 2016, Moscow displayed the largest per capita spending on children’s goods (RUB11,443) which was more than 60% higher than the average for all of Russia (RUB6,949) In total, spending in Moscow amounted to approximately 27% of purchases of children’s goods in the country. “Detsky Mir’ operates in Moscow region (40 new stores were opened in 2016), as well as in St. Petersburg. In 2016 total store chain in Moscow region was 147 and 33 in St. Petersburg.

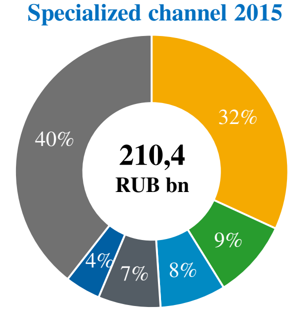
In 2016, Detsky Mir market share of children's goods in Russia in terms of revenue (including in-store pickup) amounted to 17% (13% in 2015), for online channel it was 7% (3% in 2015). Detsky Mir is the absolute leader among specialized retailers selling children's goods, the share of the nearest competitor is three times less.

Children’s goods market 2015



Source: Ipsos Comcon

Specialized channel 2015



Source: Ipsos Comcon

1.4. Development prospects

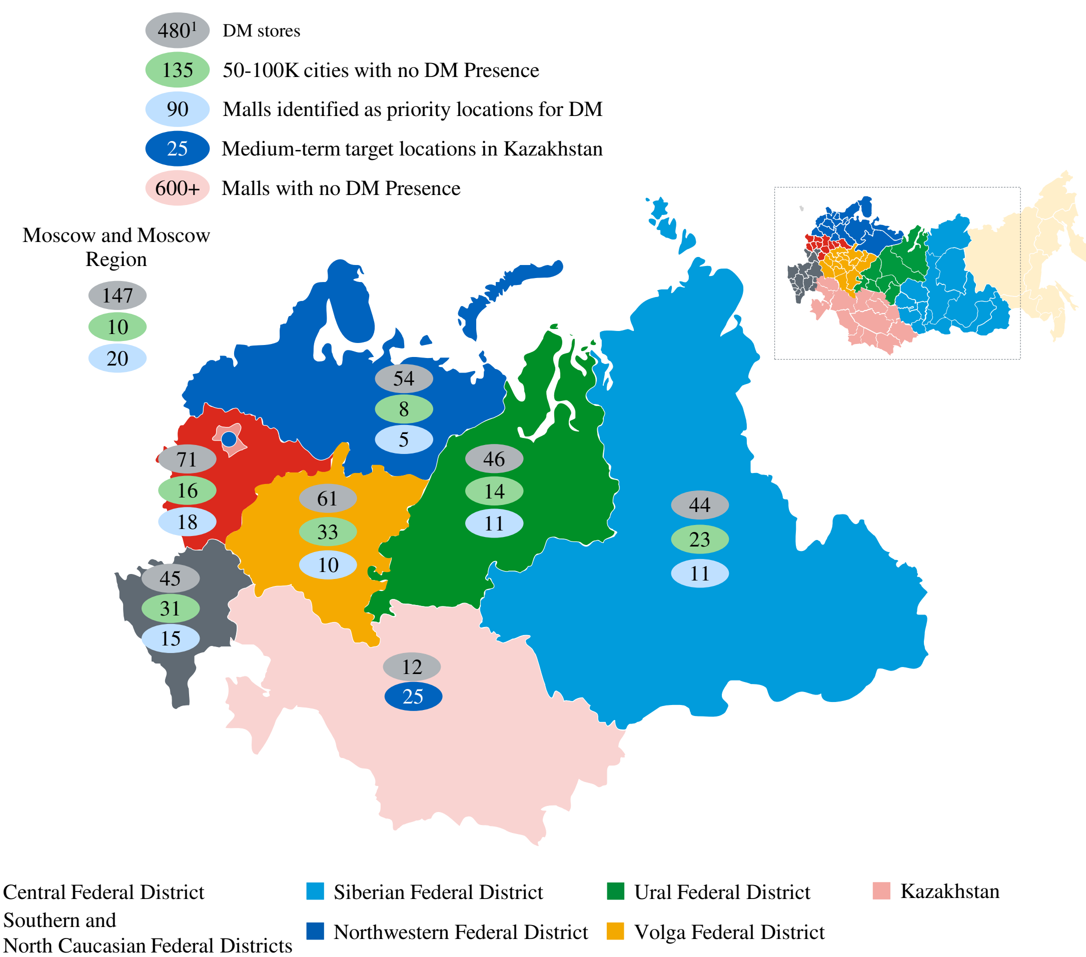
Using our competitive strengths, we intend to implement the following business strategies:

1 Sustainable expansion of the store network

We believe we are well positioned to increase our market share and grow our store network by taking advantage of opportunities in various regional markets and expanding our presence in cities where we are currently present by opening additional stores, also pre-empting competition.

We believe there is a market opportunity to target the roll-out of approximately 250 new Detsky Mir stores in 2017-2020, including approximately 70 new Detsky Mir stores in 2017, growing our footprint in Russia significantly while possibly doubling our store count in Kazakhstan. We believe we are uniquely positioned to capture the available growth opportunities in the Russian and Kazakhstani children's goods retailing segment, leveraging our unique brand strength, market leading position, omni-channel capabilities and long-term experience in the market. We have established processes and a dedicated team focusing solely on screening and evaluating potential opportunities for the new store openings on the basis of the economic development, consumers' disposable income, social and political environment in the respective regions and cities.

Substantial expansion potential in medium-term



[1] Only Detsky Mir branded stores as of 31-Dec-16

2 Continuous focus on measures to support further growth of like-for-like sales and gross profit per square metre

We will continue to implement a series of ongoing measures such as price leadership on key value items, targeted promotion campaigns and fast reaction to prices set by competitors to support growth of like-for-like sales and growth in gross profit per square metre.

We will continue to seek additional ways of driving our like-for-like sales growth by entering into the exclusivity arrangements with our suppliers with respect to select innovative, high-demand products coming to the market.

3 Implementation of an omni-channel sales strategy addressing the development of the online market

We plan to continue the significant expansion of our online store assortment from 40,000 SKUs in 2016 to 50,000 SKUs in the medium term, with a view to having a wider range of products offered online than offline in our retail stores, development of our delivery capabilities, as well as the full integration with our retail store customer proposition and supply chain platform. In particular, the expansion of the online store assortment and further reduction of the average time between order confirmation and availability for in-store pickup will support further growth of our "in-store pickup" service and cross-selling opportunities. Moreover, we intend to generate higher online traffic by integrating it more with social media and by using multiple advertising channels to promote our online store. Furthermore, we expect to drive our online sales by expanding delivery geographies, in particular to cities where we do not currently have stores, as well as by collaborating with third parties. We also intend to implement SAP Hybris e-commerce platform in 2017, as well as the mobile version of our online sales platform.

4 Investment in our supply chain, supporting growth and enhancing scalability of the business model

Supply chain and related infrastructure are paramount to the retail proposition, and are of particular importance to a high-growth retailing company like Detsky Mir. We seek to continue to utilize a flexible distribution model combining (i) a centralized platform based on our two distribution centers in the Moscow region (Bekasovo and Krekshino), and (ii) direct distribution by suppliers to the stores

To support our roll-out in the Ural and Siberian regions of Russia, we have made a preliminary decision to open a new distribution center in the Urals with approximately 60,000 square meters of warehousing space in 2018. We intend to evaluate options, in particular with respect to owning as opposed to renting this new distribution center, and make a final decision in the first half of 2017

5 Ongoing improvements of our store operations and administrative functions enhancing efficiency and improving profitability

We are also improving our day-to-day operations, optimising our business processes and extracting additional optimisation opportunities from our significant scale. This relates to the entire spectrum of functions from sales to purchasing and head office operations. For example, we aim to further optimise our personnel structure, enhance automation and build on the optimisation initiatives we implemented in the course of the past four years. We expect the implementation of our initiatives in human resources to result in a decline in our payroll costs as a percentage of revenue. Furthermore, in addition to improving purchase prices and volume related discounts, we are also working on improving other commercial terms with our lessors and suppliers. For example, we are continuously seeking opportunities for exclusivity arrangements with our suppliers with respect to unique and high-demand products. As regards our lease agreements and rental rates, in the long-term we expect costs to increase in line with inflation, but to decrease as a percentage of revenue.

2. DESCRIPTION OF THE MAJOR RISK FACTORS ASSOCIATED WITH THE JOINT STOCK COMPANY'S ACTIVITIES

2.1. Risks associated with the acquisition of issue-grade securities to be placed (placed)

The risk management policy of PJSC Detsky Mir is based on the fact that the Russian market is a developing one and, therefore, is exposed to significant risks, in contrast to the markets of more developed countries, including significant economic, regulatory, tax, political and social risks that are offset by high growth rates of the major business areas, in particular, retailing. Investors should also keep in mind the rapid evolution of the developing economy of the Russian Federation.

2.2. Industry risks

Traditionally, the retail trade is very sensitive to the macroeconomic situation in the country, since the inflation rate directly correlates with the dynamics of prices for goods on the shelves of stores, and the employment rates affect the income amount and the overall consumer demand. At the same time, the retail industry has a heterogeneous nature and its different sectors are affected by the economic crisis phenomena in different ways. Thus, the children's goods sector along with food products is one of the sectors called "protected" one that are least of all affected by the fall in the consumer's demand, especially against the backdrop of clothing and electronics retailing. As noted above, in 2015, household goods sales have dropped by 5%, electronics – by 14%, cars – by 16%, while expenses for children's goods have risen by 2%. Thus, the children's goods retail sector is stable enough to the risk of drop in demand.

By virtue of the fact that retailing is very sensitive to imports, relations with foreign exporters, as well as the schemes to optimize costs for goods transportation and customs clearance, play a major role in running a business and its results. In this case, there is a risk of unfair competition of market players who use "gray import" schemes for the goods import across the Russian border. The structured retail growth is a factor that in the future will constrain this risk occurrence (retail chains, shopping malls, e-commerce). The Detsky Mir chain takes an advantage of these trade channels development by opening a majority of its stores in shopping centers, as well as by developing a multi-channel strategy that includes a combination of offline and online retail (including mobile applications, online stores, pick-up in-stores, electronic kiosks).

Competition growth in the retail sector and, in particular, in the children's goods sector that is accompanied by increase in retail chains of the existing players, entry of foreign operators into the market, as well as development of the franchising market in Russia, may create a risk of fall in the Company's gross margin and loss of the market share. Taking into account the fact that Detsky Mir is the largest retail chain with the largest volume of purchases from suppliers and the widest geography of stores, this allows to receive the significant discounts from manufacturers and suppliers and hold the lowest prices in the industry.

2.3. Country and regional risks

Political and public threats to Russia may have a negative impact both on the situation in the country as a whole, and results of activities and financial position of the Company. Deterioration of macroeconomic indicators may also have a negative impact on the results of activities of PJSC Detsky Mir, which is registered as a taxpayer and operates in the whole territory of Russia. At present, PJSC Detsky Mir is the largest taxpayer among companies in the children's goods market. In 2016, the Company has increased its tax payments by 12% to reach the indicator of 4,1 bln rubles.

According to Standard&Poors rating agency, the Russian Federation was assigned with the long-term credit rating in foreign currency "BB+" (forecast "Negative"), according to Fitch rating agency – "BBB-" (long-term credit rating in foreign currency, forecast "Negative"), according to Moody`s rating agency – "Ba1" (forecast "Stable").

Change in the foreign policy situation related to complication of relations with the countries of Western Europe and the United States and exacerbation of conflicts regarding Russia's role in the post-Soviet space, expansion of military blocs and/or the creation of collective security systems may indirectly influence the activities of Detsky Mir Group. Indirect influence is caused by the fact that the Company purchases extremely small share of goods in Western Europe and in the United States, and also does not operate in these countries, thus, the direct impact of these risks shall be excluded. However, the political differences may influence the behavior of investors who, in spite of the prospects and the rapid growth of the Russian market, may limit their investments in the Russian economy. The capital outflow may result in further devaluation of the ruble, which, in its turn, affects the cost of goods to be purchased and rent payments under contracts concluded in a foreign currency (see the section "Financial Risks" for more details).

The Russia's economic structure now has a strong focus on the foreign markets, first of all, on hydrocarbon crude sales. In this context, the decline in the world prices for these resources is the country risk inherent to Russia. Should this risk occur, the consequences may include the decrease in the consumer’s demand, employment and household disposable income. As noted in the previous section, the children's goods retail sector is the most resistant to such changes.

Given the wide geographical extent of the country, the instability in one of its regions may influence the Company's activities. Manifestations of this instability may include natural disasters, emergencies, and climate changes. Nevertheless, the Detsky Mir Group business is geographically diversified, being represented in 171 cities of Russia and 7 cities of Kazakhstan. In addition, the chain, working on improvement of the operating efficiency, considers various stores clustering options allowing to adapt the assortment of stores in each region, city or district for the current needs of customers, which makes the Company more resistant in the event of the occurrence of the above mentioned risks. The Detsky Mir chain stores are located far from the border areas, which at least theoretically could be considered as possible locations of military conflicts.

2.4. Financial risks

The retail sector is traditionally sensitive to changes in the national currency rate, primarily in the field of import goods procurement and rent payments, rates for which are denominated in foreign currencies. Some retail chains are seeking to minimize this risk by construction of their own stores, in particular, chains that develop a hypermarket format, as well as by reduction in import purchases.

The Detsky Mir Group conducts its primary activity in Russia and receives most of its revenue in rubles. The Company receives in Kazakhstan slightly more than 1% of its revenue. In its settlements with suppliers, Detsky Mir focuses on the local currency and uses foreign currencies only for direct purchases abroad (about 20% of the volume in purchase prices), which mainly refer to the procurement of goods under its private labels in the clothing and footwear categories. Given the fact that Detsky Mir is the largest retailer with the largest volume of purchases, which allows it to receive high discounts and offer the best prices in the market, the Company may in the last turn pass the prices growth caused by ruble’s devaluation on the customers, later than the other market participants.

As regards rent relations, the Detsky Mir Group is seeking to minimize the currency risk associated with fluctuations in exchange rates. At the end of 2016, the Detsky Mir chain did not have any contracts with lessors, where the foreign exchange rate was not fixed or limited by the upper level of fluctuations. Lessors perceive Detsky Mir as an anchor lessee and are ready to cooperate with the Company, taking advantage of the new interactive concept in order to attract visitors to shopping centers.

The retail sector is characterized by a high turnover and a rather short operating cycle as compared to other industries. This requires from the companies operating in this sector to pay high attention to the liquidity management.

Taking into account the political factors impact, the rates in bank loan markets and stock exchange bond markets may grow, which may result in interest expenses rising for the Company and make more difficult to borrow. To minimize this risk, the Detsky Mir Group serves loan facilities with several banks, which allows it to use effectively banking products, depending on the objectives and terms of financing. In this matter, the Company also has a strategic support from its main shareholder – Sistema JSFC. The Detsky Mir Group for many years closely collaborates with the largest Russian banks and has a reputation of a reliable borrower and one of the most efficient companies in the retail.

The Company continues to improve its own efficiency, which is reflected in the operating margin growth and, as a consequence, the net profit. Against the backdrop of competitors' development programs, Detsky Mir will operate as a player who consolidates the market using opportunities for its own natural development, reduction in the unstructured retailing share and general growth in children's goods market. The largest Russian financial institutions are ready to provide support for Detsky Mir in this respect.

2.5. Legal risks

PJSC Detsky Mir bases its activities on the strict compliance with the tax, customs and currency legislation, monitors and promptly responds to any changes therein, as well as seeks for a constructive dialogue with regulatory authorities regarding interpretation of the legislation. In the foreseeable future, the risks associated with changes in the currency, tax, customs and licensing regulation, which may result in deterioration in the financial position of the Company, are minor.

The Russian economy has a risk of changes in the tax conditions, in which the Company operates: reformation of the tax legislation, ambiguities in interpretation of the existing tax laws. The Company may be subject to regular tax audits. Given the uncertainty of the tax legislation, it may result in imposition of penalties (fines), obligations to make additional tax payments. The above consequences may negatively affect the financial indicators of the Company.

The Russian tax system is insufficiently developed. Increase in tax liabilities may have a negative impact on the results of Company's activities. Russian tax laws, regulations and judicial procedures frequently undergo changes and are subject to ambiguities in interpretation and selective application. In some cases, the Russian tax authorities apply changes for a passed date, despite the fact that it may be considered as a Russian law violation.

The issue regarding the tax accrual correctness may be examined by the tax authorities for three years, meanwhile the legislation and the existing judicial practice make it possible not to apply the period of limitation, if the court finds that a taxpayer has prevented or obstructed a tax audit.

Having regard to the above, the Company monitors regularly any changes in the legislation and law enforcement practice, pays high attention to the tax planning, which allows it to carry out its financial and economic activities, taking into account changes in the tax legislation and law enforcement practice in taxation.

The Company operates in the domestic market, since it is to a small extent exposed to risks associated with changes in the customs regulations and customs duties. Changes in the customs regulation rules may affect the Company's suppliers engaged in the foreign economic activity that will have the same impact on all market participants.

Risks associated with the changes in requirements for licensing of the Company's primary activity are minimal, since its activity is not currently subject to licensing, and the objects with a limited turnover (including natural resources) are not used.

The Detsky Mir Group is not involved in any judicial proceedings that could materially affect its financial and operating activities. There are no risks arising from changes in the judicial practice with respect to the issues related to the Company's activities that may affect the results of its activity in the external market.

3. REPORT OF THE JOINT STOCK COMPANY'S BOARD OF DIRECTORS (SUPERVISORY BOARD) ON THE RESULTS OF THE JOINT STOCK COMPANY'S DEVELOPMENT BY THE PRIORITY AREAS OF ITS ACTIVITIES

Federal Law *On Joint Stock Companies* assigns to the Board of Directors the most important role to ensure the shareholders' rights, to create and implement the Company's development strategy, as well as ensure its successful financial and operating activities. The Board of Directors of PJSC Detsky Mir held 21 meetings in 2016, 17 of which in absentia, where 94 issues were considered. In addition, 18 meetings of the committees of the Board of Directors were held, where 44 issues were considered.

The activities of the Board of Directors were arranged in accordance with the approved work plan, and the implementation of decisions were regularly monitored. In exercising of its powers, all the Board of Directors members acted in the Company's interests, in good faith and reasonably, participated energetically in all the Board of Directors meetings and committees under the Board of Directors.

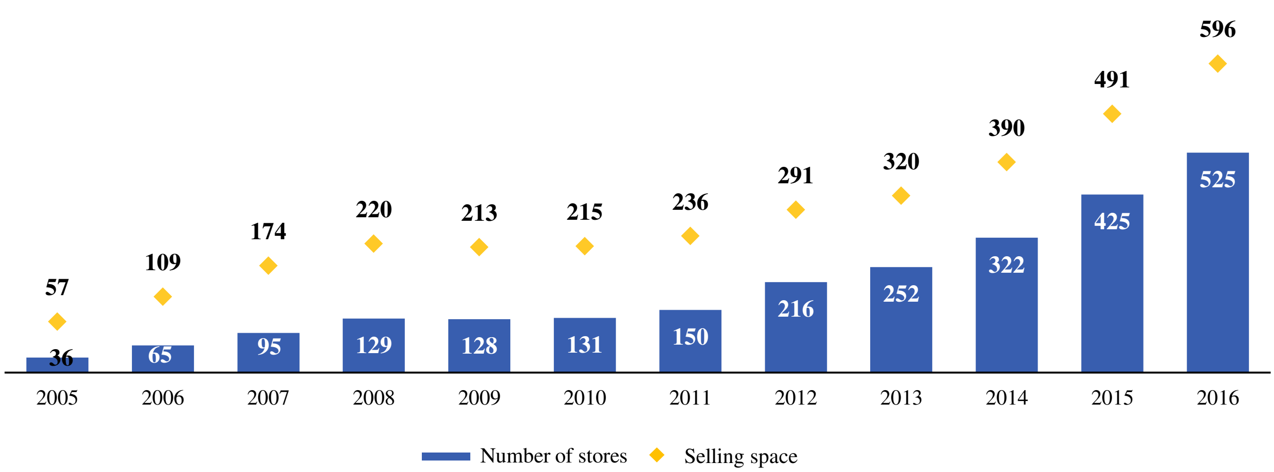
In the years following, the Board of Directors will give priority to improving the business management quality, company's capitalization growth, as well as strengthening the financial stability and competitiveness of the Company.

3.1. Principal results of activities in 2016

3.1.1. Chain development

We are the largest children's goods retailer in Russia and enjoy the highest brand recognition among Russian children's goods retailers, according to Ipsos Comcon. Based on the consumer survey by Ipsos Comcon conducted in 2016, 97% of respondents mentioned our brand when prompted. We also operate in Kazakhstan.

Our product portfolio comprises toys, products for newborns, fashion (apparel and footwear), large items and other products (including stationery). As at 31 December 2016, we operated 525 stores, including 480 Detsky Mir stores located in Russia and Kazakhstan, and 45 ELC stores located in Russia (primarily in Moscow). We primarily seek to operate in cities with populations in excess of 50,000. In Russia, we have a nationwide presence with stores located in 171 of over 300 cities with more than 50,000 inhabitants, based on Rosstat population data as at 31 December 2016. We have stores in all Russia's 20 largest cities. In addition to our core retail platform in Russia, we operated twelve stores in seven cities in Kazakhstan as at 31 December 2016. Our Detsky Mir stores in Russia are distributed as follows: 93 in Moscow, 54 in Moscow region, 33 in St. Petersburg and 288 in the regions.



Source: Company data

3.1.2. Product Offering

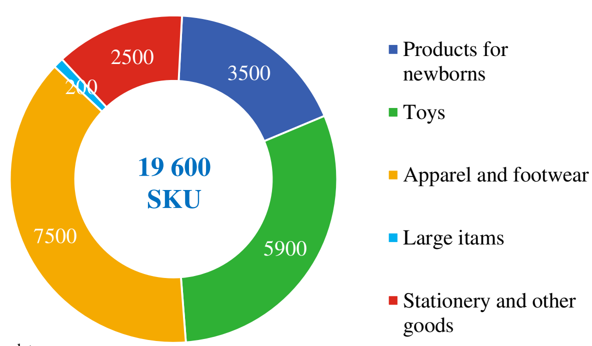
Our product assortment comprises five main categories: products for newborns, toys, large items, fashion (apparel and footwear) and other products (including stationery). Given the diverse nature of our product portfolio within the children’s market, we are able to position ourselves as a multi-category children’s goods retail chain offering a one-stop shopping destination. We have developed our product assortment to include both customer traffic generating products (such as products for newborns) as well as higher margin products (such as large items and fashion (apparel and footwear). We continuously monitor consumer preferences and spending patterns and adjust our prices and product assortments in various categories to drive customer traffic and sales.

Revenue Structure

Source: Company data

Source: Company data

The chart below shows the number of SKU we offer for each category in a typical store. On average clothes and shoes have the highest margin, then in descending order it followed by toys, large items, and products for newborns.



Source: Company data

Products for Newborns

Products for newborns include baby food, baby diapers and baby care products. Baby food and baby care products belong to the fast moving consumer goods (“FMCG”) category which tends to be manufactured by large multi-national companies, have high volumes, low margins, extensive distribution networks and high stock turnover. As FMCG products are repeat purchase items, products for the newborns category are a strategically important product category because they are key customer traffic generators. We believe we offer the best prices on products for newborns as compared to our direct competitors. While general food retailers may also offer competitive pricing on such FMCG products, they are not able to offer the full range of such goods or dedicate as much shelf space to these products as we can. Moreover, products for newborns allow us to dampen the seasonality effect on sales experienced by all non-food retailers because products for newborns generally do not experience severe seasonality

Toys

Our market position enables us to enter into exclusivity arrangements with certain vendors, which gives us access to exclusive products and promotion campaigns. Our exclusivity arrangements enable us to sell certain products in Russia exclusively (for example, a controlled caterpillar under the Fisher Price brand, certain products by Hasbro, Lego, Mattel and Maclaren). These arrangements generate traffic, create customer loyalty, contribute to our like-for-like sales growth and make us more immune to price competition with other retailers.

Apparel an footwear

Our apparel offering includes outerwear, collection clothes, underwear, socks and accessories. Our footwear offering includes classic, casual, sports, hiking and beach and swimming pool footwear. We sell select leading international brands such as “Reima” (manufactured by Reima) and “Blue Seven” (manufactured by Obermeyer). We also sell an extensive range of own brands fashion products which have been steadily increasing their share in total sales. As at 30 September 2016, the share of own brand products in our apparel and footwear revenue reached c.75% (70% in 2015). Apparel and footwear are the most profitable product categories in our assortment and in line with our strategy we aim to further broaden our assortment in these categories by offering more own brands fashion products.

We are also focusing on offering more seasonal collections and on widening the range of each seasonal collection. For example, in 2016 we offered eight seasonal collections: spring, summer, hot summer, school season, pre-autumn, autumn, winter and New Year.

Stationery

Our stationery and other products category includes books, multimedia and products for sports, art, New Year and other creative activities. Own brand products accounted for 25% of this category in 2016. Sales of stationery are very seasonal with peak sales occurring in the “back to school” season in August-September.

Large Items

These items include child car seats, strollers, baby carriers and children’s furniture. We primarily sell branded goods; however we also offer a significant assortment of own brand products in this category. Own brand products accounted for 33% of sales in this product category for 2016.

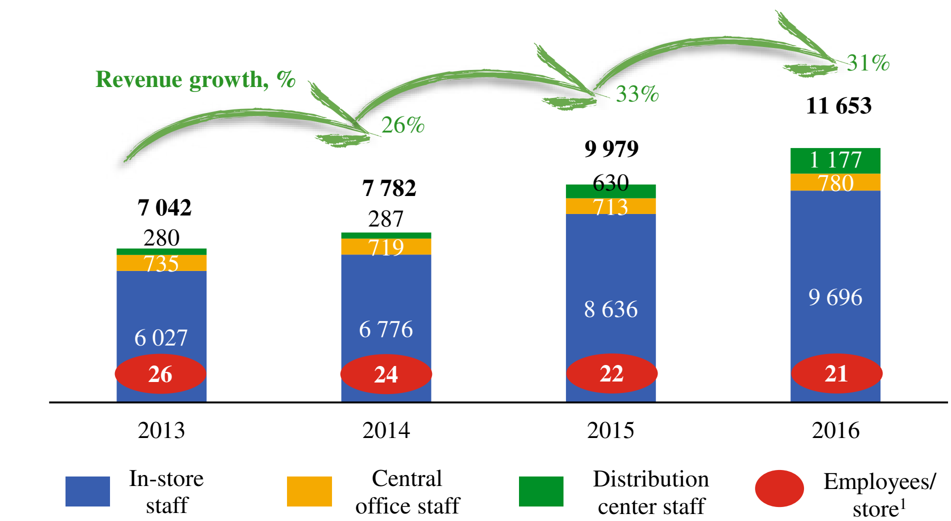
3.1.3. HR management

In 2016, Detsky Mir continued to work on improvement of its staff efficiency. As at 30 December 2016, 2015, 2014 and 2013, we had 11 653, 9 979, 7 782 and 7 042 employees, respectively. The growth in the number of our employees is a result of our organic growth during 2013-2016, including as a result of the commissioning of the Bekasovo distribution center. While payroll costs in 2013-2016 increased in absolute terms, they have gradually decreased as a percentage of revenue from 12.5% in 2013 to 9,1% in 2016, with our disciplined approach to personnel management resulting in greater personnel productivity.

As at the end of 2016, we had 21 employees per store as compared to 22, 24 and 26 employees as at 31 December 2015, 2014 and 2013, respectively. The decline in the number of employees per store is mostly attributable to employee headcount optimization with respect to both head office and in-store personnel.. In 2013-2016, we outsourced cleaning and loading services to third party services providers, we reduced a significant number of senior cashiers as a result of implementation of modern cash registers and we reduced the number of sales staff as a result of improvements in in-store business processes.

In the future, we intend to maintain the increased role of the outsourced personnel especially in cleaning and loading services. We also optimized business processes in our headquarters by eliminating overlaps in responsibilities between different departments. Moreover, as part of our efforts to further increase our operational efficiency, we centralized our accounting function in Kazan and we are now considering centralization of our other administrative functions.

PJSC Detsky Mir personnel



Source: Company data

[1] Only Detsky Mir branded stores in Russia

The salary of our in-store employees consists of a fixed part and a variable part which accounts for approximately 70% of total compensation. We use different compensation policies depending on the type of employee, which are designed to attract, motivate and retain the best employees. We offer our senior management performance-linked incentives

We make mandatory contributions to the Russian state pension fund but we do not provide any additional retirement benefits to our employees upon their retirement or afterwards.

We have different development plans for different types of employees. In particular, with respect to certain promising employees at our headquarters we have individual career development plans. Moreover, we use external training programmes such as career enhancement trainings for our senior management and specialized training for legal and sales departments.

3.1.4. Logistics

We presently operate two distribution centers in Bekasovo and Krekshino in the Moscow region. In 2015, we opened our new distribution center in Bekasovo (approximately 50 kilometres from Moscow) with 70,000 square metres of useable area, and a capacity to serve up to 500-600 stores. Our Krekshino distribution center has a total warehousing area of 20,000 square metres designed for 20,000 pallets, and serves our online and ELC stores. The distribution center s are equipped with racking storage capacities, and also allow for both pick-by-line and cross-docking delivery models, whereby products are dispatched upon receipt from the supplier without being transferred to the storage areas of the distribution center. The inventory of the distribution center turns in approximately 35 days and logistic costs account for approximately 4.5-5.5% of the purchase costs for goods passing through the distribution center.

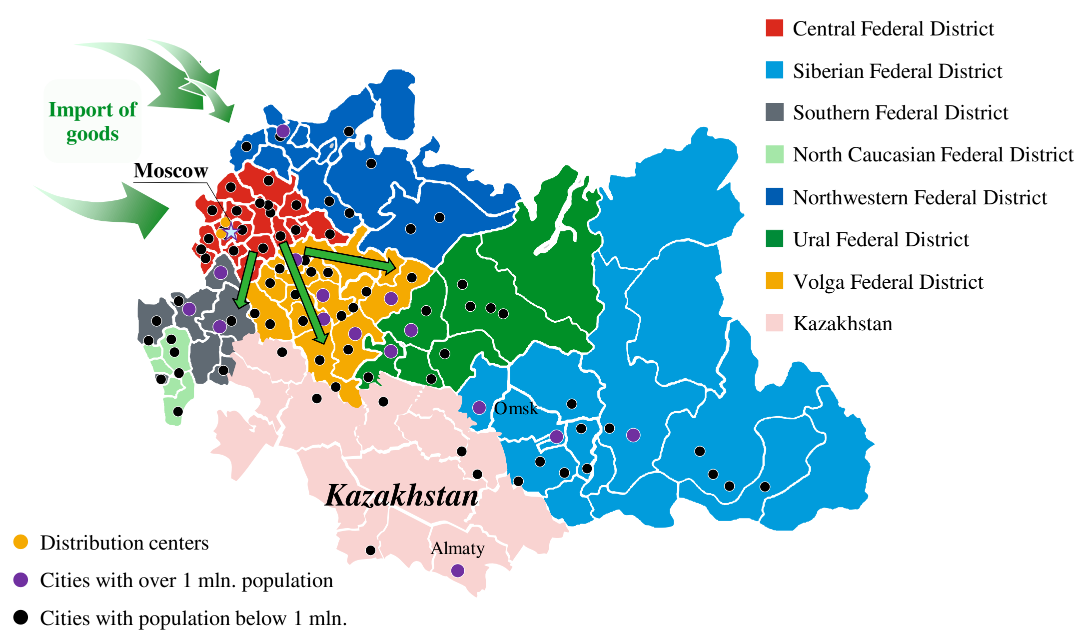
To support our roll-out in the Ural and Siberian regions of Russia, we have made a preliminary decision to open a new distribution center in the Urals with approximately 60,000 square meters of warehousing space in 2018. We intend to evaluate options, in particular with respect to ownership as opposed to rent, and make a final decision in the first half of 2017.

The percentage of our goods that was centrally distributed increased from 30% of purchase costs for goods that passed through our distribution center e in 2013 to 65% of purchase costs for goods that passed through our distribution centers in 2016. We intend to increase centralized distribution to 75%-80% of purchase costs for goods that passed through our distribution center s by 2019. The increased percentage of centralized distribution allows us to achieve economies of scale, increase in-store availability of products, minimize transportation costs, as well as enable us to engage in a larger number of direct relationships with the manufacturers and reduce dependency on the distributors and traders

In 2015 we completed the implementation of the new enterprise resource planning system SAP, including SAP EWM (Enhanced Warehouse Management). Our warehouse management system is now fully integrated into the SAP platform which allows us to have full visibility over the full cycle of the supply chain flows from ordering, processing in a warehouse or a store and delivery to a customer.

Our deliveries to stores are almost exclusively carried out by trucks. Currently, we do not own a transportation fleet and fully outsource the transportation functions to third party logistics providers in line with our asset-light strategy. We conduct procurement tenders among logistics companies for their services on an annual basis. We do not enter into long-term contracts with such service providers as we believe the market is highly competitive and we can best achieve commercially attractive terms through an annual tender.

Logistic network



Source: Company data

3.1.5. Electronic commerce

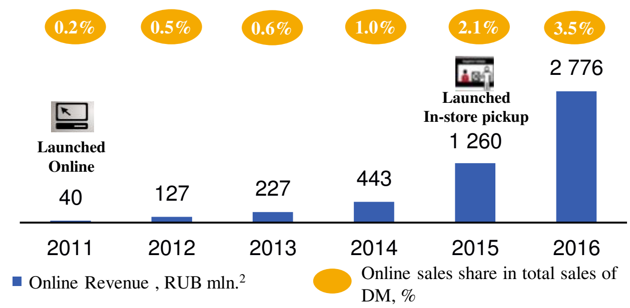
In addition to our retail stores, we offer our products through our websites www.detmir.ru and www.elc-russia.ru. Impleementing omni-channel strategy, we have been successful in integrating our online and offline platforms by drawing on the strengths of our offline retail operations. Unified prices and assortment in the online store and retail network combined with the opportunity to pick up an order in the retail store "Detsky Mir" create a synergistic effect. Our strong brand and Quality search engine optimization of the site recognition underpins our online traffic and allows us to be more operationally effective than competitors. Online and offline centralized management of assortment and prices provides our online store with more attractive commercial terms and purchasing prices from suppliers, than those that competitors have. We also expect to get our logistics costs reduced by using the retail network transport logistics to deliver orders in regions.

User Interface/Experience Evolution

Source: Company data

[1] Pilot version of the "back to school "site is completed. The Internet store is being further developed

Accelerated Online Revenue Growth



Source: Company data

[2] Based on the Company's consolidated financial statements for 2011-2013 under US GAAP and 2014-2017 under IFRS, including in-store pickup

In 2011, we launched our online store, which has experienced significant growth since then. At the end of 2016 we had over 97 mln. website visits, and twofold increase in conversion rate.

As at 31 December 2016, our online store offered approximately 40,000 SKUs which mainly included toys, large items, products for newborns and fashion (apparel and footwear). While we are one of the leading retailers among other specialized children's goods retailer in terms of online sales, we intend to further expand our online product range to up to 50,000 SKUs primarily by increasing the range of apparel, footwear and products for newborns with a view to having a wider range of products offered online than in our offline stores.

Our online sales were concentrated mainly in Moscow and the Moscow region, which accounted for half of all online sales. Over the past three years we have significantly expanded our capabilities to deliver to other regions of Russia and considerably increased the share of other regions in total sales. In the future, we intend to deliver merchandise ordered online from our regional stores and a distribution center in the regions in order to improve delivery times and attract more online customer.

Online customers may choose to pay cash or with a bank card to the delivery courier or with a bank card or via PayPal on the website when placing an order. In addition to direct courier delivery to customers, we offer delivery options to pickup points operated by third parties such as Boxberry and Ozon.

At the end of 2016 our online store was recognized as the largest children's goods online store in Russia and was nominated as the fastest growing online store and the store with the highest growth dynamics of conversion rate in Russia.

3.1.6. Marketing

Detsky Mir conducts advertising campaigns and other events to attract consumer traffic, stimulate impulse purchases, increase sales of seasonal products and increase the recognition of the Detsky Mir brand on an ongoing basis. For our campaigns, we use only those media that have proved effective for Detsky Mir – advertising on TV, newspapers / leaflets for bulk distribution to mailboxes in the distribution area of the stores, the Internet (including social media), catalogs, stands in the shops and shopping centers.

Our advertising campaigns related to specific goods are usually financed by suppliers of these products that consider us to be the best retail operator, and our retail stores – to be the best sales channel. These campaigns include comprehensive information support:

- Campaigns for promotion at the federal level using television and the Internet, including our websites (www.detmir.ru and www.elc-russia.ru) and social media;

- Printed advertising materials – newspapers (goods for children 0-12 years old) and leaflets (goods for newborns 0-3 years old);
- Design and audio ads in the stores.

Our marketing activities include advertising campaigns for the presentation of new collections of clothing and footwear, promotion of goods for newborns, toys, as well as goods for sports and outdoor activities, return coupon promotions, urgent tactical promotions.

During the year, we conduct the following advertising campaigns:

- Three campaigns in the high season – "Gender Holidays", "School" and "New Year";
- Two presentations of new seasonal collections of goods (spring-summer and autumn-winter);
- Sale of seasonal collections;
- Campaigns to promote goods for newborns;
- Three return coupon promotions ("Gender Holidays", "School" and "New Year");
- Two large-scale sales only in the online store "Kiberponedelnik" (Cyber Monday);
- One large-scale sale in the entire chain of Detsky Mir stores "Black Friday";
- Campaigns timed to summer and autumn holidays.

Each advertising campaign has its own artistic concept and offers the most favorable prices for popular products participating in the campaign.

We use a number of chain marketing tools to attract new visitors to our online store. Search engine optimization is used. Approximately 80% of the traffic in our online store is the result of search and is not paid, and the rest is related to online advertising. In addition, we use advisory marketing as a method for promoting our products to new customers through recommendations from existing customers. We are also actively promoting our brand and online store through social media. During the high season, we increase marketing activity on the Internet by placing contextual and targeted advertising.

We also publish and distribute our newspaper and booklets to the residential areas in the coverage area of our stores, this helps to maintain traffic. As a rule, 15 issues of the newspaper and 10 editions of brochures are published every year.

In recent years, bonuses and discounts received from the suppliers for joint advertising and promotion activities have covered our advertising and marketing costs.

We use a number of Internet marketing tools to attract visitors to our online store. Approximately 70% of the traffic in the online store is the result of search engine optimization and increased brand awareness. This type of traffic is free for us.

3.1.7. Information technologies

IT infrastructure is crucial for our business and is the key to business growth. In 2015, we completed the update of our IT systems having implemented solutions based on SAP products. We have moved from a disparate landscape of diverse systems to a single information space. The central office, shops and distribution centers are now operating in the same system.

Three SAP modules cover all the main business processes of the company:

- SAP ERP is a central accounting system that includes assortment management, pricing, finance and logistics,
- SAP EWM – warehouse management,
- SAP BW is a system for collecting and storing data and providing analytical reporting.

Implementation of SAP PW on the SAP HANA platform allowed reaching maximum performance when working with large amounts of data.

Infrastructure landscape of the company includes two data centers (DC) – the main and backup ones. Backup procedures are performed on a regular basis. All this allows us to ensure a high level of protection of the IT system both from data loss and from failures.

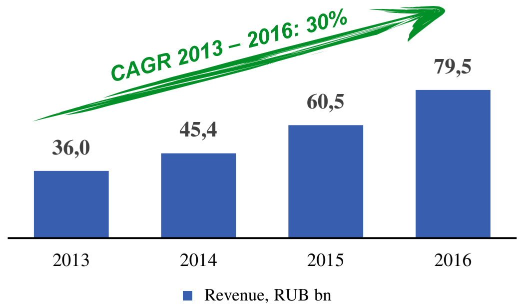
The company's website for the online store selling is based on a management system developed and maintained for us by a third-party company. In accordance with our business strategy, after the implementation of a new ERP-system based on the SAP platform in 2015, we started updating e-commerce solutions based on SAP Hybris, which in Q1, 2017 will replace the existing system.

The SAP Hybris platform will circumvent the site development restrictions imposed by the current platform and further significantly increase the presence in the Internet sales channel through the introduction of a new interface and various creative e-commerce solutions that are designed to fully integrate our retail and online stores to implement our multi-channel sales strategy.

We believe that our IT platform will support the growth of the chain and the online store, and in the near future we will not have significant limitations associated with information technology.

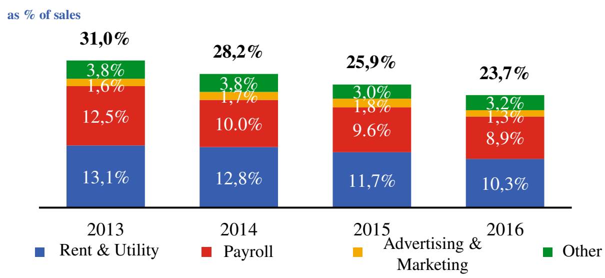
3.1.8. Financial Results[1]

Exceptional Revenue Growth Trajectory



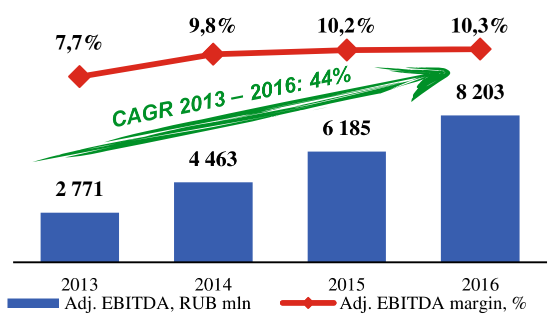
- Revenue increased by 31,4% in 2016;
- The main driver of the revenue growth was achievement of the full capacity operation of Detsky Mir stores opened in 2015;
- LFL stores of the Detsky Mir chain amounted to 12.3% [2];
- The main driver of the LFL revenue growth became the ATV growth – 5,9% with the increase in the number of purchases by 6,0%;

Focus on Operating Costs Optimization Generates Substantial Profitability Improvements[3]



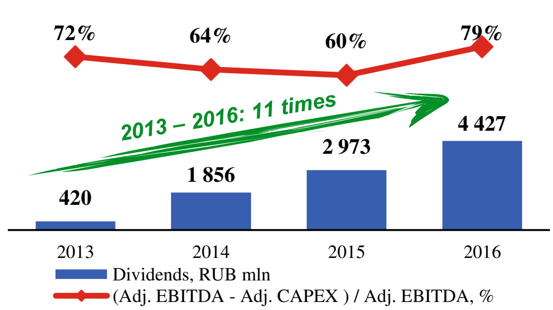
- Reduction in the adjusted SG&A expenses as a share of revenue by 730 bps was caused by an increase in the operating efficiency :
  - Launching the SAP Platform allowed to ensure continuous information interaction for the entire chain of stores
  - cashier services modernization and sales personnel work automation
  - Opening of own DC with a floor area of 71 thousand sq. m.

Substantial growth in margins [4]



- The strategy aimed at optimizing SG&A costs through improved operational efficiency which was initiated by new management team in 2013.
- OIBDA increased in average over 40%
- EBITDA margin grew by 260 bps over the last 4 years. At the end of 2015 the Company achieved margin at 10% and improved it in 2016

The business generating a high level of cash flows[5]



- Detsky Mir offers a combination of sustainable growth and high cash-generating capabilities
- Dividends as major differentiator from the majority of Russian high-growth food retailers
- The Company paid RUB 4.4bn in dividends to shareholders in 2016
  - Amount of dividends has risen 11-fold from 2013

Sources:
[1] The Company's consolidated financial statements for 2013 under US GAAP and 2014-2016 under IFRS
[2] LfL growth calculation is based on the results of Detsky Mir stores that have been in operations for at least 12 full calendar months
[3] Adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery (together with corresponding tax effect) in 2014, goodwill impairment in 2015, as well as additional share-based compensation expense and additional cash bonuses under the LTI program (together with corresponding tax effect).
[4] Adjusted EBITDA is computed as follows: profit for the period before deduction of income taxes, loss on goodwill impairment, foreign exchange loss, income and expenses from financing operations, profits from acquisition of control in an associate, depreciation and amortization; adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014, adjusted for management bonuses under the LTI program
[5] CAPEX adjusted (decreased) for distribution center construction in 2014-2015

3.2. Assessment by business community

The successes and achievements of the Company are regularly appreciated by the prestigious Russian public awards and prizes, business rankings.

In 2016, Detsky Mir was awarded in the following public competitions and ratings:

- Detsky Mir GC has become one of the most transparent companies in Russia (National Procurement Transparency Rating).
- 25th place (4 spots up) in the rating "Leaders of Corporate Charity" (NF "Donors Forum").
- 116th place (20 spots up) in the Forbes list of TOP-200 largest private companies.
- 170th place (33 spots up) on the RBC magazine "Top 500 Largest private and public companies of Russia“.
- 68th place (16 spots up) in the "Top 100 online stores of Russia – 2016" rating was taken by the online store www.detmir.ru
- Detsky Mir GC has been recognized as the "Employer of the Year" in the segment of children's goods (research ON Best Employers and AXES Management).
- Internet-shop of the Detsky Mir chain won the "Big Turnover" prize in the nomination "Breakthrough of the Year"
- 22nd rank on the INFOLINE Retailer "TOP-100 Largest Russian Retail Chains".
- Detsky Mir won the National Prize of the Children’s Products Industry "Golden Bear" in three nominations: "Person of the Year" (General Director Vladimir Chirakhov), "Store of the Year" (www.detmir.ru online store), "Store of the Year" (www.detmir.ru online store), "Best Goods for Pregnant and Nursing Mothers“.

3.3. List of transactions concluded by the Joint Stock Company in the reporting year

3.3.1. List of major transactions

The Company made no major transactions in the reporting year.

3.3.2. List of related-party transactions

The detailed information on related-party transactions concluded by the company in 2016 is set forth in the schedules to this report

3.4. Information on the volume of each energy resource used in the reporting year

	2015				2016			
	Electricity		Thermal energy, BC, BO		Electricity		Thermal energy, BC, BO	
	KW*h	RUR, VAT included	Gcal	RUR, VAT included	KW*h	RUR, VAT included	Gcal	RUR, VAT included
Consumption of energy resources TOTAL:	**92,800,151**	**445,001,317**	**46,288**	**79,635,193**	**114,998,368**	**590,048,982**	**59,906**	**110,279,872**
including offices	2,518,197	12,075,420	478	821,819	6,179,833	31,708,314	914	1,682,115
stores	90,281,955	432,925,897	45,810	78,813,374	108,818,534	558,340,668	58,993	108,597,756

4. CORPORATE GOVERNANCE

4.1. Report on the Joint Stock Company’s compliance with the principles of the Corporate Governance Code

4.1.1. Statement of the Board of Directors of PJSC Detsky Mir on compliance with the corporate governance principles set forth in the Corporate Governance Code

In the field of corporate governance, Detsky Mir PJSC adheres to the principles enshrined in the Corporate Governance Code, which provides shareholders with the opportunities to participate in the management of the company and to review information on the company's activities in accordance with the Federal Law "On Joint Stock Companies", the Federal Law "On Securities Market" and regulatory acts of the Bank of Russia.

The basic principle of building relationship with the shareholders and investors is a reasonable balance of interests of the company as an economic entity and as a joint-stock company interested in protecting the rights and legitimate interests of its shareholders."

The detailed information on compliance with the corporate governance principles is set forth in the schedules to this report.

4.1.2. Brief description of the most significant aspects of the corporate governance model and practices in the Company

In 2016, the corporate management model of Detsky Mir PJSC was adjusted in accordance with the requirements of Moscow Exchange PJSC to include shares of the Company in the first level of securities listing. The provisions on the Audit Committee and the Nomination and Remuneration Committee include requirements for the mandatory participation of independent directors in their work. In 2016, 72.6% of the voting shares of Detsky Mir PJSC were controlled by PJSC JFSC Sistema. The structure of the Company’s management bodies is a three-tier and includes: General Meeting of Shareholders, Board of Directors, Collegial Executive Body (Management Board) and Sole Executive Body (Director General). The Company’s Board of Directors has the extended competence and plays a key role in the management of the Company. The main issues resolved by the Board of Directors include: the strategic business development, control over the implementation of financial and budgetary plans of the Company, risk management, motivation and remuneration of the personnel and the top management, internal audit, major and material transactions. The number of the Board of Directors members is established by the general meeting of shareholders. In 2016, the Board of Directors included 10 members, including: 3 independent, 6 non-executive and 1 executive director. The Board of Directors establishes committees for audit, nominations and remuneration, and strategy. The internal audit function is assigned to a separate structural unit – the Internal Control Department. Head of the Department is accountable to the Board of Directors, as well as is appointed and dismissed by its decision.

4.1.3. Description of the methodology used by the Company to assess the compliance with the corporate governance principles enshrined in the Code.

Assessment was conducted on the basis of the methods for the corporate governance quality self-assessment in public companies and joint stock companies, approved by Order of the Federal Agency for State Property Management No. 306 dated August 22, 2014. In accordance with these methods, the maximum score amounts to 548 points (100%), while the minimum allowed score is 356.2 points (65%). The score obtained as a result of assessment of the corporate governance quality in PJSC Detsky Mir is 416.5 points (76%).

4.1.4 Planned actions and measures of the Company for improvement of the corporate governance model and practices

In 2017, it is planned to amend the Articles of Association of the Company in order to bring the document in line with the current legislation. Basically, this will affect the issues of obtaining the consent of the management bodies for the execution of major transactions and interested-party transactions.

4.2. Board of Directors

The Board of Directors is a collegial management body of the Company; it performs the general management of its activity except for the resolution of the issues which fall within the competence of the General Meeting of Shareholders of the Company; and it is regulated by the legislation of the Russian Federation, the Articles of Association of the Company, resolutions of the General Meeting of Shareholders, the Regulation on the Board of Directors and other internal regulatory documents of the Company.

4.2.1. Membership of the Board of Directors

Christopher Alan Baxter — *Chairman of the Board of Directors, Non-Executive Director*
Year of birth 1963
Higher education
Shareholding interest – 0.87%
Holding of ordinary shares in the Company – 0.87%

Vladimir Chirakhov — *Executive Director*
Year of birth 1974
Higher education
Chief Executive Officer of PJSC Detsky Mir
Shareholding interest – 1.79%
Holding of ordinary shares in the Company – 1.79%

Valentin Korchunov — *Non-Executive Director*
Year of birth 1982
Higher education
Investment Director of JSFC Sistema
Shareholding interest – 1.05%
Holding of ordinary shares in the Company – 1.05%

Nadezhda Nosova — *Non-Executive Director*
Year of birth 1972
Higher education
Director for risk-management and procurement at Sistema
Shareholding interest – 0 %
Holding of ordinary shares in the Company – 0 %

Gevork Sarkisyan — *Independent Director*
Year of birth 1965
Higher education
General Director at Innova Systems LLC
Shareholding interest – 0 %
Holding of ordinary shares in the Company – 0 %

Christopher Allan Parks — *Independent Director*
Year of birth 1963
Higher education
Adviser to the General Director of M.Video Management LLC
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

Oleg Mubarakshin — *Non-Executive Director*
Year of birth 1968
Higher education
Vice President, Head of the Legal Affairs Complex of JSFC Sistema
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

Sean Jan Glodek — *Non-Executive Director*
Year of birth 1971
Higher education
Senior advisor at LLC "RDIF Management Company" ("RDIF")
Shareholding interest – 0 %
Holding of ordinary shares in the Company – 0 %

Lei Teng — *Non-Executive Director*
Year of birth 1979
Higher education
Senior Vice President at Russia-China Investment Fund ("RCIF")
Shareholding interest – 0 %
Holding of ordinary shares in the Company – 0 %

Leonid Khanik — *Independent Director*
Year of birth 1970
Higher education
Managing Partner at Concept Group
Shareholding interest – 0 %
Holding of ordinary shares in the Company – 0 %

4.3. Chief Executive Officer

The Director General is the Company's sole executive body, acting permanently, the main task of whom is to perform management of the current activity of the Company for the purpose of ensuring the Company's profitability and competitiveness, its financial and economic stability, shareholders' rights and social guarantees for the personnel of the Company.

4.4. Management Board

The Management Board is a collegial executive body governed by the law, the Company's Articles of Association and the Regulation On the Management Board.

4.4.1. Membership of the Management Board

Vladimir Chirakhov Chairman of the Management Board
Year of birth 1974
Higher education
Chief Executive Officer of PJSC Detsky Mir
Shareholding interest – 1.79%
Holding of ordinary shares in the Company – 1.79%

Tatiana Mudretsova
Year of birth 1973
Higher education
Marketing Director of PJSC Detsky Mir
Shareholding interest – 0.0028%
Holding of ordinary shares in the Company – 0.0028%

Maria Davydova
Year of birth 1974
Higher education
Deputy Director General for Commercial Activity of PJSC Detsky Mir
Shareholding interest – 0.0056%
Holding of ordinary shares in the Company – 0.0056%

Maria Volodina
Year of birth 1973
Higher education
Commercial Director of PJSC Detsky Mir of the "Clothing and Footwear" Line
Shareholding interest – 0.0065%
Holding of ordinary shares in the Company – 0.0065%

Anna Garmanova
Year of birth 1976
Higher education
Chief Financial Officer of PJSC Detsky Mir
Shareholding interest – 0.0031%
Holding of ordinary shares in the Company – 0.0031%

Farid Kamalov
Year of birth 1980
Higher education
Operations Director of PJSC Detsky Mir
Shareholding interest – 0.0373%
Holding of ordinary shares in the Company – 0.0373%

Vyacheslav Khvan
Year of birth 1983
Higher education
Deputy Director General for Business Development of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

Anastasia Yaroshevskaya
Year of birth 1984
Higher education
HR Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

Anatoly Mokhov
Year of birth 1981
Higher education
Director of the Department of Internet Commerce
Shareholding interest – 0,0065%
Holding of ordinary shares in the Company – 0,0065%

Vladimir Ilmetov
Year of birth 1958
Higher education
Security Department Director of PJSC Detsky Mir
Shareholding interest – 0.0037%
Holding of ordinary shares in the Company – 0.0037%

4.5. Report on payment of dividends on shares

In 2016, by decision of the general meeting of shareholders, the dividends were paid in the amount of:

- the net profit for the financial year 2015: 1.77 rubles per registered ordinary share, the total amount of dividends is 1,308,030,000 rubles,
- the net profit for 9 months of the financial year 2016: 4.22 rubles per registered ordinary share, the total amount of dividends is 3,118,580,000 rubles.

4.6. Criteria for determination and remuneration amount of the Director General, the Board of Directors Members and the Management Board

Director General and the Management Board members of OJSC Detsky Mir are the Company's staff-members. Remuneration of the above persons consists of the salary and annual bonus for achievement of the key targets set by the Board of Directors. The salary amount of these persons is determined according to the manning table. The amount of other payments such as additional payments, compensations and bonuses are determined by the Regulation on Remuneration, the Regulation On Bonuses and the Regulation on Logistical Support. The total remuneration paid to members of the Management Board of PJSC Detsky Mir in 2016 is 725 million rubles. The amount of compensations paid to members of the Management Board of PJSC Detsky Mir in 2016 is 14 million rubles.

Payment of the remuneration to the Board of Directors members of PJSC Detsky Mir is regulated by the Regulation On Remuneration and Compensations to the Board of Directors Members of PJSC Detsky Mir. In accordance with these Regulation, a fixed remuneration is paid only to the independent members of the Board of Directors.

In 2016, the remuneration paid to the Board of Directors members of PJSC Detsky Mir was 6 million rubles.

4.7. On transactions with the Company's shares that are made by members of management bodies in the reporting year

During the course of 2016, the following transactions with ordinary registered shares of the company were made by the members of the Board of Directors and the Management Board:

Surname, Name, Patronymic	Transaction date	Information about a transaction made with the Company's shares	Number of shares, which were a subject of the transaction
Valentin Korchunov	**08.12.16**	**buying**	**435,664**
Christopher Baxter	**15.07.16.**	**buying**	**3,221,050**
Valentin Korchunov	**15.07.16.**	**buying**	**3,667,033**
Christopher Baxter	**14.01.16**	**buying**	**3,221,050**
Valentin Korchunov	**14.01.16**	**buying**	**3,667,033**
Farid Kamalov	**14.11.16**	**buying**	**173,284**
Vyacheslav Khvan	**14.11.16**	**selling**	**119,828**
Sergey Kondarev	**01.07.16.**	**buying**	**65,095**
Vladimir Chirakhov	**01.07.16.**	**buying**	**5,270,128**
Tatyana Mudretsova	**01.07.16.**	**buying**	**20,932**
Mariya Volodina	**01.07.16.**	**buying**	**48,327**
Mariya Davydova	**01.07.16.**	**buying**	**41,632**
Anna Garmanova	**01.07.16.**	**buying**	**23,002**
Vladimir Ilmetov	**01.07.16.**	**buying**	**27,603**
Vyacheslav Khvan	**01.07.16.**	**buying**	**119,828**
Farid Kamalov	**01.07.16.**	**buying**	**102,370**

5. SOCIAL RESPONSIBILITY

Social responsibility is an integral part of the corporate culture of Detsky Mir Company. Detsky Mir implements both its own charitable projects, the Company established Detsky Mir Charitable Foundation in 2004, and joint projects with its partners: charitable foundations and voluntary associations. As of the end of 2016, Detsky Mir Charitable Foundation had more than 550 beneficiaries in Russia and Kazakhstan.

In 2016, the total volume of charitable assistance sent by the Company to charity projects exceeded 147 million rubles. This amount includes the Company's own funds and goods and those raised by the Charitable Foundation, as well as the money of the employees monthly transfer to the Charitable Foundation to help children who need expensive medical care. The most famous project of the Company is the All-Russian Campaign "Get Involved!", within which the Detsky Mir chain stores collect gifts for children with a difficult real-life situation. This campaign gives the customers an opportunity to contribute to a good deed. It is important that each contributor may always get to know where his/her gift was sent – all stores of the chain provide detailed information on the charity recipients.

In 2016, the Company has implemented 3 stages of the campaign:

- in the spring – ahead of Children's Day
- in the late summer – before the start of a new school year
- in the winter – ahead of a New Year and Christmas

The main charity recipients are child care centers, children's homes and boarding schools for orphans, disabled children and children having a difficult real-life situation.

Since 2017, "Get Involved!" promotion has been taking place in the stores of the Detsky Mir chain on an ongoing basis.

The charitable foundation implements programs aimed at adaptation and socialization of children, the scope of which includes support of festivals and exhibitions, and opening of children's rooms in hospitals and social institutions.

In 2016, Detsky Mir, as part of the "Toys Operation" project, has opened 79 children’s rooms in 30 medical and social institutions of the country. New children’s rooms appeared in 18 cities across the country: St. Petersburg, Nizhny Novgorod, Kazan, Barnaul, Vladikavkaz, Gatchina, Grozny, Izhevsk, Kostroma, Rostov-on-Don, Samara, Smolensk, Syzran, Taganrog, Togliatti and in three villages of Altai Republic – Chemaly, Kosh-Agach and Onguday. Since the project start in 2013, Detsky Mir chain of stores has opened 174 children’s playrooms.

At the end of 2014, the Company established the Volunteer Corporate Puppet Theater, the actors of which are the Company’s employees. The theater troupe performs in the sponsored child care centers, charity fairs and festivals. The project allowed to engage new employees in charitable projects implemented by the Company and increased the brand loyalty. For the year, 21 performances have been shown.

In 2016, the Company has continued the implementation of the project "Co-Financing of Charitable Programs", where each employee may donate a portion of salary to charity projects. The target audience of this project are children of the Company’s employees who need expensive medical care. For the past year, the aid has been provided to 32 children, including payment for the expensive treatment and examination, as well as purchase of the necessary equipment. Since 2013, a total of over 9,500,000 rubles has been transferred to the foundation by the employees, and 950 persons have participated in the project.

6. SCHEDULE

6.1. Membership of the Board of Directors

Membership elected on June 30, 2015

1. Baxter Christopher Alan – Chairman of the Board of Directors
2. Berezhnoy Andrey Aleksandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Aleksandrovich
5. Mubarakshin Oleg Saydashovich
6. Parks Christopher Allan
7. Terebenin Andrey Borisovich
8. Uvakin Vladimir Mikhaylovich
9. Khanik Leonid Aleksandrovich
10. Chirakhov Vladimir Sanasarovich

Membership elected on February 09, 2016

1. Baxter Christopher Alan – Chairman of the Board of Directors
2. Berezhnoy Andrey Aleksandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Aleksandrovich
5. Mubarakshin Oleg Saydashovich
6. Parks Christopher Allan
7. Khanik Leonid Aleksandrovich
8. Chirakhov Vladimir Sanasarovich
9. Sean Ian Glodek
10. Lei Teng

Membership elected on June 28, 2016

1. Baxter Christopher Alan
2. Sean Ian Glodek
3. Korchunov Valentin Aleksandrovich
4. Mubarakshin Oleg Saydashovich
5. Nosova Nadezhda Konstantinovna
6. Parks Christopher Allan
7. Sarkisyan Gevork Mushegovich
8. Teng Lei
9. Khanik Leonid Aleksandrovich
10. Chirakhov Vladimir Sanasarovich

6.2. Membership of the Management Board

Period of activity of the Management Board	Full Name	Share ownership
from January 1, 2016 to June 22, 2016	Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	Davydova Mariya Sergeevna	
	Khvan Vyacheslav Robertovich	
	Kamalov Farid Shamilievich	
	Kondarev Sergey Pavlovich	
	Volodina Mariya Valeriyevna	
	Mudretsova Tatyana Petrovna	No ownership
	Kvasova Larisa Evgenievna	
	Ilmetov Vladimir Mikhaylovich	
	Garmanova Anna Sergeevna	
from June 23, 2016 to July 18, 2016	Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	Davydova Mariya Sergeevna	0.0056%
	Khvan Vyacheslav Robertovich	0.016%
	Kamalov Farid Shamilievich	0.0373%
	Kondarev Sergey Pavlovich	0.008%
	Volodina Mariya Valeriyevna	0.0065%
	Mudretsova Tatyana Petrovna	0.0028%
	Ilmetov Vladimir Mikhaylovich	0.0037%
	Garmanova Anna Sergeevna	0.0031%
from July 19, 2016 to September 04, 2016	Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	Davydova Mariya Sergeevna	0.0056%
	Khvan Vyacheslav Robertovich	0.016%
	Kamalov Farid Shamilievich	0.0373%
	Kondarev Sergey Pavlovich	0.008%
	Volodina Mariya Valeriyevna	0.0065%
	Mudretsova Tatyana Petrovna	0.0028%
	Mokhov Anatoly Viktorovich	0.0064%
	Ilmetov Vladimir Mikhaylovich	0.0037%
	Garmanova Anna Sergeevna	0.0031%
from September 05, 2016 to October 25, 2016	Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	Davydova Mariya Sergeevna	0.0056%
	Khvan Vyacheslav Robertovich	0.016%
	Kamalov Farid Shamilievich	0.0373%
	Kondarev Sergey Pavlovich	0.008%
	Volodina Mariya Valeriyevna	0.0065%
	Mudretsova Tatyana Petrovna	0.0028%
	Mokhov Anatoly Viktorovich	0.0064%
	Ilmetov Vladimir Mikhaylovich	0.0037%
	Garmanova Anna Sergeevna	0.0031%
	Yaroshevskaya Anastasiya Vladimirovna	No ownership
from October 26, 2016 to December 31, 2016	Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	Davydova Mariya Sergeevna	0.0056%
	Khvan Vyacheslav Robertovich	0.016%
	Kamalov Farid Shamilievich	0.0373%
	Volodina Mariya Valeriyevna	0.008%
	Mudretsova Tatyana Petrovna	0.0065%
	Mokhov Anatoly Viktorovich	0.0028%
	Ilmetov Vladimir Mikhaylovich	0.0037%
	Garmanova Anna Sergeevna	0.0031%
	Yaroshevskaya Anastasiya Vladimirovna	No ownership

6.3. Report on compliance with the Corporate Governance Code principles

This report on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Board of Directors of Detsky Mir Public Joint Stock Company at the meeting on May __, 2017, Protocol No. __ of _____, 2017.

The Board of Directors confirms that the data in this report contain complete and reliable information about the company's compliance with the principles and recommendations of the Corporate Governance Code in 2016.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1	The Company ensures the fair and equitable attitude to all shareholders when exercising by them rights to participate in the Company's management.			
1.1.1.	The Company creates for shareholders the maximum favorable conditions to participate in general meetings, the conditions to develop an evidence-based position on the general meeting agenda, coordinate their actions, as well as an opportunity to express their opinion on the issues under consideration.	1. The in-house document of the company approved by the general meeting of shareholders and regulating the procedure for holding a general meeting are publicly available. 2. The Company provides an accessible way of communicating with the public, such as a hotline, e-mail or online forum allowing shareholders to express their opinion and forward questions regarding the agenda in preparation for the general meeting. These actions were undertaken by the company on the eve of each general meeting that took place during the reporting period.	observed	
1.1.2.	The notification procedure for holding a general meeting and provision of materials for a general meeting allows the shareholders to prepare properly for participation therein.	1. The announcement of the general meeting of shareholders is posted (published) on the website on at least 30 days before the date of the general meeting. 2. The announcement on holding the meeting specifies the meeting venue and documents required for admission to the premises. 3. Shareholders were provided with access to information about who proposed the issues on the agenda and who nominated candidates for the Board of Directors and the Audit Commission of the company.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1.3.	In the course of preparation and holding of a general meeting, the shareholders were able, easily and timely, to receive any information on a meeting and materials for the same, ask questions the executive bodies and the Board of Directors members, and communicate with each other.	1. During the reporting period, shareholders were given the opportunity to ask members of the executive bodies and members of the board of directors of the company questions on the eve and during the annual general meeting. 2. The position of the Board of Directors (including dissenting opinions) on each item of the agenda of the general meetings held during the reporting period was included in the materials for the general meeting of shareholders. 3. The company granted shareholders entitled to this access to the list of persons entitled to participate in the general meeting starting from the date of its receipt by the company in all cases of holding general meetings within the reporting period.	observed	
1.1.4.	Exercise of the shareholder's right to demand convocation of the general meeting, nominate candidates to the management bodies and make proposals for inclusion in the agenda of the general meeting was not associated with unjustified difficulties.	1. Within the reporting period, the shareholders had the opportunity to submit proposals for inclusion in the agenda of the annual general meeting within at least 60 days after the end of the corresponding calendar year. 2. Within the reporting period, the company did not refuse to accept proposals to the agenda or nominees for the company's bodies due to misprints and other insignificant shortcomings in the shareholder's proposal.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1.5.	Each shareholder had an opportunity to freely exercise the right to vote by the most simple and convenient way.	1. The in-house document (in-house policy) of the company contains regulations according to which each member of the general meeting can request a copy of the ballot filled out by them certified by the counting commission before the completion of the relevant meeting.	not observed	In accordance with the Civil Code of the Russian Federation, the adoption by the General Meeting of Shareholders of a public joint stock company of a decision and the list of the Company's members, who have attended the session, at which such decision has been adopted, shall be attested by a person responsible for keeping the Register of the shareholders (by the registrar) and performing the duties of the Counting Commission. Due to the fact that the function of the counting commission is performed by another legal entity, the regulations contained in the in-house documents of the Company are not binding on it. The company is looking for ways to ensure this opportunity for shareholders.
1.1.6.	The holding procedure for a general meeting that is established by the company provides an equal opportunity to all persons present at the meeting to express their opinions and ask questions.	1. When holding general shareholders meetings in the form of a meeting (joint attendance of the shareholders) during the reporting period, sufficient time was provided for reports on the agenda items and time for the discussion of these issues. 2. Candidates to the management and control bodies of the company were available for answering the questions of shareholders at the meeting at which their nominees were put to the vote. 3. The Board of Directors, when making decisions related to the preparation and conduct of general meetings of shareholders, considered the use of telecommunications to provide shareholders with remote access for participation in the general meetings in the reporting period.	Partially observed	Providing shareholders with remote access to participate in the general meetings by using telecommunications means has a number of technical difficulties, one of which is the identification of the identity of a shareholder or their representative and can only be ensured by a person performing the functions of a counting commission of the company. At present, such an opportunity has been provided to the persons whose rights to securities are accounted for by a nominal holder.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.2	Shareholders have an equal and fair opportunity to share the company’s profits by receiving dividends.			
1.2.1.	The Company has developed and implemented a transparent and clear mechanism to determine the dividends amount and their payment.	1. The company has developed the dividend policy, it has been approved by the Board of Directors and disclosed. 2. If the company's dividend policy uses the company's reporting indicators to determine the amount of dividends, then the relevant provisions of the dividend policy take into account the consolidated financial statements.	observed	
1.2.2.	The company does not make a decision on payment of dividends, if such decision, while formally not violating the restrictions imposed by the law, is economically unreasonable and may result in misrepresentation of the company’s activities.	1. The company's dividend policy contains clear indications of financial / economic circumstances under which the company should not pay dividends.	Not observed	The amount of the dividend and the procedure for its payment is determined on the basis of the recommendations of the Board of Directors of the Company. The members of the Board of Directors act in the interests of the Company, exercise their rights and perform obligations in relation to the Company in good faith and reasonably. Qualification of the members of the Board of Directors of the company makes it possible to determine the circumstances under which the company should not pay dividends. The issue of adjusting the dividend policy is considered by the Board of Directors at least once every 3 years.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.2.3.	The Company does not allow the deterioration of dividend rights of the existing shareholders.	1. In the reporting period, the company did not take any actions leading to deterioration in the dividend rights of the existing shareholders.	observed	
1.2.4.	The company seeks to prevent the use by the shareholders of other ways to obtain income (profit) with the company, except for dividends and the liquidation value.	1. To exclude other methods of obtaining income (revenue) by the shareholders, the receipt of profit (income) at the expense of the company, other than dividends and liquidation value, the in-house documents establish monitoring mechanisms that ensure the timely identification and procedure for approving transactions with persons affiliated with the significant shareholders (persons having the right to dispose of votes accounting for the voting shares) in cases where the law does not formally recognize these transactions to be related party transactions.	observed	
1.3	The corporate governance framework and practices ensure fair treatment for all shareholders – owners of shares by one category (type), including minority (small) shareholders and foreign shareholders, and company's equal attitude to them.			
1.3.1.	The company has created the conditions for fair attitude to each shareholder from the company's management and supervisory bodies, including conditions preventing any abuse by major shareholders with respect to minority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of interest of significant shareholders are effective, and the board of directors has paid due attention to the conflicts between shareholders, if any.	observed	
1.3.2.	The company does not take any actions that result or may result in an artificial redistribution of the corporate control.	1. Quasi-treasury shares are absent or did not participate in voting during the reporting period.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.4.	Shareholders are provided with reliable and efficient methods for accounting of their rights to shares and an opportunity for free and easy disposal of shares held by them.			
1.4.1.	Shareholders are provided with reliable and efficient methods for accounting of their rights to shares and an opportunity for free and easy disposal of shares held by them.	1. Quality and reliability of the activities carried out by the registrar in maintaining the register of securities owners meet the needs of the company and its shareholders.	observed	
2.1	The Board of Directors carries out the strategic management of the company, determines the basic principles of and approaches to the social risk management and internal control system, control the activity of company's executive bodies, as well as performs other key functions.			
2.1.1.	The Board of Directors is responsible for making decisions related to the appointment and dismissal of the executive bodies members, including due to improper performance of their duties. The Board of Directors also controls that the executive bodies of the company act in accordance with the approved development strategy and primary areas of the company's activities.	1. The Board of Directors has the authority to appoint, dismiss and determine the terms of the contracts with respect to the executive bodies enshrined in the articles of association. 2. The Board of Directors has reviewed the report (reports) of the sole executive body and members of the collegial executive body on the implementation of the company's strategy.	observed	
2.1.2.	The Board of Directors establishes the basic guidelines for the company's activities for the long-term run, assesses and approves the key performance indicators and major business goals of the company, and assesses and approves the strategy and business plans by the company's operating activities.	1. During the reporting period, the Board of Directors has considered issues related to the implementation and update of the strategies through the approval of the company's financial and economic plan (budget), as well as the criteria and indicators (including intermediate ones) for the implementation of the company's strategy and business plans.	observed	
2.1.3.	The Board of Directors determines the principles of and approaches to the risk management and internal control system in the company.	1. The Board of Directors has determined the principles of and approaches to the risk management and internal control system in the company. 2. The Board of Directors has assessed the risk management system and internal control of the company during the reporting period.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.1.4.	The Board of Directors determines the company's policy for remuneration and/or reimbursement (compensation) of the members of the Board of Directors, executive bodies and other key executives of the company.	1. The company has developed and implemented the policy (policies) for remuneration and reimbursement (compensation) of the members of the Board of Directors, executive bodies of the company and other key executives of the company approved by the Board of Directors. 2. During the reporting period, issues related to this policy (policies) were considered at the meetings of the Board of Directors.	partially observed	Regulations on remunerations and compensations paid to the members of the Board of Directors of the Company are approved by the General Meeting of Shareholders of the Company. The Law "On Joint-Stock Companies" provides that payment of remuneration and compensation to the members of the Board of Directors shall be made on the basis of a resolution of the general meeting of shareholders.
2.1.5.	The Board of Directors plays a key role in prevention, identification and resolution of internal conflicts between the company's bodies, shareholders and employees.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company created a system for identifying transactions associated with a conflict of interest and a system of measures aimed at resolving these conflicts	observed	
2.1.6.	The Board of Directors plays a key role in ensuring the transparency of the company, timeliness and completeness of information disclosed by the company, and unhindered access of the shareholders to the company's documents.	1. The Board of Directors has approved a regulation on information policy. 2. The company has identified persons responsible for the information policy implementation.	observed	
2.1.7.	The Board of Directors controls implementation of the corporate governance practices in the company and plays a key role in significant corporate events of the company.	1. During the reporting period, the Board of Directors considered the issue of corporate governance practices in the company.	not observed	During the reporting year, the Board of Directors did not consider the issue of corporate governance practices in the Company.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.2.	The Board of Directors is accountable to the shareholders of the company.			
2.2.1.	Information on the Board of Directors performance is disclosed and made available to the shareholders.	1. Annual report of the company for the reporting period includes information on the attendance of meetings of the board of directors and committees by individual directors. 2. Annual report contains information on the main results of the assessment of the work of the Board of Directors in the reporting period.	not observed	Information on attendance of meetings of the board of directors and committees by individual directors, as well as the results of the assessment of the work of the Board of Directors is not disclosed in the Annual Report.
2.2.2.	Chairman of the Board of Directors is available for communication with the company's shareholders.	1. There is a transparent procedure in the company that provides shareholders with the opportunity to send questions to the chair of the board of directors and their position on them.	observed	
2.3.	The Board of Directors is an effective and professional management body able to make objective and independent judgments and make decisions that meet the company's interests and shareholders.			
2.3.1.	A person who has an impeccable business and personal reputation and having the knowledge, skills and experience required to make decisions within the competence of the Board of Directors and required for the effective performance of its functions is elected as a member of the Board of Directors.	1. Procedure for assessing the effectiveness of the work of the board of directors includes, inter alia, assessment of professional qualifications of the members of the board of directors. 2. In the reporting period, the Board of Directors (or its nominations committee) assessed candidates for the board of directors in terms of the presence of the necessary experience, knowledge, business reputation, lack of conflict of interest, etc.	partially observed	The Company does not have a procedure for assessing candidates to the Board of Directors. It is possible to assess candidates to the Board of Directors only after the shareholders exercise their right to nominate candidates and the list of candidates for election to the relevant body is approved, i.e. after the expiration of the period during which it is possible to withdraw the proposed candidate or propose a new one. Procedure for assessing candidates for the Board of Directors has not been planned yet.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.3.2.	Members of the Board of Directors are elected using a transparent procedure that allows the shareholders to receive information on the candidates, sufficient to form an opinion on their personal and professional abilities.	1. In all cases of holding general meeting of shareholders in the reporting period which agenda included issues on the election of the board of directors, the company provided the shareholders with the biographical data of all candidates for the board of directors, the results of assessing these candidates conducted by the board of directors (or its nominations committee), as well as information on the applicant's compliance with the independence criteria, in accordance with the recommendations 102 – 107 of the Code and the written consent of the candidates to be elected to the board of directors.	partially observed	The Company does not have a procedure for assessing candidates to the Board of Directors. It is possible to assess candidates to the Board of Directors only after the shareholders exercise their right to nominate candidates and the list of candidates for election to the relevant body is approved, i.e. after the expiration of the period during which it is possible to withdraw the proposed candidate or propose a new one. Procedure for assessing candidates for the Board of Directors has not been planned yet.
2.3.3.	The membership of the Board of Directors is balanced, including by the qualification, experience, knowledge and professional qualities of its members, and has the shareholders' trust.	1. As part of the procedure for assessing the work of the board of directors during the reporting period, the board of directors has analyzed its own needs in the field of professional qualifications, experience and business skills.	observed	
2.3.4.	The number of the Board of Directors members provides an opportunity to arrange the Board of Directors activities in the most efficient manner, including the possibility to form the Board of Directors committees, as well as provides major and minority shareholders of the company with an opportunity to elect to the Board of Directors a candidate for whom they vote.	1. As part of the procedure for assessing the board of directors conducted during the reporting period, the board of directors considered the issue of compliance of the number of members of the Board of Directors with the needs of the company and the interests of shareholders.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.4	The Board of Directors includes a sufficient number of independent directors.			
2.4.1.	A person who has sufficient professional knowledge, experience and independence to form their own opinion and are able to make objective and honest judgments, independent from the influence of the executive bodies, separate groups of shareholders or other stakeholders is recognized as an independent director. It should be noted in this respect that in the normal conditions a candidate may not be regarded as an independent one (elected member of the Board of Directors), if such candidate is associated with the company, its major shareholder, major counterparty or competitor of the Company or associated with the state.	1. During the reporting period, all independent members of the board of directors met all independence criteria specified in recommendations 102 – 107 of the Code, or were recognized as independent by a decision of the board of directors.	observed	
2.4.2.	Assessment of the conformity of candidates for members of the Board of Directors to the criteria of independence is conducted, as well as a regular analysis of the conformity of independent members of the Board of Directors to the independence criteria. The substance of assessment shall prevail over form of such assessment.	1. In the reporting period, the board of directors (or the nominations committee of the board of directors) formed an opinion on the independence of each candidate to the board of directors and presented a corresponding opinion to the shareholders. 2. During the reporting period, the board of directors (or the nominations committee of the board of directors) considered the independence of the current members of the board of directors the company indicates in its annual report as independent directors at least once. 3. The company has developed procedures that determine the necessary actions of a member of the board of directors in the event that the member ceases to be independent, including the obligation to promptly inform the board of directors about this.	partially observed	The Nomination and Remuneration Committee of the Board of Directors of the Company did not consider the issue of independence of the current members of the Board of Directors since compliance of the members of the Board of Directors with the independence criteria is controlled by the Company, which is quarterly reflected in the report which is sent to Moscow Exchange PJSC which included securities of the Company in the list of securities accepted for organized trading.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.4.3.	Independent directors constitute at least one third of the elected members of the Board of Directors.	1. Independent directors constitute at least one third of the members of the Board of Directors.	not observed	The shareholders were proposed an insufficient number of independent candidates for election to the Board of Directors in the required quantity. In 2017, the number of candidates to the Board of Directors that meet the criteria for independence is more than one third of the number of members of the Board of Directors.
2.4.4.	Independent directors play a key role in the prevention of internal conflicts in company and implementation of the company's significant corporate actions.	1. Independent directors (who have no conflict of interest) preliminarily assess significant corporate actions associated with the possible conflict of interest, and the results of this assessment are provided to the board of directors.	partially observed	Opinions of the independent directors are always taken into account, but this assessment is not carried out within the framework of any formalized procedure and is not mandatory.
2.5	Chairman promotes the most effective implementation of the functions assigned to the Board of Directors.			
2.5.1.	Independent director is elected as Chairman of the Board of Directors or from among the elected independent directors, a senior independent director who coordinates the activities of independent directors and communicates with the Board of Directors Chairman, is determined.	1. The chair of the board of directors is an independent director, or a senior independent director is identified among the independent directors. 2. The role, rights and duties of the chair of the board of directors (and, if applicable, the senior independent director) are duly determined in the in-house documents of the company.	partially observed	The Chair of the Board of Directors is not an independent director and no senior independent director has been determined among the independent directors as the independent members of the Board of Directors have no restrictions on interaction with the Chair of the Board of Directors.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.5.2.	The Board of Directors Chairman ensures the constructive atmosphere during the meeting, free discussion of issues included in the meeting agenda, control over the implementation of decisions made by the Board of Directors.	1. The performance of the chair of the board of directors was evaluated in the framework of the procedure for evaluating the effectiveness of the board of directors in the reporting period.	observed	
2.5.3.	The Board of Directors Chairman takes all necessary measures for the timely provision of information to the Board of Directors members to make decisions on the agenda items.	1. The duty of the chair of the board of directors to take measures to ensure the timely provision of materials to the members of the board of directors on the agenda of the meeting of the board of directors is enshrined in the in-house documents of the company.	observed	
2.6	The Board of Directors members act in good faith and in a reasonable manner in interests of the company and its shareholders on the basis of sufficient information, with due care and diligence.			
2.6.1.	The Board of Directors members make decisions based on all available information, without a conflict of interest, taking into account the equal attitude to all shareholders of the company, within the inherent business risk.	1. The in-house documents of the company have established that a member of the board of directors is obliged to notify the board of directors if the member has a conflict of interest with respect to any issue on the agenda of a meeting of the board of directors or a committee of the board of directors before the discussion of the relevant agenda issue. 2. In-house documents of the company stipulate that a member of the board of directors should refrain from voting on any issue in which he/she has a conflict of interest. 3. The company has established a procedure that allows the board of directors to receive professional advice on the issues related to its competence at the expense of the company.	observed	
2.6.2.	Rights and responsibilities of the Board of Directors members are clearly defined and enshrined in the company's internal documents.	1. The company has adopted and published an in-house document that clearly defines the rights and duties of the members of the board of directors.	observed	

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2.6.3.	The Board of Directors members have enough time to perform their responsibilities.	1. Individual attendance of the meetings of the board and committees, as well as the time dedicated to preparing for participation in the meetings have been taken into account in the procedure for evaluating the board of directors in the reporting period. 2. In accordance with the company's in-house documents, the members of the board of directors are required to notify the board of directors of their intention to join the management bodies of other organizations (in addition to the company's controlled and dependent organizations), as well as the fact of such an appointment.	observed	
2.6.4.	All the Board of Directors members have an equally access to the company's documents and information. The newly elected Board of Directors members in the shortest possible time are provided with sufficient information on the company and the Board of Directors work.	1. In accordance with the company's in-house documents, the members of the board of directors have the right to access documents and make inquiries concerning the company and organizations under its control, and the executive bodies of the company must provide relevant information and documents. 2. The company has a formalized program of getting-acquainted session for the newly elected members of the board of directors.	observed	
2.7.	Meetings of the Board of Directors, preparation therefor and participation therein of the Board of Directors members ensure the effective operation of the Board of Directors.			
2.7.1.	The Board of Directors meetings are held as may be necessary, taking into account the activities scale and the challenges the company faces in a certain period.	1. The Board of Directors held at least six meetings in the reporting year.	observed	
2.7.2	The company's internal documents specify the procedure for preparation and holding of meetings of the Board of Directors to allow the Board of Directors members to prepare adequately for the meeting.	1. The company has approved an in-house document determining the procedure for preparing and holding meetings of the board of directors, which, among other things, stipulates that notice of the meeting should be sent, as a rule, at least 5 days before the date of the meeting.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.7.3.	Form of the meeting of the Board of Directors is determined taking into account the importance of the agenda items. The most important issues are resolved in the meetings held in presentia.	1. The Articles of Association or the in-house document of the company stipulates that the most important issues (according to the list given in the recommendation 168 of the Code) should be considered at the meetings in presentia of the board.	partially observed	The content of the list given in Recommendation 168 of the Code is redundant. The Regulation on the Board of Directors of the Company provides for a shorter list of issues that are considered only at the meetings in presentia of the Board of Directors.
2.7.4.	Decisions on the most important issues of the company are made at the Board of Directors meeting by a qualified majority or a majority of votes of all elected of the Board of Directors members.	1. The Articles of Association of the company stipulates that decisions on the most important issues set forth in recommendation 170 of the Code must be made at a meeting of the board of directors by a qualified majority of at least three quarters of votes or by a majority of all elected members of the board of directors.	not observed	
2.8	The Board of Directors establishes committees for preliminary consideration of the most important issues of the company's activity.			
2.8.1.	An audit committee composed of independent directors has been established for preliminary consideration of issues related to control the company's financial and economic activities.	1. The board of directors has formed an audit committee consisting entirely of independent directors. 2. The in-house documents of the company set out the tasks of the audit committee, including, inter alia, the tasks contained in the recommendation 172 of the Code. 3. At least one member of the audit committee who is an independent director has experience and knowledge in the preparation, analysis, evaluation and audit of accounting (financial) statements. 4. The meetings of the audit committee were held at least once a quarter during the reporting period.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.8.2.	For preliminary consideration of issues related to the development of efficient and transparent remuneration practices, a Remuneration Committee consisting of independent directors and chaired by an independent director who is not a Board of Directors Chairman has been created.	1. The Board of Directors has established a remuneration committee which consists of independent directors only. 2. The chair of the remuneration committee is an independent director who is not the chair of the board of directors. 3. The in-house documents of the company set out the tasks of the remuneration committee, including, inter alia, the tasks contained in the recommendation 180 of the Code.	observed	The Board of Directors has established a Compensation and Nominating Committee.
2.8.3.	For preliminary consideration of issues related to the staff planning (succession planning), the professional membership and the Board of Directors performance, a Nomination Committee (nominations, personnel), formed in majority by the independent directors has been created.	1. The Board of Directors has established a nominations committee (or its tasks specified in recommendation 186 of the Code, implemented within the framework of another committee <4>), the majority of its members are independent directors. 2. The in-house documents of the company set out the tasks of the committee (or the corresponding committee with combined functions), including, inter alia, the tasks contained in the recommendation 186 of the Code.	observed	The Board of Directors has established a Compensation and Nominating Committee.
2.8.4.	Taking into account the scale of activities and the level of risk, the board of directors of the company ensured that the composition of its committees fully meets the objectives of the company's activities. The additional committees were either formed or were not deemed necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, HSE Committee, and others).	1. In the reporting period, the board of directors of the company has considered the issue of the conformity of the composition of its committees with the tasks of the board of directors and the objectives of the company's activities. The additional committees were either formed, or were not deemed necessary.	observed	The Strategy Committee has been formed

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2.8.5.	The committees membership has been determine so that it allowed carrying out comprehensive discussions of the issues under preliminary consideration, taking into account the different opinions.	1. Committees of the board of directors are headed by independent directors. 2. The in-house documents (policies) of the company provide for the regulations according to which persons who are not members of the audit committee, the nominations committee and the remuneration committee can attend committee meetings only at the invitation of the chair of the relevant committee.	observed	
2.8.6.	Chairs of the committees regularly inform the Board of Directors and its Chair of their committees work.	1. During the reporting period, the chairs of the committees reported on the work of the committees to the board of directors on a regular basis.	observed	
2.9	The Board of Directors ensures assessment of Board work quality, its committees and Board members.			
2.9.1.	Assessment of the work quality of the Board of Directors is aimed at determining the degree of the Board of Directors performance, the Board of Directors' committees and members and conformity of their work to the company's development needs, to stimulate the Board of Directors performance and identify the areas for its improvement.	1. Self-assessment or external evaluation of the work of the board of directors carried out during the reporting period included evaluation of the work of committees, individual members of the board of directors and the board of directors as a whole. 2. Results of the self-assessment or external evaluation of the board of directors conducted during the reporting period were considered at the meeting in presentia of the board of directors.	observed	
2.9.2.	Assessment of the Board of Directors performance, its committees and members is carried out on a regular basis at least once per annum. For the purpose of independent assessment of the Board work quality, an external organization (consultant) is engaged at least once every three years.	1. For an independent assessment of the board of directors' performance, the company engaged an external organization (consultant) at least once in the last three reporting periods.	not observed	The Company did not engage consultants for an independent evaluation of the performance of the board of directors. Such an item of expenditure is also not provided for in the budget for 2017.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
3.1	Effective day-to-day interaction with shareholders, coordination of the company's activities for protection of the rights and interests of shareholders, support of the effective work of the Board of Directors are ensured by the Corporate Secretary.			
3.1.1.	The Corporate Secretary has the knowledge, experience and qualification sufficient to fulfill duties assumed, the impeccable reputation and the shareholders' trust.	1. The company has adopted and disclosed an in-house document – provision on the corporate secretary. 2. The company's website and the annual report contain biographical information on the corporate secretary with the same level of detail as those applied to the members of the board of directors and executive management of the company.	partially observed	Qualification requirements for the corporate secretary of the Company are in accordance with the rules of the listing of Moscow Exchange PJSC. The Company did not receive the consent of a natural person to disclose his/her personal data.
3.1.2.	The Corporate Secretary has sufficient independence from the executive bodies and has the necessary powers and resources to achieve objectives.	1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	observed	
4.1	The level of remuneration paid by the Company is sufficient to involve, motivate and retain persons with the competence and qualification necessary for the company. Remuneration to the Board of Directors members, executive bodies and other key company's managers are paid in accordance with the remuneration policy adopted in the company.			
4.1.1.	The Level of remuneration paid by the Company to the Board of Directors members, executive bodies and other key executives creates a sufficient motivation for them to work effectively, allowing the company to involve and retain competent and skilled specialists. At the same time, the company avoids the level of remuneration in excess of the necessary one, as well as unjustifiably large gap between the levels of remuneration of these officials and company's employees.	1. The company has adopted an in-house document (documents) – policy (policies) for the remuneration of the members of the board of directors, executive bodies and other key management personnel, which clearly defines the approaches to remuneration of these individuals.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.1.2.	The remuneration policy has been developed by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, with support of the Remuneration Committee, ensures control over the introduction and implementation the remuneration policy in the company and, if necessary, reviews and amends such policy.	1. During the reporting period, the Remuneration Committee reviewed the remuneration policy (policies) and practices of its (their) implementation and, if necessary, submitted appropriate recommendations to the board of directors.	observed	
4.1.3.	The remuneration policy includes clear mechanisms to determine the remuneration level of the Board of Directors members, executive bodies and other company's key executives, as well as regulates all types of payments, benefits and privileges provided to such persons.	1. The remuneration policy (policies) includes (include) clear mechanisms to determine the remuneration level of the Board of Directors members, executive bodies and other company's key executives, as well as regulates (regulate) all types of payments, benefits and privileges provided to such persons.	observed	
4.1.4.	The company determines the expenses reimbursement (compensation) policy specifying the list of reimbursable expenses and the service level, to which the Board of Directors members, executive bodies and other company's key executives may claim. This policy may be part of the company's remuneration policy.	1. The remuneration policy (policies) or other in-house documents of the company establishes the rules for reimbursement of expenses of the members of the board of directors, executive bodies and other key management personnel of the company.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.2	The procedure for remuneration of the Board of Directors members ensures convergence of the financial interests of directors with the long-term financial interests of shareholders.			
4.2.1.	The Company pays a fixed annual fee to the members of the Board of Directors. The company does not pay a remuneration for participation in certain meetings of the Board of Directors or its committees. The company does not use any form of short-term motivation and additional material incentives with respect to the Board of Directors.	1. Fixed annual remuneration was the only monetary form of remuneration for the members of the board of directors for their work on the board of directors during the reporting period.	observed	
4.2.2.	Long-term ownership of shares in the company is the most stimulating factor for convergence the financial interests of the Board of Directors members with the long-term interests of shareholders. At the same time, the company does not stipulate the right to sell shares by achievement of certain performance indicators, while the Board of Directors members do not participate in option programs.	1. If the in-house document(s) – the company's remuneration policy (policies) provide for the provision of company shares to the members of the board of directors, clear rules for the ownership of shares by the members of the board of directors should be provided and disclosed, aimed at encouraging long-term ownership of these shares.	observed	
4.2.3.	The company does not include any additional payments or compensations in a case of early termination of powers of the Board of Directors members in connection with the change of control over the company or other circumstances.	1. The company does not include any additional payments or compensations in a case of early termination of powers of the Board of Directors members in connection with the change of control over the company or other circumstances.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.3	The remuneration procedure for the members of the executive bodies and other Company's key executives provides the remuneration depends on the result of Company's activity and on their personal contribution to this result achievement.			
4.3.1	Remuneration of the members of the executive bodies and other key executives of the company is determined so as to ensure a reasonable and justified ratio of fixed remuneration and variable part of remuneration depending on the result of Company's activity and the employee's personal (individual) contribution to the final result.	1. During the reporting period, the annual performance indicators approved by the board of directors were used to determine the amount of variable compensation for the members of the executive bodies and other key management personnel of the company. 2. During the last evaluation of the remuneration system for the members of the executive bodies and other key management personnel of the company, the board of directors (remuneration committee) ensured that an effective ratio of the fixed part of the remuneration and the variable part of the remuneration is applied in the company. 3. The company provides for a procedure that ensures the return of bonuses unduly received by the members of the executive bodies and other key management personnel of the company to the company.	partially observed	The company does not provide for a procedure that ensures the return of bonuses unduly received by the members of the executive bodies and other key management personnel of the company to the Company. The issues of recovery of unduly received funds from employees are regulated by the legislation of the Russian Federation and can be established by local regulatory acts of the Company.
4.3.2.	The company has introduced the of long-term incentive program for executive body members and other company's key executives, using the company's shares (options or other derivative instruments, the underlying asset of which is the company's shares).	1. The company has introduced the of long-term incentive program for executive body members and other company's key executives, using the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for the members of the executive bodies and other key management personnel of the company provides that the right to sell shares and other financial instruments used in such a program shall be exercised not earlier than three years from the date of their granting. However, the right to sell them is due to the achievement of certain indicators of the company's activities.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.3.3.	The amount of compensation (golden parachute) paid by the Company in the event of early termination of the powers of executive body members or key executives on the company's initiative and in the absence of their fraud does not exceed two-fold a fixed part amount of the annual remuneration.	1. The amount of compensation (golden parachute) paid by the Company in the event of early termination of the powers of executive body members or key executives on the company's initiative and in the absence of their fraud did not exceed two-fold a fixed part amount of the annual remuneration in the reporting period.	observed	
5.1.	The company has established an effective risk management and internal control system aimed to provide the reasonable assurance in achieving the company's objections.			
5.1.1.	The company's Board of Directors determines the principles of and arrangement approaches to the risk management and internal control system in the company.	1. Functions of various management bodies and divisions of the company in the risk management and internal control system are clearly defined in the in-house documents / relevant policies of the company approved by the board of directors.	observed	
5.1.2.	The company's executive bodies ensure the effective risk management and internal control system to be created and maintained in the company.	1. The executive bodies of the company ensured the distribution of functions and powers with respect to risk management and internal control among the managers and heads (managers) of subunits and divisions accountable to them.	observed	
5.1.3.	Risk management and internal control system in the company ensures an objective, fair and clear understanding of the current state and prospects of the company, the integrity and transparency of the company's reporting, the reasonableness and acceptability of the risks assumed by the company.	1. The company has adopted a policy on combating corruption. 2. An accessible way of informing the board of directors or the audit committee of the board of directors about the facts of violation of legislation, in-house procedures, and the code of ethics of the company is organized in the company.	observed	
5.1.4.	The Board of Directors takes necessary measures to make sure the current risk management and internal control system in the company meets certain principles and approaches to its organization established by the Board of Directors, and functions effectively.	1. During the reporting period, the board of directors or the audit committee of the board of directors assessed the effectiveness of the company's risk management and internal control system. Information on the main results of such an assessment is included in the annual report of the company.	partially observed	The annual report of the Company does not include the results of evaluating the effectiveness of the risk management and internal control system of the company.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
5.2	For a systematic independent assessment of reliability and efficiency of the risk management and internal control system and corporate governance practices, the company conducts an internal audit.			
5.2.1.	To conduct internal audit, a separate structural subdivision was created in the company or an independent external organization was engaged. The functional and administrative accountability of the internal audit unit is delineated. The internal audit unit functionally reports to the board of directors.	1. To conduct internal audit, a separate internal audit unit that is functionally accountable to the board of directors or the audit committee has been created in the company, or an independent external organization with the same principle of accountability has been engaged.	observed	
5.2.2.	The internal audit unit evaluates the effectiveness of the internal control system, evaluates the effectiveness of the risk management system, and also the corporate governance system. The company applies generally accepted standards of activity in the field of internal audit.	1. During the reporting period, within the framework of the internal audit, the effectiveness of the internal control and risk management system was assessed. 2. The company uses common approaches to internal control and risk management.	observed	
6.1.	The Company and its activities are transparent to shareholders, investors and other stakeholders.			
6.1.1.	An information policy is developed and introduced in the company to ensure effective information interaction between the company, shareholders, investors and other stakeholders.	1. The company's board of directors has approved the company's information policy developed taking into account the recommendations of the Code. 2. The board of directors (or one of its committees) considered issues related to the company's compliance with its information policy at least once during the reporting period.	partially observed	The board of directors of the Company did not consider issues related to the company's compliance with its information policy in the reporting year.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
6.1.2.	The Company discloses information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The Company discloses information on the corporate governance system in the company and the general principles of corporate governance used in the company, including on the company's website on the Internet. 2. The Company discloses information on the composition of the executive bodies and the board of directors, the independence of the members of the board and their membership in the committees of the board of directors (in accordance with the definition of the Code). 3. In the event that there is a person controlling the company, the company publishes a memorandum of the controlling person regarding the plans of such a person with respect to corporate governance in the company.	partially observed	The company publishes the memorandum of the controlling person regarding the plans of such a person with respect to corporate governance in the Company if such a document is prepared by the controlling person.
6.2.	The Company discloses the complete, current and accurate information on the company in a timely manner to enable shareholders and investors to make sound decisions.			
6.2.1.	The company discloses information in accordance with the principles of regularity, consistency and efficiency, as well as the availability, accuracy, completeness and comparability of the data to be disclosed.	1. Information policy of the company defines approaches and criteria for determining information that can have a significant impact on the evaluation of the company and the value of its securities and procedures that ensure the timely disclosure of such information. 2. If the securities of the company are traded in foreign organized markets, the disclosure of material information in the Russian Federation and in such markets is carried out synchronously and is equivalent during the reporting year. 3. Should the foreign shareholders own a significant number of shares in the company, during the reporting year, information was disclosed not only in Russian, but also in one of the most common foreign languages.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
6.2.2.	The Company avoids a formal approach to information disclosure and discloses important information on its activities, even if the disclosure of such information is not required by the law.	1. During the reporting period, the company disclosed its annual and semi-annual financial statements prepared in accordance with the IFRS. The annual report of the company for the reporting period includes annual financial statements prepared in accordance with the IFRS, along with an audit report. 2. The company discloses full information on the company's capital structure in accordance with the Recommendation 290 of the Code in the annual report and on the company's website on the Internet.	partially observed	The annual financial statements prepared in accordance with the IFRS, along with the audit report, are not included in the annual report of the Company as this information is disclosed by the Company before the annual report is approved by the Board of Directors and is publicly available a few months before the annual general meeting of the Company's shareholders.
6.2.3.	The annual report, being one of the most important tools of the information interaction with shareholders and other stakeholders, contains information allowing to assess the results of Company's activity for the year.	1. The annual report of the company contains information on the key aspects of the company's operating activities and its financial performance. 2. The annual report of the company contains information on the environmental and social aspects of the company's activities.	observed	
6.3.	The company provides information and documents at the requests of the shareholders based on the equal and unhindered access.			
6.3.1.	The company provides information and documents at the requests of the shareholders based on the equal and unhindered access.	1. Information policy of the company determines an easy procedure for providing shareholders with access to information, including information on the entities controlled by the company, at the request of shareholders.	observed	
6.3.2.	When providing information to shareholders, the company ensures a reasonable balance between the interests of specific shareholders and the interests of the company itself, which is interested in preserving the confidentiality of important commercial information that may have a significant impact on its competitiveness.	1. During the reporting period, the company did not refuse to satisfy the shareholders' requests for information, or such refusals were justified. 2. In cases determined by the information policy of the company, shareholders are warned about the confidential nature of the information and assume the responsibility to preserve its confidentiality.	observed	

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
7.1.	Actions that significantly affect or may affect the structure of the share capital and the financial position of the company and, accordingly, the position of shareholders (significant corporate actions) are made under fair conditions that ensure observance of rights and interests of shareholders and other stakeholders.			
7.1.1.	Significant corporate actions are deemed the reorganization of the company, the acquisition of 30 percent or more of the voting shares (takeover), the company's major transactions, the increase or decrease in the company's share capital, the listing and delisting of the company's shares, as well as other actions that may result in a significant change of the shareholders' rights or violation of their interests. The company's Articles of Association specify the list (criteria) of transactions or other actions that are significant corporate actions, and assign a consideration of such actions within the Board of Directors competence.	1. The company's Articles of Association specify the list of transactions or other actions that are significant corporate actions, and criteria for their determination. Decision-making on significant corporate actions is within the competence of the board of directors. In cases where the implementation of these corporate actions is directly attributed by the law to the competence of the general meeting of shareholders, the board of directors provides shareholders with appropriate recommendations. 2. According to the Articles of Association, significant corporate actions are deemed to be (at least) the reorganization of the company, the acquisition of 30 percent or more of the voting shares (takeover), the company's major transactions, the increase or decrease in the company's share capital, the listing and delisting of the company's shares.	not observed	The Articles of Association of the Company do not define the notion of "significant corporate action". Members of the Board of Directors of the Company responsibly approach the consideration of all issues within their competence, regardless of their level of significance.
7.1.2.	The Board of Directors plays a key role in making decisions or making recommendations regarding significant corporate activities, Board of Directors is governed by the position of the company's independent directors.	1. The company provides for a procedure in accordance with which independent directors declare their position on significant corporate actions before they are approved.	not observed	Any member of the Board of Directors of the Company, including independent directors, has the right to freely express their position on any issue within the competence of the Board of Directors, prior to voting on this issue.

N	Principles of the Corporate Governance	Criteria assessing the observance of corporate management principles	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
7.1.3.	When performing significant corporate actions affecting the rights and legitimate interests of shareholders, the equal attitude to all shareholders of the company and, in the absence of mechanisms provided for by the law that are aimed at protecting the rights of shareholders, further measures to protect the rights and legitimate interests of company's shareholders are ensured. In this case, the company is governed not only by the compliance with the formal requirements of the law, but also the corporate governance principles set out in the Code.	1. The company's articles of association, taking into account the specifics of its activities, establish lower criteria for the attribution of transactions of the company to significant corporate actions than those provided for by the legislation. 2. During the reporting period, all significant corporate actions had been approved before they were implemented.	partially observed	The legislation does not set minimum criteria for classifying transactions of the company as significant corporate actions, therefore it is not possible to establish lower criteria.
7.2.	The company ensures the procedure for performance of significant corporate actions that allow shareholders to receive timely complete information on such actions, giving them an opportunity to influence the performance of such actions and ensure the compliance and the adequate level of protection their rights in the performance of such actions.			
7.2.1.	Information on significant corporate actions is disclosed with an explanation of the reasons, conditions and consequences of such actions.	1. During the reporting period, the company disclosed information on the significant corporate actions of the company, including the grounds and timing of such actions, in a timely and detailed manner.	observed	
7.2.2.	The rules and procedures regarding the implementation by the company of significant corporate actions are set forth in the company's internal documents.	In-house documents of the company provide for the procedure for engaging an independent appraiser to determine the value of property alienated or acquired under a major transaction or an interested party transaction. 2. In-house documents of the company provide for the procedure for engaging an independent appraiser to estimate the cost of acquiring the company's shares and their redemption. 3. In-house documents of the company provide for an extended list of grounds on which members of the board of directors of the company and other persons provided for by the law are recognized as interested in transactions of the company.	partially observed	In-house documents of the Company do not provide for an extended list of grounds on which members of the Board of Directors of the Company and other persons provided for by the law are recognized as interested in transactions of the Company.

6.4. Report on related-party transactions concluded by the company in 2016

Information on related-party transactions the size of which was less than 2% of the book value of assets				
Date of transaction	Date of transaction approval	The body of the company that has approved the transaction	The subject of the transaction and its essential terms	Information on the person(s) interested in the transaction
26.09.2016	21.09.2016	Board of Directors	Principal - Detsky Mir PJSC Agent - MTS PJSC The price of the agreement is 15,300,000 rubles, not including VAT. Scope of the transaction - the implementation of procurement activity related to TV placement in 2016; MTS PJSC undertakes for a fee to perform on behalf of and for the account of Detsky Mir PJSC legal and other actions in the field of procurement for "Commerce and Marketing" category, including procurement procedures with respect to services on placement of advertising and informational materials (hereinafter - AIM) at national, regional, non-terrestrial (satellite and cable) television channels, as well as in cinemas and on local advertising and communication networks. Delivery term -January - December 2016 Terms of payment: Fixed payment on a quarterly basis in equal shares in the following amount: • the period from January 01, 2016 to March 31, 2016 - 250,000 (two hundred and fifty thousand) rubles 00 kopecks, plus VAT at the rate established by the current law of the Russian Federation. • the period from April 01, 2016 to June 30, 2016 - 250,000 (two hundred and fifty thousand) rubles 00 kopecks, plus VAT at the rate established by the current law of the Russian Federation. • the period from July 01, 2016 to September 30, 2016 - 250,000 (two hundred and fifty thousand) rubles 00 kopecks, plus VAT at the rate established by the current law of the Russian Federation. • the period from October 01, 2016 to December 31, 2016 - 250,000 (two hundred and fifty thousand) rubles 00 kopecks, plus VAT at the rate established by the current law of the Russian Federation.	JSFC Sistema PJSC is the entity controlling the parties to the transaction

Information on related-party transactions the size of which was less than 2% of the book value of assets				
Date of transaction	Date of transaction approval	The body of the company that has approved the transaction	The subject of the transaction and its essential terms	Information on the person(s) interested in the transaction
16.12.2016	19.12.2016	Board of Directors	Supplier - UK SEGEZHA GRUPP LLC; Principal - Detsky Mir PJSC; Amount of supplies – 4,592,500.00 rub including VAT; Supplied item – paper bags (7 kg capacity); Terms of supply - 2016/2017; Supply periods - by batches upon procurement orders and specifications agreed by Company and Supplier; Terms of payment - within 30 days since supply date;	JSFC Sistema PJSC is the entity controlling the parties to the transaction

Information on related-party transactions the size of which was at least 2% of the book value of assets				
Date of transaction	Date of transaction approval	The body of the company that has approved the transaction	The subject of the transaction and its essential terms	Information on the person(s) interested in the transaction
-	-	-	-	-

DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2016
And Independent Auditor's Report

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC "Detsky mir" (the "Company") and its subsidiaries (the "Group") as of 31 December 2016, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in 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 consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 28 February 2017.

On behalf of the Management:

V.S. Chirakhov,
Chief Executive Officer
PJSC DETSKY MIR

A.S. Garmanova,
Chief Financial Officer
PJSC DETSKY MIR

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INDEPENDENT AUDITOR'S REPORT

To: Board of Directors and Shareholders of Public Joint Stock Company "Detsky mir"

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Recognition of supplier bonuses The Group receives significant amounts of supplier incentives, discounts, and bonuses. These agreements largely comprise of volume-based bonuses based on percentage levels agreed for the calendar year, but also include arrangements with a greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support. We consider this to be a key audit matter because judgment is required in determining the period over which the reduction in cost of sales should be recognized, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data that is subject to bulky manual calculations. The Group's principal accounting policy on supplier bonuses is in Note 4 on page 21.	We obtained understanding of internal processes and controls in respect of accounting for supplier bonuses and assessed whether the amounts recognized in the consolidated financial statements were in line with the Group's accounting policies. We circularized a sample of suppliers to gain assurance that the amounts recorded were accurate and complete and, where outstanding balances were significant at the year-end, to confirm the amounts owed. Where responses were not received, we completed alternative procedures such as obtaining individual supplier bonus agreements and tracing the amounts recorded to primary documents signed by suppliers and evidencing their concurrence with the Group's right for a particular bonus earned. In addition, for a sample of volume-based agreements, we recalculated the bonuses due based on shipments in the year and contractual terms. We recomputed the management's calculation of rebates earned but not recognized and allocated to year-end inventory, in particular focusing on the completeness and accuracy of source data as well as consistency of the calculations with the adopted accounting policies. We also performed a 'look-back' analysis of bonuses recognized in prior period to check that these amounts were appropriately recovered.
Net realizable value of inventories Inventories are carried at the lower of cost and net realizable value. At 31 December 2016 the value of inventories held by the Group was RUB 24,796 million (31 December 2015: RUB 17,346 million). The valuation of inventories was a focus for our audit because assessing the valuation of inventories is an area of significant judgement that involves, among others, estimating the eventual selling price of items held, assessing which items may be slow-moving, obsolete and partially or fully damaged. The assessment process includes studying historical performance of the inventories, current operational plans for the inventories as well as industry and customer specific trends.	We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventories by: • Checking the effectiveness of key inventories controls through attending inventory counts at the distribution center and 10 stores; • Testing the carrying value for a sample of individual goods by checking that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated; • Comparing the net realizable value, obtained through a detailed review of sales subsequent to the reporting date, to the cost of inventories; • Reviewing, recalculating and assessing the inventory provisioning for reasonableness, including challenging the appropriateness of provisioning with reference to inventory ageing, both historical and post year-end performance and a review of the provision as a percentage of gross stock year on year;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
The Group’s inventories provisions are disclosed in Note 14 on page 35.	• Recomputing management calculations of provisions to ensure they are accurate and free from errors.
Revenue recognition – customer loyalty programs We focused our work on revenue that is deferred and recognized on the Group’s customer loyalty program and co-branded loyalty program. We consider this to be a key audit matter because judgment is involved in determining the amount of revenue to be deferred and recognized on customer loyalty programs relating to expected redemption rate applied to loyalty points in issue. The movement of the Group’s deferred revenue in respect of customer loyalty programs is in Note 22 on page 41.	Our audit focused on challenging the Group’s assumptions applied in determining the redemption rates and included: • Obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty programs, as well as of key controls over deferring and recognizing revenue on customer loyalty programs; • Assessing expected redemption rates used by the Group against historical data on factual redemptions; • Using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs; • Recomputing management calculations of revenues deferred and recognized to ensure they are accurate and free from errors.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 when it becomes available 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.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management 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, management 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 management 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives 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 auditor's 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 auditor's 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 auditor's 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.

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.

Vladimir Biryukov
Engagement partner

DELOITTE & TOUCHE

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

28 February 2017

Audited entity: PJSC “Detsky mir”

State Registration Certificate No. 7701233499 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 29 for Moscow on 13.09.1999.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 117415, Russia

Audit Firm: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in millions of Russian Rubles, except per share data)

	Notes	2016	2015
REVENUE	6	79,547	60,544
COST OF SALES		(52,439)	(38,640)
GROSS PROFIT		**27,108**	**21,904**
Selling, general and administrative expenses	7	(20,483)	(17,725)
Share of profit of associate, net of income tax		9	9
Other operating expenses, net		(30)	(20)
OPERATING PROFIT		**6,604**	**4,168**
Finance income	8	170	723
Finance expenses	8	(1,938)	(2,053)
Impairment of goodwill		-	(363)
Gain on acquisition of controlling interest in associate	1	16	-
Foreign exchange gain/(loss), net		33	(921)
PROFIT BEFORE TAX		**4,885**	**1,554**
Income tax expense	9.1	(1,065)	(578)
PROFIT FOR THE YEAR		**3,820**	**976**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		65	62
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,885**	**1,038**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:		739,000,000	739,000,000
Earnings per share, basic and diluted (in Russian Rubles per share)		5.17	1.32

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	At 31 December 2016	At 31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	6,943	6,791
Intangible assets	11	1,301	1,300
Investment in associate		-	56
Long-term loan receivable	12	1,060	5,807
Deferred tax assets	9.2	1,708	1,151
Other non-current assets	13	263	247
Total non-current assets		**11,275**	**15,352**
CURRENT ASSETS:			
Inventories	14	24,796	17,346
Trade receivables	15	3,855	2,710
Advances paid and other receivables	16	2,351	1,850
Prepaid income tax		7	2
Cash and cash equivalents	17	2,445	1,934
Total current assets		**33,454**	**23,842**
TOTAL ASSETS		**44,729**	**39,194**
EQUITY AND LIABILITIES			
SHAREHOLDERS' (DEFICIT)/EQUITY:			
Share capital	18	1	1
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,362)	(5,448)
Currency translation reserve		114	49
Total (deficit)/equity		**(454)**	**395**
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	19	6,514	5,465
Deferred tax liabilities	9.2	69	63
Total non-current liabilities		**6,583**	**5,528**
CURRENT LIABILITIES			
Trade payables		25,215	16,718
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	8,124	12,894
Advances received, other payables and accrued expenses	21	3,834	2,952
Deferred revenue	22	816	278
Current income tax liability		611	429
Total current liabilities		**38,600**	**33,271**
Total liabilities		**45,183**	**38,799**
TOTAL EQUITY AND LIABILITIES		**44,729**	**39,194**

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

	Share capital	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2015	**1**	**6,537**	**(3,878)**	**(13)**	**2,647**
Profit for the year	-	-	976	-	976
Effect of translation to presentational currency	-	-	-	62	62
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**976**	**62**	**1,038**
Share-based compensation (Note 20)	-	-	427	-	427
Disposal of a subsidiary to the shareholder	-	(744)	-	-	(744)
Dividends (Note 18)	-	-	(2,973)	-	(2,973)
Balance at 31 December 2015	**1**	**5,793**	**(5,448)**	**49**	**395**
Profit for the year	-	-	3,820	-	3,820
Effect of translation to presentational currency	-	-	-	65	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**3,820**	**65**	**3,885**
Settlement of share-based compensation (Note 20)	-	-	(307)	-	(307)
Dividends (Note 18)	-	-	(4,427)	-	(4,427)
Balance at 31 December 2016	**1**	**5,793**	**(6,362)**	**114**	**(454)**

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in millions of Russian Rubles)

	Notes	2016	2015
Operating activities:			
Profit for the year		3,820	976
Adjustments for:			
Income tax expense recognized in profit or loss		1,065	578
Share based compensation		-	684
Impairment of goodwill		-	363
Finance income		(170)	(723)
Finance expense		1,938	2,053
Loss on disposal of property, plant and equipment and intangible assets		4	31
Bad debts written-off and change in allowance for doubtful debts		34	(26)
Shrinkage and inventory obsolescence expenses		1,264	888
Depreciation and amortization expense		1,591	954
Foreign exchange (gain)/loss, net		(33)	921
Gain on acquisition of controlling interest in associate		(16)	-
Share of profit of associate, net of income tax		(9)	(9)
Changes in working capital:			
Increase in trade receivables		(1,149)	(1,365)
Increase in advances paid and other receivables		(566)	(790)
Increase in inventories		(8,654)	(7,110)
Increase in trade payables		8,579	4,866
Increase in advances received, other payables and accrued expenses		845	167
Increase/(decrease) in deferred revenue		538	(69)
Cash generated by operations		**9,081**	**2,389**
Interest paid		(1,857)	(2,042)
Interest received		45	165
Income tax paid		(1,468)	(1,190)
Net cash generated by/(used in) operating activities		**5,801**	**(678)**
Investing activities:			
Payments for property, plant and equipment		(1,468)	(4,589)
Payments for intangible assets		(279)	(719)
Net inflow of cash and cash equivalents on acquisition of controlling interest in associate (Note 1)		15	-
Repayment of loans receivable		4,888	98
Dividends received from associate		9	3
Proceeds from disposal of property, plant and equipment		-	20
Loans issued to related parties		-	(31)
Net cash received from/(used in) investing activities		**3,165**	**(5,218)**
Financing activities:			
Repayment of loans and borrowings		(30,290)	(27,783)
Dividends paid		(4,427)	(2,973)
Share-based compensation		(307)	-
Proceeds from loans and borrowings		26,569	36,746
Cash consideration received in the course of disposal of a subsidiary		-	170
Net cash (used in)/generated by financing activities		**(8,455)**	**6,160**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**511**	**264**
CASH AND CASH EQUIVALENTS, beginning of the year		**1,934**	**1,670**
CASH AND CASH EQUIVALENTS, end of the year		**2,445**	**1,934**

The notes on pages 11 to 47 form an integral part of these consolidated financial statements.

(in million of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (the "Company") together with its subsidiaries (the "Group") is the largest retail chain in the children's goods market in the Russian Federation ("RF"). The Company is registered in the Unified State Register of Legal Entities under the laws of the Russian Federation (State Registration Certificate No. 1027700047100).

The primary activity of the Group is the sale of children's clothing and goods through retail and internet stores. In 2016 and as at 31 December 2016 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia.

The controlling shareholder of the Company is PJSFC Sistema ("Sistema").

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2016	31 December 2015
PJSFC Sistema and subsidiaries	72.57%	75.82%
Floette Holdings Limited [1]	11.55%	11.55%
Exarzo Holdings Limited [1]	11.55%	11.55%
Other shareholders	4.33%	1.08%
Total	**100%**	**100%**

[1] Represent the interests of the "Russian-Chinese investment Fund" (Note 26).

As at 31 December 2016 and 2015 the Group's ultimate controlling party was Mr. Vladimir Evtushenkov.

The ownership interest of the Group and the proportion of its voting rights in its major operating subsidiaries was as follows, as at each period end:

	Ownership interest and proportion of voting rights	
Subsidiaries	**31 December 2016**	**31 December 2015**
Detsky mir Kazakhstan, LLP, Kazakhstan	100%	100%
Kub-Market LLC, RF	100%	100%
Detsky mir-Orel, JSC	100%	50%

As at 31 December 2016 and 2015 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

Acquisition of controlling interest in associate

On 25 August 2016, the Group acquired control over Detsky mir-Orel JSC ("DM Orel"), formerly an associate of the Group, by increasing of its stake in DM Orel from 50% to 100% for a cash consideration of RUB 28 million.

The acquisition has been accounted for using the purchase method. These consolidated financial statements include the results of DM Orel for September-December 2016.

The fair values of the identifiable assets and liabilities of DM Orel as at the date of acquisition were as follows:

	DM Orel
Property, plant and equipment	2
Trade and other accounts receivable	2
Inventories	61
Cash and cash equivalents	43
Other current assets	1
Accounts payable, provisions and accrued expenses	(9)
Fair value of identifiable net assets	**100**
Less: fair value of investment in associate held at the date of acquisition	(56)
Less: excess of fair value of acquired net assets over consideration paid	(16)
Purchase consideration transferred (paid in cash)	**28**

Cash flows arising on acquisition of controlling interest in associate are as follows:

Cash and cash equivalents acquired with the subsidiary	43
Cash consideration paid	(28)
Net inflow of cash and cash equivalents on acquisition	**15**

Gain on acquisition of controlling interest in associate of RUB 16 million, represented by excess of fair value of acquired net assets over consideration paid, has been recognized in consolidated statement of profit and loss and other comprehensive income and results from the Group's strong position in negotiations with the previous holder of 50% interest in DM Orel.

From the date of acquisition until 31 December 2016, DM Orel has contributed RUB 59 million to revenue and RUB 19 million as a reduction of the Group's net profit. If the acquisition had taken place on 1 January 2016, net profit of the Group for 2016 would have been RUB 3,868 million and revenue for the respective period would have been RUB 79,852 million.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles, except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2015, except for the adoption of the new standards and interpretations described below.

In 2016 the Group has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB:

- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Annual Improvements to IFRS 2012-2014 Cycle.

The adoption of these standards and interpretations has not had a significant impact on the consolidated financial statements of the Group for 2016.

New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments* [2];
- IFRS 15 *Revenue from Contracts with Customers* [2];
- IFRS 16 *Leases* [3];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions* [2];
- Amendments to IAS 7 – *Disclosure Initiative* [1];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* [2];
- Annual Improvements to IFRS 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with early application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with early application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with early application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group does not anticipate that the application of IFRS 9 in the future may have a significant impact in future period, except that IFRS 9 will impact disclosures of financial instruments. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Group does not anticipate that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify that in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- the original liability is derecognized;
- the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognized. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively

The management of the Group does not anticipate that the application of IFRIC 22 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRS 2014-2016 Cycle

This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarized financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's entities maintain their accounting records in compliance with the local legislation on accounting and reporting adopted in jurisdictions of the countries in which they were founded and registered. The accounting principles and reporting procedures in these jurisdictions may differ from generally accepted IFRS principles. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

These consolidated financial statements of the Group have been prepared on the historical cost basis except for certain assets and financial instruments that are measured at fair values or revalued amounts, as explained in the accounting policies below. Historical cost is usually based on the fair value of the consideration paid for purchased assets.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2016 as well as comparative information presented in these financial statements.

Going concern principle

These consolidated financial statements have been prepared on the management's assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Presentation currency and functional currency

Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble ("RUB"). The functional currencies of the Company's German and Kazakhstan subsidiaries are the Euro and Tenge, respectively.

These consolidated financial statements are presented in millions of Russian Rubles. The management believes that the Russian Ruble is the most convenient presentation currency for users of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over an entity;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Company controls an entity without the majority of voting rights if existing voting rights give the possibility to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights under the agreements; any additional facts and circumstances that indicate whether the Company has the ability to direct the significant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of subsidiaries begins since the acquisition and ends with the loss of the control.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests.

Segment information

Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has two operating segments pursuant to the IFRS 8 Segment Reporting, being retail and online sales; however online sales are below the quantitative thresholds, for being separately reportable segments and as such are aggregated with the retail segment. The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Customer base of the Group is diversified; therefore transactions with a single external customer do not exceed 10% of the Group's revenue.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets and liabilities are recognized and measured in accordance with IAS 12 "Income Taxes";
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Additional interests in subsidiaries acquired from non-controlling interests are accounted for as transactions between shareholders. Differences in the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired from the Group's non-controlling interests and the amount of consideration are recognized directly in retained earnings. Profit and losses, arising from the disposal of non-controlling interests in the subsidiaries of the Group are recognized in the consolidated statement of profit or loss and other comprehensive income.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in the fair value of the contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group recognizes retail revenues when goods are sold in retail stores.

For online sales the Group recognizes revenue upon delivery of the goods to customers.

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Bonuses and allowances received from suppliers

The Group receives bonuses and allowances that are related to formal agreements negotiated with its suppliers. These bonuses and allowances are predominantly for cooperative advertising, promotions, and volume related discounts. The Group accounts for supplier bonuses and allowances as a reduction in cost of inventories unless these represent a reimbursement of specific, incremental, identifiable costs incurred by the Group in selling the suppliers' goods. Supplier allowances provided as a reimbursement of specific incremental and identifiable costs incurred to promote a supplier's goods are included as a reduction in the respective expenses when the cost is incurred.

Customer Loyalty Program

The Group has a customer loyalty program "Yo-Yo" which allows customers to earn points for each purchase made in any of the Group's retail stores. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points. Other administrative costs of the Customer Loyalty Program are recorded in Selling, general and administrative expenses as incurred.

Finance income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currency transactions

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

(in millions of Russian Rubles)

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2016	**At 31 December 2015**
Closing exchange rates at the year-end – RUB		
1 EUR	63.8111	79.6972
1 Tenge	0.1816	0.2152
1 USD	60.6569	72.8827

	2016	**2015**
Average exchange rates for the year ended – RUB		
1 EUR	74.2310	67.7767
1 Tenge	0.1960	0.2833
1 USD	67.0349	60.9579

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Buildings, leasehold improvements and equipment are stated in the consolidated statement of financial position at their cost that includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of profit or loss and other comprehensive oncome as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	20-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office equipment and other property, plant and equipment	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when the Group has a right to renew and it is highly probable that the Group will exercise its right.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recognized within profits and losses for the period.

Leases

The Group has not entered in any finance leases, although enters into operating leases in the normal course of business, particularly relating to rental of retail store premises.

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are activated.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives, presented below.

Purchased software	2-10 years
Other	2-10 years

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment losses is immediately recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is determined on the average cost basis and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location (retail shops and distribution warehouses) and condition. Supplier allowances that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

At the end of each reporting period, the Group provides for estimated shrinkage, obsolete and slow-moving inventory.

Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: prices on similar assets and liabilities determined in active markets (unadjusted);
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

<u>Investments held-to-maturity</u>

Investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

<u>Impairment of financial assets</u>

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence that financial assets are impaired can include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

<u>Derecognition of financial assets</u>

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when an entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the control is retained), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

<u>Classification as debt or equity</u>

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at FVTPL. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash-settled share-based compensation

In 2014-2016, certain Company's employees of managerial positions were entitled to share-based compensation ("phantom" shares). The Group's liabilities related to such payments are recognized as "cash-settled share-based compensation" and initially measured at the fair value of such liabilities. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

Equity-settled share-based compensation are accounted for at fair value determined on the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

Dividends

Dividends and the related taxes are recognized as a liability in the period in which they have been declared and become legally payable. Dividends can be paid out in accordance with laws of the jurisdictions in which the Group's entities are incorporated and registered.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 "Significant Accounting Policies", management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates.

Estimated useful lives of leasehold improvements is based on leases retail space contracts, as it is the intent, and experience, that these leases will be kept until the expiration of the agreed term.

Management annually reviews the appropriateness of asset's useful economic lives. The review is based on the current condition of the assets and plans to fully renovate the stores in the near future.

Taxation

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income tax and other taxes as there are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of various matters is different from the amounts that were recorded, such difference will impact the amounts of current and deferred income tax in the period in which such determination is made.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. Management has concluded that substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

(in millions of Russian Rubles)

Measuring inventories

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories and obsolete inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as of reporting date is based on the average historical actual shrinkage results, net of surpluses, in stores of the Group.

Revenue attributed to loyalty program "YO-YO"

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

	2016	**2015**
Retail, excluding luxury and the online store	77,621	59,447
Online store	1,868	969
Luxury retail	-	108
Other	58	20
Total	**79,547**	**60,544**

Revenue for sales of goods ordered via the Internet and picked up at Group's retail stores is included in retail revenue.

Revenue from ELC-branded stores, shown within retail revenue, for the years ended 31 December 2016 and 2015 amounted to RUB 1,001 million and RUB 934 million, respectively.

(in millions of Russian Rubles)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Rent and utility	8,191	7,073
Payroll	7,106	6,809
Depreciation and amortization	1,591	954
Advertising and marketing expenses	1,058	1,091
Banking services	656	457
Repair and maintenance	338	287
Software maintenance	313	122
Promotional materials	282	229
Security expenses	253	228
Taxes (other than income tax)	142	83
Consulting services	118	46
Communication expense	103	89
Travel expenses	91	73
Bad debts written off and change in allowance for doubtful debts	34	(26)
Stationery and other materials	28	53
Income from partial release in provisions for fines for cancellation of orders from luxury goods suppliers booked in 2014	-	(93)
Other	179	250
Total	**20,483**	**17,725**

8. FINANCE INCOME AND EXPENSES

Finance income

	2016	2015
Interest income on bank deposits	35	94
Interest income on loans issued to related parties	135	629
Total	**170**	**723**

Finance expenses

	2016	2015
Interest expense on bonds	-	39
Interest expense on bank loans	1,938	2,014
Total	**1,938**	**2,053**

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

	2016	2015
Current tax		
In respect of the current year	(1,952)	(1,044)
In respect of prior years	340	52
Other	(4)	(2)
	(1,616)	(994)
Deferred tax		
In respect of the current year	551	416
	551	416
Total income tax expense recognized in profit or loss	**(1,065)**	**(578)**

(in millions of Russian Rubles)

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation where the Group has its main operating entities to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income:

	2016	**2015**
Profit before tax	4,885	1,554
Income tax expense calculated at 20% (2015: 20%)	977	311
Non-deductible inventory losses	365	173
Loss from goodwill impairment not deductible for tax purposes	-	73
Provision uncertain tax positions	43	-
Other non-deductible expenses, net	16	28
Deferred tax assets not recognized in respect of current period tax losses	-	43
Other charges not deductible for tax purposes	4	2
Prior period income tax adjustment	(340)	(52)
Income tax expense recognized in profit or loss	**1,065**	**578**

9.2. Deferred tax balances

Deferred tax assets and liabilities of the Group comprise differences resulting from differences between the tax and accounting bases for the following assets and liabilities:

2016	**Opening balance**	**Recognized in profit or loss**	**Closing balance**
Deferred tax assets in relation to:			
Inventories	3,266	1,866	5,132
Accrued expenses and other deductible temporary differences	1,982	162	2,144
Deferred revenue	278	538	816
Losses carried forward	227	221	448
Total temporary differences	**5,753**	**2,787**	**8,540**
Deferred tax assets	**1,151**	**557**	**1,708**
Deferred tax liabilities in relation to:			
Property, plant and equipment	(315)	(29)	(345)
Total temporary differences	**(315)**	**(29)**	**(345)**
Deferred tax liabilities	**(63)**	**(6)**	**(69)**
Net deferred tax assets	**1,088**	**551**	**1,639**

(in millions of Russian Rubles)

2015	Opening balance	Recognized in profit or loss	Closing balance
Deferred tax assets in relation to:			
Inventories	1,814	1,452	3,266
Accrued expenses and other deductible temporary differences	1,220	762	1,982
Deferred revenue	347	(69)	278
Losses carried forward	163	64	227
Less: valuation allowance	(9)	9	-
Total temporary differences	**3,535**	**2,218**	**5,753**
Deferred tax assets	**707**	**444**	**1,151**
Deferred tax liabilities in relation to:			
Property, plant and equipment	(52)	(263)	(315)
Other taxable temporary differences	(122)	122	-
Total temporary differences	**(174)**	**(141)**	**(315)**
Deferred tax liabilities	**(35)**	**(28)**	**(63)**
Net deferred tax assets	**672**	**416**	**1,088**

As at 31 December 2016 and 31 December 2015 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improve-ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Cost					
At 1 January 2015	**2,970**	**2,024**	**661**	**485**	**6,140**
Additions	24	4	8	4,559	4,595
Transfers	3,374	175	1,277	(4,826)	-
Disposals	(41)	(28)	(28)	(43)	(140)
At 31 December 2015	**6,327**	**2,175**	**1,918**	**175**	**10,595**
Additions	35	10	27	1,409	1,481
Transfers	559	704	202	(1,465)	-
Disposals	(32)	(649)	(67)	-	(748)
Acquisition of subsidiaries	3	3	-	-	6
At 31 December 2016	**6,892**	**2,243**	**2,080**	**119**	**11,334**

(in millions of Russian Rubles)

	Buildings and leasehold improve-ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Accumulated depreciation and impairment					
At 1 January 2015	**1,311**	**1,468**	**263**	**-**	**3,042**
Depreciation expense	431	107	312	-	850
Disposals	(36)	(27)	(25)	-	(88)
At 31 December 2015	**1,706**	**1,548**	**550**	**-**	**3,804**
Depreciation expense	638	172	504	-	1,314
Disposals	(25)	(645)	(63)		(733)
Acquisition of subsidiaries	3	3	-	-	6
At 31 December 2016	**2,322**	**1,078**	**991**	**-**	**4,391**
Carrying amount / net book value					
Balance at 1 January 2015	**1,659**	**556**	**398**	**485**	**3,098**
Balance at 31 December 2015	**4,621**	**627**	**1,368**	**175**	**6,791**
Balance at 31 December 2016	**4,570**	**1,165**	**1,089**	**119**	**6,943**

Normally the Group's additions of items of property, plant and equipment relate to new stores openings. In addition, in 2015, the Group completed construction of a distribution center in Bekasovo, Moscow Region. The carrying value at the date of putting into operation amounted to RUB 2,648 million and was included within the "Buildings and leasehold improvements" group. Also, in 2015, the Group purchased warehouse equipment with the carrying value of RUB 524 million, which were included within the "Office and warehouse equipment and other fixed assets" group.

Loss on disposal of other property, plant and equipment of RUB 4 million and RUB 31 million was recognized in other operating income and expense, net in the consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016 and 2015, respectively.

11. INTANGIBLE ASSETS

	Software	Trademarks	Intangible assets not ready for use	Total
Cost				
At 1 January 2015	**1,136**	**3**	**-**	**1,139**
Additions	757	1	-	758
Disposals	(2)	-	-	(2)
At 31 December 2015	**1,891**	**4**	**-**	**1,895**
Additions	226	-	53	279
At 31 December 2016	**2,117**	**4**	**53**	**2,174**
Accumulated amortization				
At 1 January 2015	**493**	**-**	**-**	**493**
Amortization expense	104	-	-	104
Disposals	(2)	-	-	(2)
At 31 December 2015	**595**	**-**	**-**	**595**
Amortization expense	278	-	-	278
Balance at 31 December 2016	**873**	**-**	**-**	**873**
Carrying amount				
Balance at 1 January 2015	**643**	**3**	**-**	**646**
Balance at 31 December 2015	**1,296**	**4**	**-**	**1,300**
Balance at 31 December 2016	**1,244**	**4**	**53**	**1,301**

(in millions of Russian Rubles)

The increase of the carrying amount of software in 2015 and 2016 relates primarily to licenses acquired for an ERP system (SAP) and capitalized implementation costs. The Group launched SAP in 2015.

12. LONG-TERM LOAN RECEIVABLE

Long-term loan receivable as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
A loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at Mosprime1M+2% per annum maturing in September 2020	754	4,553
Accrued interest	306	1,254
Total	**1,060**	**5,807**

Long-term loan granted to subsidiaries of Sistema, related parties, is unsecured.

In January-February 2016, CJSC "DM-Finance" has partially repaid the loan previously issued by the Group in the amount of RUB 4,875 million, including interest. On 27 February 2017 CJSC "DM-Finance" has fully repaid the remaining part of the loan previously issued by the Group (Note 27).

The fair value of long-term loan receivable from related party as at 31 December 2016 approximated it's carrying amount (31 December 2015: RUB 4,487 million).

13. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Long-term advances paid under operating lease agreements for warehouses and stores	259	244
Other	4	3
Total	**263**	**247**

14. INVENTORIES

Inventories as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Merchandise inventories	24,677	17,275
Materials	119	71
Total	**24,796**	**17,346**

Materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value in the amount of RUB 1,264 million and RUB 888 million for the years ended 31 December 2016 and 2015, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2016 and 2015 no inventories were pledged.

(in millions of Russian Rubles)

15. TRADE RECEIVABLES

Trade receivables as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Trade receivables	3,856	2,711
Allowance for doubtful debts	(1)	(1)
Total	**3,855**	**2,710**

Trade receivables are generally represented by amounts receivable from suppliers in relation to volume bonuses, other bonuses and compensations and for goods returned to suppliers.

16. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Advances paid to suppliers	329	296
Value added tax receivable	965	1,162
Other advances paid	85	196
Other taxes receivable	11	1
Prepaid expenses	31	24
Other receivables	975	203
Less: allowance for doubtful accounts	(45)	(32)
Total	**2,351**	**1,850**

Other advances paid include prepayments on leases and customs duties. Other receivables as at 31 December 2016 include amounts due from Detsky mir – Retail Assets, a subsidiary of PJSFC Sistema, of nil (31 December 2015: RUB 12 million).

The following is the movement in the allowance for other doubtful receivables and advances paid:

	2016	2015
Balance at beginning of the year	(32)	(34)
Impairment loss recognized on other receivables	(16)	(8)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	3	10
Balance at the end of the year	**(45)**	**(32)**

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the solvency of debtors from the date of receivables origination up to the reporting date. The details about concentration of credit risk and related risk management activities are described in Note 25.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Cash on bank accounts	324	317
Cash in transit	1,811	758
Bank deposits in RUB	69	690
Cash on hand	241	169
Total	**2,445**	**1,934**

(in millions of Russian Rubles)

Cash and cash equivalents as at 31 December 2016 include RUB-denominated term deposits of RUB 69 million with interest rate of 4.5% and maturity on 9 January 2017.

Cash and cash equivalents as at 31 December 2015 include RUB-denominated term deposits of RUB 690 million with interest rate of 4.4% and maturity on 11 January 2016.

Cash in transit comprises cash collected from the Group's stores and not yet placed into the Group's bank accounts at the year-end.

18. SHAREHOLDERS' (DEFICIT)/EQUITY

Ordinary shares

As at 31 December 2016 and 2015 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 31 December 2016 and 2015	739,000,000	739,000,000	739,000,000

All ordinary shares have a par value of RUB 0.0004 per share.

Dividends

Dividends may only be declared from accumulated undistributed and unreserved earnings, as shown in the Company's statutory financial statements prepared in accordance with Russian accounting standards ("RAS"), and if certain other requirements of Russian legislation are met. If statutory undistributed earnings are negative as of the beginning of fiscal year, then dividends may only be declared from net profit earned in that fiscal year, as shown in the Company's statutory financial statements prepared under RAS.

On 2 July 2015 at the annual general meeting of shareholders the dividend payment for the year 2014 was approved in an amount of RUB 839 million. On 4 December 2015 at the extraordinary general meeting of shareholders the dividend payment for 9 months 2015 was approved in an amount of RUB 2,134 million.

On 28 June 2016 at the annual general meeting of shareholders the dividend payment for the year 2015 was approved in an amount of RUB 1,308 million or RUB 1.77 per share. These dividends were fully paid by the Group during July-August 2016.

On 1 December 2016 at the extraordinary general meeting of shareholders a dividend payment for 9 months 2016 was approved in an amount of RUB 3,119 million or RUB 4.22 per share. These dividends were fully paid by the Group during December 2016.

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Bank loans		
Secured bank loans in rubles	2,285	3,200
Unsecured bank loans in rubles	12,353	15,159
	14,638	**18,359**
Less current portion of long-term debt	(8,124)	(12,894)
Loans and borrowings, non-current	**6,514**	**5,465**

(in millions of Russian Rubles)

Bank loans in rubles

At 31 December 2016 the loans in rubles were provided to the Group by 5 Russian banks (31 December 2015 – 6 banks).

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2016 and 31 December 2015 was RUB 14,825 million and 18,310 million, respectively. The carrying amount of this debt was RUB 14,638 million, RUB 18,359 million, respectively.

Unused credit line facilities

As at 31 December 2016 and 31 December 2015, the total amount of undrawn credit lines of the Group was RUB 11,983 million and RUB 7,218 million, respectively, including RUB 8,283 million and RUB 3,610 million relating to long-term credit lines, respectively.

Restrictive covenants

Some of the Group's loan agreements contain certain restrictive covenants, including requirements to comply with specified financial ratios. The Group's loan agreements contain various provisions that come into force in the case of Group's failure to comply with restrictive covenants. In particular, a bank may increase the interest rate on the loan, require additional collateral or immediate repayment of the corresponding amount of debt. Management believes that as at 31 December 2016 and 31 December 2015 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Collateral

The performance of the Group's obligations under a loan agreement with one of its banks as of 31 December 2016 and 31 December 2015 is secured by a mortgage of the building with a net book value of RUB 2,418 million and RUB 2,593 million, respectively.

With the exception of the above mentioned assets as at 31 December 2016 and 31 December 2015 the Group has no other assets or securities pledged as collateral for loans and borrowings granted to the Group.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the bank loans principal outstanding as at 31 December 2016 and 2015:

As at 31 December 2016	
Within the first month	756
From one to three months	1,930
From three months to one year	5,438
From one year to two years	1,668
From two year to five year	4,846
Total	**14,638**

As at 31 December 2015	
Within the first month	2,385
From one to three months	3,808
From three months to one year	6,701
From one year to two years	1,600
From two year to five year	3,865
Total	**18,359**

(in millions of Russian Rubles)

20. SHARE-BASED COMPENSATION

Cash-settled share-based compensation

Long-term incentive plan adopted in 2014

In August 2014, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan"). Under the conditions of the Incentive Plan, certain employees at senior levels are entitled to share-based compensation, so-called "phantom" shares, that are to be granted by the Group in annual tranches over 2014-2016. The phantom shares vest on 31 December 2016 contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company.

Phantom shares granted by the Group to the participants of the Incentive Plan as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	Weighted average exercise price
Outstanding at 1 January 2015	**2,648,588**	**-**
Granted during the period	1,331,479	-
Forfeited / canceled during the period	(711,940)	-
Outstanding at 31 December 2015	**3,268,127**	**-**
Forfeited / canceled during the period	(130,525)	
Exercised during the period	(1,639,124)	-
Outstanding at 31 December 2016	**1,498,478**	**-**
Exercisable at 31 December 2016	-	-

According to the terms of the Incentive Plan, the right to receive Company's ordinary shares or cash compensation in exchange for the phantom shares granted to the employees as at 31 December 2015 arises during 2016-2018 provided they continue to be employed by the Company.

In June 2016, the Group settled part of its obligations under previously granted employee rights to receive a cash equivalent of phantom shares value by paying to them a cash consideration, of which 50% was designated to purchase 0.11% Company's ordinary shares from a PJSFC Sistema subsidiary.

As at 31 December 2016, the Group recognized liabilities of RUB 139 million in relation to the Incentive Plan, calculated as the fair value of the phantom shares granted to employees as at this date (as at 31 December 2015: RUB 278 million). These liabilities include accrued social contributions of RUB 33 million (as at 31 December 2015: RUB 65 million). Income upon partial settlement of the phantom shares of RUB 32 million was recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (for the year ended 31 December 2015: expense of RUB 258 million).

When estimating its liability under the Incentive Plan the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 85.52 per share as at 31 December 2016 and RUB 65.1 per share as at 31 December 2015), and that all of the employees participating in the Incentive Plan will stay employed by the Group until their rights vest.

(in millions of Russian Rubles)

Long-term incentive plan adopted in 2016

In September 2016, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 2"). Under the conditions of the Incentive Plan 2, certain employees at senior levels are entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over 2016-2018. The phantom shares vest on 31 December 2018 contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company. This settlement choice is upon the Group's discretion. Based on the Group's plans and historical experience, management expects that the settlement shall be done in cash. Thus, the Incentive Plan 2 is accounted for as a cash-settled share-based plan.

Phantom shares granted by the Group to the participants of the Incentive Plan as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	**Weighted average exercise price**
Outstanding at 1 January 2016	**-**	**-**
Granted during the period	1,981,691	-
Forfeited / canceled during the period	(132,817)	
Outstanding at 31 December 2016	**1,848,874**	-
Exercisable at 31 December 2016	-	-

As at 31 December 2016, the Group recognized liabilities of RUB 40 million in relation to the Incentive Plan 2, calculated as the fair value of the phantom shares granted to employees as at this date. These liabilities include accrued social contributions of RUB 5 million. The respective expense of RUB 40 million was recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

When estimating its liability under the Incentive Plan 2, the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 85.52 per share as at 31 December 2016), and that all of the employees participating in the Incentive Plan 2 will stay employed by the Group until their rights vest.

As disclosed in Note 27, in February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 will vest in 2017.

Equity-settled share-based compensation

In December 2015 the Group's Board of Directors approved an equity-settled share-based compensation. In June 2016, the participants' previously granted right to receive Company's ordinary shares was extinguished by mutual agreement of the parties through cash settlement that was designated to purchase ordinary shares of the Company from a PJSFC Sistema's subsidiary. This settlement was recognized as debit movement in equity within the Accumulated deficit line.

(in millions of Russian Rubles)

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2016 and 2015 comprised the following:

	31 December 2016	31 December 2015
Taxes payable other than income tax	357	416
Salaries payable	629	631
Interest payable	41	54
Accrued expenses and other current liabilities	2,807	1,851
Total	**3,834**	**2,952**

22. DEFERRED REVENUE

Deferred revenue relating to the Group's customer loyalty program as at 31 December 2016 and 2015 was as follows:

	2016	2015
As at 1 January	278	347
Revenue deferred during the period	3,261	2,027
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(2,723)	(2,096)
As at 31 December	**816**	**278**

23. RELATED PARTIES

Parties are considered related if they are under common control, or one party has the ability to control the other party, exercise significant influence over decisions on matters of economic and financial activity, or can exercise joint control. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form.

Transactions with related parties may be on terms that are not always accessible to third parties. This table presents the list of transactions and balances in the calculation of the Group with subsidiaries of PJSFC Sistema:

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	158	-	11	-
Other receivables /(payables)	1	(124)	12	(108)
Loans receivable	1,060	-	5,807	-

(in millions of Russian Rubles)

Outstanding balances with related parties are unsecured and will be settled in cash.

The Group's transactions with subsidiaries and associates of Sistema for the years ended 31 December 2016 and 2015 were as follows:

Related party	Type of transaction	2016	2015
Detsky mir-Retail assets (i)	Rent and utilities	21	41
MTS (i)	Communication costs	23	20
MTS (i)	Advertising and	86	44
PA-Maxima (ii)	marketing expenses	2	10
VAO "Intourist" (i)	Costs of organizing events	35	1
CJSC "NVision group" (i)	Acquisition of fixed assets	22	9
CJSC "DM-Finance" (i)	Repayment of loans receivable	4,875	-
	Interest income	135	629
Group of companies "Medsi" (i)	Medical services	-	4

(i) subsidiary of PJSFC "Sistema";
(ii) associate of PJSFC "Sistema".

The information about dividends declared and paid is disclosed in Note 18.

Remuneration of key management personnel of the Group

During 2016 and 2015, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 448 million (including RUB 435 million of short-term benefits and RUB 13 million of accrued share-based compensation) and RUB 1,187 million (including RUB 301 million of short-term benefits and RUB 886 million of accrued share-based compensation), respectively.

24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and bank balances as detailed in Note 17) and equity of the Group.

The Group's management periodically reviews the capital structure of the Group. As part of this review, management considers the cost of capital, risks associated with each class of capital and the level of debt-to-equity ratio.

Categories of financial instruments as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Financial assets		
Loans receivable	1,060	5,807
Cash and cash equivalents	2,445	1,934
Trade accounts receivable	3,855	2,710
Other receivables	975	203
	8,335	**10,654**
Financial liabilities at amortized cost		
Loans and borrowings	(14,638)	(18,359)
Trade payables	(25,215)	(16,718)
Other payables	(3,477)	(2,536)
	(43,330)	**(37,613)**
Net financial liabilities	**(34,995)**	**(26,959)**

(in millions of Russian Rubles)

25. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, foreign currency risk and interest rate risk. A description of the Group's risks and management policies in relation to those risks is described below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group thoroughly controls and manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of merchandise inventories is 3 to 5 months. No interest is charged on the trade payables.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2016				
Fixed rate borrowings				
Loan principal	12,353	2,606	4,965	4,782
Interest	37	37	-	-
	12,390	**2,643**	**4,965**	**4,782**
Floating rate borrowings				
Loan principal	2,285	80	473	1,732
Interest	4	4	-	-
	2,289	**84**	**473**	**1,732**
Other financial liabilities				
Trade payables	25,215	-	25,218	-
Other non-interest bearing liabilities	3,436	3,436	-	-
	28,651	**3,436**	**25,218**	**-**
Total	**43,330**	**6,163**	**30,656**	**6,514**

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2015				
Fixed rate borrowings				
Loan principal	15,452	6,112	6,353	2,987
Interest	50	50	-	-
	15,502	**6,162**	**6,353**	**2,987**
Floating rate borrowings				
Loan principal	2,907	81	348	2,478
Interest	4	4	-	-
	2,911	**85**	**348**	**2,478**
Other financial liabilities				
Trade payables	16,718	-	16,718	-
Other non-interest bearing liabilities	2,482	2,482	-	-
	19,200	**2,482**	**16,718**	**-**
Total	**37,613**	**8,729**	**23,419**	**5,465**

Weighted average effective interest rate as at 31 December 2016 was 11.94% (31 December 2015: 13.9%).

(in millions of Russian Rubles)

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which are potentially subject the Group to credit risk consist primarily of loans receivable, trade and other receivables as well as cash on current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable or paid in cash. At 31 December 2016 trade receivables from three major suppliers comprised 45% of the Group's consolidated trade receivables (31 December 2015: 52%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury. The management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The table below shows the balances that the Group has with 5 of its major banks as at the balance sheet date:

Bank	Rating	Carrying amount as at 31 December 2016	Carrying amount as at 31 December 2015
Sberbank	Ba2 (Moody's)	1,384	715
Raiffeisenbank	Baa2 (Moody's)	317	122
MTS bank	B+ (Fitch)	158	11
VTB	Ba2 (Moody's)	121	16
Alfa-Bank	Ba2 (Moody's)	65	-
Total		**2,045**	**864**

At of 31 December 2016 all loans receivable in amount of RUB 1,060 million are due from subsidiaries of Sistema which has a credit rating of BB- (Fitch). The Group's management believes that Sistema's strong credit rating and liquidity position are indicative of a high probability of repayment of these loans.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2016 and 2015.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	31 December 2016		31 December 2015	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	-	31	3	79
Trade and other receivables	-	189	191	146
Total assets	**-**	**220**	**194**	**225**
Liabilities				
Trade and other payables	(46)	(3,241)	(167)	(2,898)
Total liabilities	**(46)**	**(3,241)**	**(167)**	**(2,898)**
Total net position	**(46)**	**(3,021)**	**27**	**(2,673)**

(in millions of Russian Rubles)

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to a depreciation of the RUB against the primary foreign currencies of the Group by 20%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	31 December 2016		**31 December 2015**	
	EUR	**USD**	**EUR**	**USD**
(Loss)/profit and (decrease)/increase in equity	(9)	(604)	5	(535)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The Group manages this risk through analysis of current interest rates, performed by treasury function on the Group entities level. To mitigate the risk exposure the Group receives loans at both fixed and floating rates. In case of changes in market interest rates management may consider refinancing of a particular financial instrument on more favorable terms.

The table below details sensitivity of the Group's borrowings with floating rates to change of floating rates by 3%, which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the reporting date was outstanding for the entire annual period.

	2016	**2015**
Profit or loss	69	87

26. COMMITMENTS AND CONTINGENCIES

Option agreements

In December 2015, PJSFC "Sistema" sold 23.1% of the Company to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The Group has granted the buyer an option to put its stake in the Company at fair value in case of the non-occurrence of prescribed future events which, among others, include initial public offering of the Company. The option is exercisable between 2021 and 2023. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group and PJSFC "Sistema".

As disclosed in Note 27, in February 2017 the Company completed an initial public offering meaning that the above put option will not be exercisable thereafter.

Operating leases

The Group leases retail space through lease contracts which expire in various years through 2023. Although the store leases are generally long term, all of the store lease contracts contain provisions that enable the Group to cancel the lease provided the Group either pays a penalty, which typically consists of a payment equal to approximately two to three months rent or sends an advance notice to the lessor. Notwithstanding, the contracts which are more economically beneficial to be continued by the Group rather than to be canceled are classified as non-cancellable under IAS 17.

(in millions of Russian Rubles)

Future minimum rental payments (net of VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
During one year	7,578	6,448
More than one year, but no more than 5 years	41,044	32,806
More than 5 years	12,409	9,490
Total	**61,031**	**48,744**

Legal

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

27. SUBSEQUENT EVENTS

Long-Term Incentive Plan

In January 2017, the General Shareholders' Meeting approved a long-term incentive plan for the Company's senior management personnel ("Incentive Plan"). Under the conditions of the plan, the participants are entitled to share-based compensation ("phantom" shares). The "phantom" are to be provided in annual tranches over 2017-2019, subject to continued employment with the Group and certain established targets relating to the increase in the market value of one ordinary share. The "phantom" shares vest automatically upon occurrence of certain events, which include, among others, initial public offering of the Company.

The grant date for the plan has been determined to be subsequent to 31 December 2016, and accordingly the Incentive Plan has not been accounted for and no compensation expense has been recognized in the year ended 31 December 2016.

Initial public offering

In February 2017 the Company completed an initial public offering and its ordinary shares were admitted to trading on the Moscow Exchange. As a part of the offering some of the Company's existing shareholders sold a portion of ordinary shares held in the Company to third party investors, thus resulting in a change in the Company's shareholding structure. PJSFC Sistema has retained its controlling shareholding in the Company after the offering.

Repayment of long-term loan receivable

On 27 February 2017 CJSC "DM-Finance" fully repaid the long-term loan previously issued by the Group with the carrying amount as at 31 December 2016 of RUB 1,060 (Note 12).