Public Joint Stock Company "M.video"

Consolidated Financial Statements
For the Year Ended 31 December 2015

PUBLIC JOINT STOCK COMPANY “M.VIDEO”

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PUBLIC JOINT STOCK COMPANY “M.VIDEO”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company “M.video” (the “Company”) and its subsidiary (the “Group”) as at 31 December 2015, and the consolidated results of its operations, cash flows and changes in 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 manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs 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 of Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved on 23 March 2016.

A. Tynkovan	**E. Sokolova**
Chief Executive Officer	Chief Financial Officer

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders of Public Joint Stock Company "M.video"

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "M.video" and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

DELOITTE & TOUCHE

23 March 2016
Moscow, Russian Federation

Andrew Sedov, Partner
(certificate no. 01-000487 dated 13 February 2012)

ZAO Deloitte & Touche CIS

The Entity: Public Joint Stock Company "M.video"

Certificate of state registration № 77 №008748648 of 25.09.2006, issued by Interdistrict Inspectorate of the Russian Ministry of Taxation № 46.

Address: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation

Independent Auditor: 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.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(in millions of Russian Rubles)

	Notes	31 December 2015	31 December 2014 (Restated*)	31 December 2013 (Restated*)
NON-CURRENT ASSETS:				
Property, plant and equipment	6	8 880	9 935	9 696
Intangible assets	7	4 974	4 310	3 190
Deferred tax assets, net	15	3 556	3 084	2 503
Other non-current assets	8	649	636	707
Total non-current assets		**18 059**	**17 965**	**16 096**
CURRENT ASSETS:				
Inventories	9	43 913	35 434	34 215
Accounts receivable and prepaid expenses	10	10 161	10 870	9 151
Income tax receivable		21	15	18
Other taxes receivable	11	2 864	1 100	1 436
Cash and cash equivalents	12	11 779	26 122	11 542
Short-term investments	13	800	-	-
Other current assets		10	12	21
Total current assets		**69 548**	**73 553**	**56 383**
TOTAL ASSETS		**87 607**	**91 518**	**72 479**
EQUITY:				
Share capital	14	1 798	1 798	1 798
Additional paid-in capital	14	4 576	4 576	4 576
Treasury shares	14	(52)	(328)	(328)
Retained earnings		7 673	8 302	8 155
Total equity		**13 995**	**14 348**	**14 201**
NON-CURRENT LIABILITIES:				
Provisions		5	5	10
Other liabilities	26	67	-	-
Total non-current liabilities		**72**	**5**	**10**
CURRENT LIABILITIES:				
Trade accounts payable		58 162	57 428	47 159
Other payables and accrued expenses	16	6 546	6 328	4 213
Advances received	17	2 069	4 422	1 133
Income tax payable		846	2 166	556
Other taxes payable	18	834	1 388	506
Deferred revenue	19	4 801	4 969	4 555
Provisions		282	464	146
Total current liabilities		**73 540**	**77 165**	**58 268**
Total liabilities		**73 612**	**77 170**	**58 278**
TOTAL EQUITY AND LIABILITIES		**87 607**	**91 518**	**72 479**

* Comparative information as at 31 December 2014 and 2013 has been adjusted due to the change in accounting policy with respect to accounting for leases which was adopted by the Group in 2015 and applied retrospectively (Note 2).

The Notes on pages 9-51 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 3.

Signed on 23 March 2016 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

PULIC JOINT STOCK COMPANY “M.VIDEO”

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles, except earnings per share)

	Notes	2015	2014 (Restated*)
REVENUE	20	161 691	172 712
COST OF SALES		(122 782)	(126 544)
GROSS PROFIT		38 909	46 168
Selling, general and administrative expenses	21	(34 596)	(37 237)
Other operating income	22	1 411	2 001
Other operating expenses	23	(125)	(601)
OPERATING PROFIT		5 599	10 331
Finance income	24	884	436
Finance expenses	24	(488)	(68)
PROFIT BEFORE INCOME TAX EXPENSE		5 995	10 699
Income tax expense	15	(1 448)	(2 525)
NET PROFIT for the year, being TOTAL COMPREHENSIVE INCOME for the year		**4 547**	**8 174**
BASIC EARNINGS PER SHARE (in Russian Rubles)	25	25,37	45,85
DILUTED EARNINGS PER SHARE (in Russian Rubles)	25	25,33	45,53

* Comparative information for the year ended 31 December 2014 has been adjusted due to the change in accounting policy with respect to accounting for leases which was adopted by the Group in 2015 and applied retrospectively (Note 2).

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Signed on 23 March 2016 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

PUBLIC JOINT STOCK COMPANY "M.VIDEO"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
Balance as at 31 December 2013 (as previously reported)		1 798	4 576	(328)	7 887	13 933
Retrospective application of a change in accounting policy	2	-	-	-	268	268
Balance as at 31 December 2013 (as restated)		**1 798**	**4 576**	**(328)**	**8 155**	**14 201**
Recognition of share-based payment for ordinary shares previously issued	26	-	-	-	1	1
Dividends declared		-	-	-	(8 028)	(8 028)
Total comprehensive income for the year		-	-	-	8 174	8 174
Balance as at 31 December 2014		**1 798**	**4 576**	**(328)**	**8 302**	**14 348**
Recognition of share-based payment for ordinary shares previously issued	26	-	-	-	28	28
Exercise of options granted as share-based payment	26	-	-	276	(356)	(80)
Dividends declared	14	-	-	-	(4 848)	(4 848)
Total comprehensive income for the year		-	-	-	4 547	4 547
Balance as at 31 December 2015		**1 798**	**4 576**	**(52)**	**7 673**	**13 995**

The Notes on pages 9-51 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 3.

Signed on 23 March 2016 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles)

	Notes	2015	2014 (Restated*)
OPERATING ACTIVITIES:			
Net profit for the year		4 547	8 174
Adjustments for:			
Income tax expense	15	1 448	2 525
Depreciation, amortization and impairment loss	21	3 231	2 809
Change in allowance for doubtful advances paid for rent, accounts receivable and prepaid expenses	8,10	161	51
Equity-settled share-based payment	26	28	1
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses		1 098	(371)
Interest income on bank deposits	24	(884)	(436)
Other non-cash reconciling items, net		142	506
Operating cash flows before movements in working capital		**9 771**	**13 259**
Increase in inventories		(9 471)	(823)
Decrease/(increase) in accounts receivable and prepaid expenses		450	(1 651)
(Increase)/decrease in other taxes receivable		(1 753)	316
Increase in trade accounts payable		734	10 269
Increase in other payables and accrued expenses		150	2 242
(Decrease)/Increase in deferred revenue		(168)	414
Increase in other liabilities		67	-
(Decrease)/increase in advances received		(2 353)	3 289
(Decrease)/increase in other taxes payable		(554)	882
Other changes in working capital, net		19	(35)
Cash (used in)/generated by operations		**(3 108)**	**28 162**
Income tax paid		(3 246)	(1 493)
Interest paid		(191)	(68)
Net cash (used in)/generated by operating activities		**(6 545)**	**26 601**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Russian Rubles)

	Notes	2015	2014 (Restated*)
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1 391)	(2 631)
Proceeds from disposal of property, plant and equipment		1	140
Purchase of intangible assets		(1 449)	(1 787)
Placement of deposits with original maturity of more than 90 days	24	(2 287)	(79)
Withdrawal of deposits with original maturity of more than 90 days	24	1 190	77
Interest received		977	322
Net cash used in investing activities		**(2 959)**	**(3 958)**
FINANCING ACTIVITIES:			
Dividends paid		(4 848)	(8 028)
Proceeds from short-term loans and borrowings		6 630	4 615
Repayment of short-term loans and borrowings		(6 630)	(4 615)
Net cash used in financing activities		**(4 848)**	**(8 028)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(14 352)**	**14 615**
CASH AND CASH EQUIVALENTS, at the beginning of the year		**26 122**	**11 542**
Impact of foreign exchange on cash and cash equivalents		9	(35)
CASH AND CASH EQUIVALENTS, at the end of the year		**11 779**	**26 122**

* Comparative information for the year ended 31 December 2014 has been adjusted due to the change in accounting policy with respect to accounting for leases which was adopted by the Group in 2015 and applied retrospectively (Note 2).

The Notes on pages 9-51 form an integral part of these consolidated financial statements. The independent auditor's report is presented on pages 2 to 3.

Signed on 23 March 2016 by:

A. Tynkovan
Chief Executive Officer

E. Sokolova
Chief Financial Officer

(in millions of Russian Rubles)

1. GENERAL INFORMATION

The consolidated financial statements of Public Joint Stock Company "M.video" (the "Company") and its subsidiary (the "Group") for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 23 March 2016.

The Company and its subsidiary (see the table below) are incorporated in the Russian Federation. The Company is registered at: 40/12, building 20, Nizhnaya Krasnoselskaya Street, Moscow, 105066, Russian Federation.

LLC "Company "M.video" was incorporated on 3 December 2003. On 25 September 2006 the Company was reorganized from a Limited Liability Company to an Open Joint Stock Company. Following the initial public offering in November 2007, the Company's ordinary shares were admitted to trading on MICEX stock exchange (Moscow Exchange) in the Russian Federation. On 2 July 2015 the Company was reregistered as a Public Joint Stock Company "M.video".

The Group is the operator of a chain of consumer electronic outlets and online internet stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (378 stores as at 31 December 2015; 368 stores as at 31 December 2014) and online internet stores in Moscow and 67 other cities (52 other cities as at 31 December 2014).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiary as at 31 December 2015 and 2014 (the below subsidiary operates in the Russian Federation):

Name of subsidiary	Nature of business	Proportion of ownership interest and voting power held, % 31 December 2015	Proportion of ownership interest and voting power held, % 31 December 2014
LLC "M.video Management"	Retailing	100	100

Shareholders

As at 31 December 2015 and 2014 the registered shareholders of the Company and their respective ownership and voting interests were as follows:

	2015	2014
"SVECE Limited"	57,6755%	57,6755%
Various shareholders	42,3245%	42,3245%
Total	**100%**	**100%**

Ultimate Shareholders

"SVECE Limited" controls 57,6755% of the voting and ordinary shares of the Company.
"SVECE Limited" is incorporated in Cyprus and is the ultimate parent entity of the Company.
At 31 December 2015, the Company does not have a single ultimate controlling party, however the most significant shareholders Mr. Alexander Tynkovan, Mr. Pavel Breev, citizens of the Russian Federation, and Mr. Michael Tynkovan, citizen of the Slovak Republic, could exercise control over "SVECE Limited" were they to act in concert.

2. BASIS OF PREPARATION

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") and International Financial Reporting Standard 13 "Fair value measurement" ("IFRS 13") and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS on 1 January 2006.

All companies within the Group maintain their accounting records in accordance with Russian Accounting Standards ("RAS"). RAS differ substantially from those standards generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared based on the Russian statutory accounting records, reflect those adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Functional and presentation currency – The consolidated financial statements are presented in Russian Rubles ("RUB"), which is the functional and presentation currency of each company of the Group. Functional currency for each company of the Group has been determined as the currency of the primary economic environment in which the company operates.

Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as at 1 January 2015 and the change in accounting policy discussed below.

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 in these annual consolidated financial statements:

- Amendments to IAS 19 "Employee Benefits" – Pension Plans with Fixed Payments: Employee Contribution;
- Annual Improvements cycle 2010-2012;
- Annual Improvements cycle 2011-2013.

The adoption of these standards and interpretations has not had a significant impact on consolidated financial statements of the Group for the year ended 31 December 2015.

Reclassifications

In 2015 the Group changed presentation of certain items of income and expenses in the consolidated statement of profit or loss and other comprehensive income in order to enhance true and fair presentation of the consolidated financial statements. Particularly, starting 1 January 2015 the Group classifies income from delivery of goods to customers within "Revenue" and cost of delivery of goods to customers within "Cost of sales".

(in millions of Russian Rubles)

With this regards the Group made the following reclassifications to the prior year amounts to conform to the presentation of the current reporting period:

	As previously reported	Reclassification	After reclassification	Comments
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014				
Revenue	172 187	525	172 712	• reclassification of income from delivery of goods to customers in the amount of 525 to "Revenue" from "Other operating income"
Other operating income	2 526	(525)	2 001	
Cost of sales	(125 587)	(957)	(126 544)	• reclassification of cost of delivery of goods to customers in the amount of 957 to "Cost of sales" from "Selling, general and administrative expenses"
Selling, general and administrative expenses	(38 425)	957	(37 468)	

Change in Accounting Policy

Some of the Group's operating lease agreements stipulate that regular lease payments fixed in those contracts include fees for the use of premises as well as reimbursement of maintenance costs incurred by the lessor. In 2015 the Group has opted to change its accounting policy on recognition of expenses on such contracts on a straight-line basis. Previously, the calculation of expense to be recognized on a straight-line basis over the lease term was based on the amount of lease payments specified in the agreements, thus including both components: fees for the use of premises and reimbursement of maintenance costs incurred by the lessor. In accordance with accounting policy adopted in 2015 the Group applies straight-line principle for recognition of expense only for the portion of lease payments that relates for the use of premises and that is calculated by management for each of the lease agreements. The Group's management believes that the new accounting policy enhances true and fair presentation of the Group' financial position.

The comparative information has been adjusted since the new accounting policy was applied by the Group retrospectively. The effect of retrospective application as at 31 December 2014 and 2013 and for the year ended 31 December 2014 was as follows:

Consolidated statement of financial position as at 31 December 2013	**As previously reported**	**Effect of change in accounting policy**	**Restated**
Deferred tax assets, net	2 570	(67)	2 503
Retained earnings	7 887	268	8 155
Other payables and accrued expenses	4 548	(335)	4 213

Consolidated statement of financial position as at 31 December 2014	**As previously reported**	**Effect of change in accounting policy**	**Restated**
Deferred tax assets, net	3 197	(113)	3 084
Retained earnings	7 849	453	8 302
Other payables and accrued expenses	6 894	(566)	6 328

(in millions of Russian Rubles)

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014	**As previously reported**	**Effect of change in accounting policy**	**Restated**
Selling, general and administrative expenses*	(37 468)	231	(37 237)
Income tax expense	(2 479)	(46)	(2 525)
Net profit for the year, being total comprehensive income for the year	7 989	185	8 174
Basic earnings per share	44,82	1,03	45,85
Diluted earnings per share	44,50	1,03	45,53

* after the reclassification disclosed above

Consolidated statement of cash flows for the year ended 31 December 2014	**As previously reported**	**Effect of change in accounting policy**	**Restated**
Net profit for the year	7 989	185	8 174
Income tax expense	2 479	46	2 525
Increase in other payables and accrued expenses	2 473	(231)	2 242

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements comprise the financial statements of the Company and entity controlled by the Company (its subsidiary). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The financial statements of the subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

All intra-group transactions, balances, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full on consolidation.

Operating segments – Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure the Group has identified one operating segment – the sale of consumer electronics through its retail and internet stores.

Going concern – These consolidated financial statements are prepared on the going concern basis.

Foreign currencies – The individual financial statements of each Group's entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rate prevailing on the date when the most recent fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Exchange differences arising on loans and borrowings are reported as part of finance cost, while exchange differences related to operating items are included into other operating income and expenses.

Property, plant and equipment – Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Deemed cost of the items of property, plant and equipment existing as at 1 January 2006, the date of transition to IFRS, was determined on the basis of fair values estimated by independent appraisers as allowed by the provisions of IFRS 1. Fair value of properties was determined with reference to market prices, while fair value of the other items, including the Group's trade equipment, was predominantly based on the estimates of depreciated replacement costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Major replacements or modernizations of property, plant and equipment are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income during the financial period in which it is incurred.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	20-30 years
Leasehold improvements	7 years
Trade equipment	3-5 years
Security equipment	3 years
Other fixed assets	3-5 years

Leasehold improvements are depreciated over the shorter of useful life or the related lease term.

Trade equipment is depreciated over the estimated useful life specified above unless there is a plan to fully renovate the store prior to reaching the predetermined estimated useful life. In this situation, the net book value of trade equipment will be depreciated over the remaining estimated useful life being the period of time up to the planned renovation works.

The assets' residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where there are indicators that an asset's or cash generating unit's carrying amount is greater than its estimated recoverable amount, it is written down to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss and other comprehensive income.

Construction in progress comprises the cost of equipment in the process of installation and other costs directly relating to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over estimated useful lives of these intangible assets. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives per class of intangible assets are as follows:

Software licenses, development and web site	1-10 years
Trademarks	5-10 years

Internally-generated intangible assets – An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of non-current assets – At each balance sheet date the Group reviews the carrying amounts of its non-current 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).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. 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 risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiplies, quoted share price if available or other fair value indicators.

For non-current assets the CGU is deemed to be each group of stores located in one city. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Impairment test is performed by the Group annually for those intangible assets that are not yet available for use at the year-end by comparing their carrying amount with the recoverable amount calculated as discussed above. If the carrying amount of such assets does not yet include all the cash outflows to be incurred before they are ready for use, the estimate of future cash outflow includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use.

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

Current tax

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

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and 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 assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognized for taxable temporary differences associated with investment in subsidiary as 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 be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax for the period

Current and deferred income tax are recognized as an expense or income in the consolidated statement of profit or loss and other comprehensive income, except when they relate to items credited or debited directly to equity (in which case the tax is also recognized directly in equity) or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Fair value of financial instruments – The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets – Investments are recognized and derecognized on a trade date, where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets that the Group holds on its consolidated statement of financial position at 31 December 2015 are classified into the following specified categories: financial assets as 'at fair value through profit or loss' ("FVTPL") 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets as at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets as at FVTPL are stated at fair value, with any resultant gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income. The net gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described above.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment losses and bad debts.

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

Impairment of financial assets

Financial assets, other than those as at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are 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 impacted. 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other accounts receivable where the carrying amount is reduced through the use of an allowance account. When trade and other accounts receivable are uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of profit or loss and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

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 risks 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.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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 recorded as the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

Financial liabilities

Financial liabilities are classified as either financial liabilities as at FVTPL or other financial liabilities.

Financial liabilities as at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities as at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the consolidated statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability. Fair value is determined in the manner described above.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Share-based payments – Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated statement of profit or loss and other comprehensive income over the remaining vesting period with a corresponding adjustment to retained earnings.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately in the consolidated statement of profit or loss and other comprehensive income. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Cash-settled share-based payments to employees are measured at fair value. The fair value of the cash-settled share-based payments is determined at each reporting date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest and the fair value of these instruments. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of profit or loss and other comprehensive income during the remaining vesting period with a corresponding adjustment of the Group's liabilities.

Value added tax – Value added tax ("VAT") related to sales is payable to tax authorities on the earliest of (a) cash received from customers in advance or (b) transfer of the goods or rendering services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

VAT is generally allowed to be settled on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

At each reporting date the Group reviews outstanding balance of input VAT for recoverability and creates impairment provision for the amounts which recoverability is doubtful.

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the suppliers incurred to deliver inventories to the Group's central distribution warehouse are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier's products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories from the central distribution warehouse to the retail stores are expensed as incurred and included either in "Cost of sales" (costs of transporting merchandise from central distribution warehouses to the retail stores) or in "Selling, general and administrative expenses" (all other costs).

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Cash and cash equivalents – Cash and cash equivalents comprise cash at banks, in transit and on hand in stores and short-term deposits with an original maturity of three months or less, and credit card payments received within 24 hours of the next working day.

Borrowing costs – The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset. The Group defines qualifying assets as leasehold improvements and other assets acquired in connection with the new store openings which generally take three months or longer to become operational. Other borrowing costs are expensed as incurred.

Provisions – Provisions are recognized when the Group has a present obligation 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

Warranties

Warranties are generally covered by the brand owner of supplied goods directly or through their authorized agents in the Russian Federation.

When a supplier is unable to offer warranty services for their products in Russia, the Group makes a provision for warranty costs. These costs are recognized at the date of sale of the relevant products at management's best estimate of the expenditure required to settle the Group's obligations.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and VAT. Inter-company revenue is eliminated. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when 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 reliably measured;
- 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.

Revenue from sales of goods is recognized at the point of sale or, where later, upon delivery to the customer and is stated net of returns.

Loyalty programs

The Group operates customer loyalty programs "M.video Bonus" and "Co-brand", which allow customers to accumulate points when they purchase goods in the Group's retail stores. The points can then be redeemed as a payment for merchandise, subject to a minimum number of points being obtained. 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.

Revenue from services

Revenue from services is recognized in the period in which the services have been rendered and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The stage of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Additional service agreements

The Group sells additional service agreements ("ASA") and has an obligation to the buyer to perform services throughout the period of the contract. Revenue from the ASA is deferred and recognized on a straight-line basis over the term of the service contract. Related costs, such as cost of services performed under the contract, general and administrative expenses and advertising expenses are charged to expense as incurred.

Agent fees

The Group recognizes as revenue any sales performed as an agent at net amounts (i.e. at the amount of commission, owed to the Group). Such fees include sales of goods, telephone and television service contracts and other services fees.

Gift cards

The Group sells gift cards to its customers in its retail stores and through its website. 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 at the earlier date when: (i) the gift card is redeemed by the customer; or (ii) when the gift cards expire.

Interest 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. Interest income is included in the net finance cost in the consolidated statement of profit or loss and other comprehensive income.

Cost of sales – Cost of sales include the cost of inventories and services acquired from suppliers, freight in, costs related to transporting inventories from distribution centers to stores, allowance for obsolete and slow-moving inventory, inventory losses and supplier bonuses.

Supplier bonuses – The Group receives supplier bonuses 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. The Group has agreements in place with each vendor setting forth the specific conditions for each allowance or payment. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonably assured the Group will reach these volumes.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier’s products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. 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.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by the Group’s buying teams and are credited directly to cost of goods sold in the period received. Vendor allowances received prior to merchandise being sold are deferred and recognized as a reduction of merchandise cost.

Leases – The Group has not entered into any finance leases, although it does have a significant number of operating leases.

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 incurred. If reimbursement of utility expenses is included in the fixed lease payments, the amount to be reimbursed and expensed in the reporting period needs to be calculated.

Any benefits received from the landlord as an incentive to enter into an operating lease are spread over the lease term on a straight-line basis. Sublease income and lease expenses are presented on the net basis.

Pre-opening expenses – Expenses incurred in the process of opening new stores which do not meet capitalization criteria under IAS 16 “Property, plant and equipment” are expensed as incurred. Such expenses include rent, utilities and other operating expenses.

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group contributes to the Russian Federation state pension, medical and social insurance funds on behalf of all its current employees (a defined contribution plan) by paying social security contributions (“SSC”). The Group’s only obligation is to pay contributions to the funds as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. Any related expenses are recognized in the consolidated statement of profit or loss and other comprehensive income as they become due. Contribution for each employee varies from 15,1% to 30% depending on the annual gross remuneration of each employee. The Group does not operate any employer sponsored pension plans.

Dividends – Dividends are recognized as a liability in the period in which they have been declared by the shareholders in a general meeting and become legally payable. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Treasury shares – If the Group reacquires its own equity instruments, those instruments (“treasury shares”) are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Such treasury shares may be acquired and held by the Company or by the subsidiary of the Company.

4. NEW AND REVISED STANDARDS BY IASB AND IFRIC IN ISSUE NOT YET ADOPTED

The Group has not applied the following new and revised standards issued by IASB and IFRIC, but not yet effective:

- IFRS 9 "Financial Instruments"[1];
- IFRS 15 "Revenue from Contracts with Customers"[1];
- IFRS 16 "Leases"[2];
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations[3];
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative[3];
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization[3];
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3];
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures": Investment Entities – Applying the Consolidation Exception[3];
- IFRS 14 "Regulatory Deferral Accounts"[3];
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements[3];
- Annual Improvements to IFRSs 2012-2014 Cycle[3].

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measuremen of financial assets. In October 2010 the amendments and new requirements related to the classification and measurement of financial liabilities and derecognition of financial instruments were introduced to the IFRS 9. In November 2013 new requirements related to hedge accounting were issued.
The renewed version of the standard was issued in July 2014. The main changes relate to:
a) methodology of calculation of impairment of financial assets; b) not significant amendments related to the classification and measurement due to addition of new category of the financial instruments "fair value through other comprehensive income" (FVTOCI) for the particular type of 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 IAS 39 *Financial Instruments: Recognition and Measurement* 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) in other comprehensive income, with only dividend income generally recognized in profit or loss.

[1] Applicable to annual periods beginning on or after 1 January 2018, with earlier adoption permitted.
[2] Applicable to annual periods beginning on or after 1 January 2019, with earlier adoption permitted.
[3] Applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

- **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 the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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.

IFRS 9 is applicable to annual periods beginning on or after 1 January 2018, with earlier adoption 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 anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. 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*

In May 2014 IFRS 15 was released establishing 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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.

The management of the Group anticipates 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 *Leases* brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognizes a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

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 IAS 1 *Disclosure Initiative*

The amendments to IAS 1 provide guidance on how to apply the concept of materiality in practice. The amendments are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of the amendments in the future may have a significant impact on the consolidated financial statements of the Group.

Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The Group applies straight-line method for amortization of intangible assets and depreciation of property, plant and equipment. The management considers straight-line method as the most reliable to reflect the use of economic benefits embedded in the relevant assets and does not anticipate that the application of the amendments to IAS 16 and IAS 38 in the future may have a significant impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The management of the Group anticipates that the application of the amendments in the future may have a significant impact on the consolidated financial statements of the Group, if such transactions occur.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The management of the Group does not anticipate that the application of the amendments in the future may have a significant impact on the consolidated financial statements of the Group as the Group is not the investment entity and does not have holding companies, subsidiaries, associates or joint ventures satisfying the definition of the investment entity.

Amendments to IAS 27 - Equity Method in Separate Financial Statements

The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Group does not anticipate that the application of the amendments in the future may have a significant impact on the consolidated financial statements of the Company as separate financial statements are not prepared.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of the amendments in the future may have a significant impact on the consolidated financial statements of the Group.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Group's accounting policies, which have been described in Note 3, 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, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. 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.

Significant estimates and assumptions

Inventory valuation

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, obsolete inventories and partially or fully damaged inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Damaged stock is either provided for or written off depending on the extent of damage. 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.

The net realizable value allowance is calculated using the following methodology:

- Stock held for resale – comparison of expected selling price versus the carrying value on a stock keeping unit basis;
- Damaged goods – examination of historical data relating to discounts associated with damaged goods and comparison to book value at the balance sheet date;
- Stock held at service centers – an allowance is applied based on management's estimate of the carrying value of the inventory and based on historical data on sales of respective inventories;
- Additional allowance is accrued if there is actual evidence of a decline in selling prices after the end of the reporting period to the extent that such decline confirms conditions existing at the end of the reporting period.

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.

Tax and customs provisions and contingencies

The Group is subject to various taxes arising in the Russian Federation. The majority of its merchandise is imported into Russian Federation and is therefore subject to the Russian customs regulations. Significant judgment is required in determining the provision for income taxes and other taxes. The Group recognizes liabilities for anticipated tax issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provision in the period in which such determination is made.

Assessment of lease term

At the inception or modification of each operating lease agreement the Group assesses non-cancellable lease period. During the assessment the Group considers legal factors (the right to cancel the lease before the end of the lease period and the renewal option) and economic factors (financial and non-financial, such as revenue growth rates, profitability, strategic importance of location).
The assessment requires exercise of the management’s judgment. Once determined, the non-cancellable lease period is used in the calculation of lease payments to be recognized as an expense on a straight-line basis as well as in the estimation of depreciation period of leasehold improvements which cannot exceed the non-cancellable lease period of the relevant premises.

Determination of a portion of lease payments that does not represent a payment for the use of premises

As disclosed in Note 3, for the lease agreements which stipulate that payments for reimbursement of maintenance costs incurred by the lessor are embedded in the fixed periodic lease payments, the Group performs a calculation of such costs to be recognized as current period expense on an agreement-by-agreement basis. The calculation is performed based on amounts of factual maintenance costs incurred on similar leases for comparable premises where the amounts of maintenance costs are clearly stated in the documents. Where possible, comparable premises are selected within the same city or region.

Revenue attributed to loyalty programs

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 then as a revenue over the period that the 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 balance sheet date, as far as issued points are expired through the passage of time in the future.

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)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2015 and 2014 consisted of the following:

	Buildings	Leasehold improve-ments	Construc-tion in progress and equipment to be installed	Trade equipment	Security equipment	Other fixed assets	Total
Cost							
As at 31 December 2013	**5 450**	**4 620**	**97**	**3 759**	**1 284**	**2 719**	**17 929**
Additions	-	-	2 766	-	-	-	2 766
Transfers	37	428	(2 679)	1 084	280	850	-
Disposals	(273)	(98)	-	(160)	(42)	(232)	(805)
As at 31 December 2014	**5 214**	**4 950**	**184**	**4 683**	**1 522**	**3 337**	**19 890**
Additions	-	-	1 348	-	-		1 348
Transfers	6	133	(1 298)	505	119	535	-
Disposals	-	(108)	-	(137)	(24)	(334)	(603)
As at 31 December 2015	**5 220**	**4 975**	**234**	**5 051**	**1 617**	**3 538**	**20 635**
Accumulated depreciation and impairment losses							
As at 31 December 2013	**1 436**	**2 445**	**-**	**1 859**	**930**	**1 563**	**8 233**
Charge for the year	251	568	-	641	220	579	2 259
Disposals	(92)	(70)	-	(141)	(40)	(223)	(566)
Recognition of impairment loss	-	12	-	13	1	3	29
As at 31 December 2014	**1 595**	**2 955**	**-**	**2 372**	**1 111**	**1 922**	**9 955**
Charge for the year	260	541	-	769	222	590	2 382
Disposals	-	(102)	-	(128)	(23)	(329)	(582)
As at 31 December 2015	**1 855**	**3 394**	**-**	**3 013**	**1 310**	**2 183**	**11 755**
Net book value							
As at 31 December 2014	**3 619**	**1 995**	**184**	**2 311**	**411**	**1 415**	**9 935**
As at 31 December 2015	**3 365**	**1 581**	**234**	**2 038**	**307**	**1 355**	**8 880**

Depreciation expenses have been included in "Selling, general and administrative expenses" (Note 21).

Assets related to the closed stores with net book value of 21 were disposed off by the Group in the year ended 31 December 2015 (in the year ended 31 December 2014: 239). Loss on disposal of these items of 21 (2014: 99) was recorded within other operating expenses (Note 23).

(in millions of Russian Rubles)

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2015 and 2014 consisted of the following:

	Software licenses, development and web site	Trademarks	Total
Cost			
As at 31 December 2013	**4 230**	**25**	**4 255**
Additions	1 640	1	1 641
Disposals	(503)	-	(503)
As at 31 December 2014	**5 367**	**26**	**5 393**
Additions	1 507	6	1 513
Disposals	(260)	-	(260)
As at 31 December 2015	**6 614**	**32**	**6 646**
Accumulated amortization			
As at 31 December 2013	**1 056**	**9**	**1 065**
Charge for the year	518	3	521
Disposals	(503)	-	(503)
As at 31 December 2014	**1 071**	**12**	**1 083**
Charge for the year	846	3	849
Disposals	(260)	-	(260)
As at 31 December 2015	**1 657**	**15**	**1 672**
Net book value			
As at 31 December 2014	**4 296**	**14**	**4 310**
As at 31 December 2015	**4 957**	**17**	**4 974**

During 2015 the Group incurred expenditures in the total amount of 1 513 which for the most part related to the development of the new front-office / back-office system, the new web site platform and additional functionality of the Group's ERP system SAP R\3.

Amortization expenses have been included in "Selling, general and administrative expenses" (Note 21).

As at 31 December 2015 and 2014 the Group had commitments for the technical support of software licenses (Note 29).

(in millions of Russian Rubles)

8. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Long-term advances paid for rent	540	581
Advances paid for non-current assets	85	49
Long-term loans and notes receivable	37	38
Long-term part of warranty asset – in respect of Additional Service Agreements (ASA, sold prior to 1 October 2011)	-	1
Less: allowance for doubtful long-term advances paid for rent	(13)	(33)
Total	**649**	**636**

Movement in the allowance for doubtful long-term advances paid for rent is as follows:

	2015	2014
Balance at the beginning of the year	33	36
Impairment losses recognized on long-term advances paid for rent	1	11
Amounts recovered during the year	(2)	(4)
Amounts written off as uncollectible	(19)	(10)
Balance at the end of the year	**13**	**33**

9. INVENTORIES

Inventories as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Goods for resale	45 294	36 079
Other inventories	182	215
Less: allowance for obsolete and slow-moving inventories	(1 563)	(860)
Total	**43 913**	**35 434**

Cost of inventories recognized as an expense in the amount of 118 880 and 123 173 and inventory losses net of surpluses in the amount of 395 and 284 for the years ended 31 December 2015 and 2014, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

(in millions of Russian Rubles)

10. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Bonuses receivable from suppliers	8 360	9 777
Other accounts receivable	1 280	644
Advances paid to suppliers and prepaid expenses	656	515
Advances paid to related parties (Note 26)	15	7
Less: allowance for doubtful accounts receivable and prepaid expenses	(150)	(73)
Total	**10 161**	**10 870**

As at 31 December 2015 the Group recognized accounts receivable from suppliers for advertising materials placed in the Group's stores within "bonuses receivable from suppliers" in accounts receivable and prepaid expenses. Previously these receivables were recognized within "other accounts receivable". With this regard the Group made the following reclassifications to the prior period's amounts to conform to the presentation of the current reporting period: accounts receivable from suppliers for advertising materials placed in the Group's stores in the amount of 352 were excluded from "other accounts receivable" and included in "bonuses receivable from suppliers" within accounts receivable and prepaid expenses.

As at 31 December 2015 and 2014 the Group did not have accounts receivable past due but not impaired.

Movement in the allowance for doubtful accounts receivable and prepaid expenses is as follows:

	2015	2014
Balance at the beginning of the year	73	66
Impairment losses recognized on accounts receivable	172	63
Amounts recovered during the year	(10)	(19)
Amounts written off as uncollectible	(85)	(37)
Balance at the end of the year	**150**	**73**

The accounts receivable impaired as at 31 December 2015 were aged 120+ days (31 December 2014: 120+ days).

In determining the recoverability of accounts receivable the Group considers any change in the credit quality of receivables and prepaid expenses from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 30.

11. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
VAT recoverable	2 861	1 098
Other taxes receivable	3	2
Total	**2 864**	**1 100**

(in millions of Russian Rubles)

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Short-term bank deposits	8 663	23 433
Cash at banks	1 429	985
Cash in transit	1 295	1 342
Petty cash and cash in stores	392	362
Total	**11 779**	**26 122**

Cash at banks as at 31 December 2015 and 2014 includes the amounts of 125 and 336, respectively, collected by the Group from its customers for further transfer through "Rapida" payment system. The Group cannot use this cash in its operating activities as it is due to be transferred to the recipients.

Cash in transit represents acquiring and cash collected from the Group's stores and not yet deposited into the bank accounts at the year end.

Breakdown of short-term bank deposits as at 31 December 2015 is presented in the table:

	Interest rate	Maturity	2015
Short-term bank deposits in RUB	3,42%-11,5%	January-March 2016	8 580
Short-term bank deposits in USD	0,75%	February 2016	83
Total			**8 663**

As at 31 December 2014 all short-term bank deposits denominated in RUB, USD and EUR earned interest ranging from 11,90% to 24,50%, from 3,40% to 3,60% and 3,15% per annum respectively. The short-term deposits matured in January-March 2015.

13. SHORT-TERM INVESTMENTS

Short-term investments as at 31 December 2015 and 2014 consisted of the following:

	Interest rate	Maturity	2015	2014
Short-term bank deposits in RUB	10,44%	March 2016	500	-
Short-term bank deposits in RUB	10,30%	March 2016	300	-
Total			**800**	**-**

(in millions of Russian Rubles)

14. EQUITY

Share capital

As at 31 December 2015 and 2014 the Company had the following number of authorized, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
Balance as at 31 December 2014	**178 263 237**	**179 768 227**	**209 768 227**
Shares granted to participants of LTIP 3 (Note 26)	1 268 000	-	-
Balance as at 31 December 2015	**179 531 237**	**179 768 227**	**209 768 227**

Each share has par value of 10 RUB per share. During 2015 and 2014 there were no changes in the number of authorized and issued ordinary shares of the Company. All issued ordinary shares were fully paid.

The balance of outstanding ordinary shares increased for the number of the shares granted to employees under the second tranche of Long-term incentive plan Series 3 (LTIP 3) in April 2015 (Note 26).

Additional paid-in capital

Additional paid-in capital consists of share premium which is the excess between proceeds from issuance of 30 000 000 additional ordinary shares issued at 1 November 2007 and their par value, less share issuance costs and related current and deferred income tax amounts.

Treasury shares

In September 2010 following the approval by the Board of Directors, the Group purchased 2 700 000 issued ordinary shares of the Company to be subsequently offered to the members of the Long-term incentive plan Series 3 (“LTIP 3”) (Note 26) in order to service the resulting subscription rights, for total cash consideration of 588. Of them 1 195 010 shares were transferred to the participants of LTIP 3 Part 1 upon exercise of the options in April 2013 and 1 268 000 shares were transferred to the participants of LTIP 3 Part 2 upon exercise of the options in April 2015. Accordingly, the amount of treasury shares of 52 reported as at 31 December 2015 corresponds to the remaining 236 990 shares held as treasury shares at cost.

Dividends declared

On 16 June 2015 the Annual General Meeting approved dividends of 27 RUB per share in respect of 2014.

Dividends attributable to the treasury shares were eliminated in full for the purpose of these consolidated financial statements. After the approval, dividends payable to the holders of outstanding ordinary shares of the Company were recognized as a reduction of shareholders’ equity in these consolidated financial statements in the total amount of 4 848, including related taxes accrued.

(in millions of Russian Rubles)

15. INCOME TAX

The Group's income tax expense for the years ended 31 December 2015 and 2014 was as follows:

	2015	2014 (Restated)
Current tax		
Current tax expense in respect of the current year	(1 920)	(3 106)
	(1 920)	**(3 106)**
Deferred tax		
Deferred tax benefit recognized in the current year	472	581
	472	**581**
Total income tax expense recognized in the current year	**(1 448)**	**(2 525)**

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2015, 2014 and 2013 is presented below:

	2015	2014 (Restated)	2013 (Restated)
Deferred tax assets			
Supplier bonuses allocated to inventories	1 246	934	955
Accrued expenses	1 065	965	584
Deferred revenue and prepayments received for goods	410	566	387
Salary-related accruals	324	291	174
Allowance for obsolete and slow-moving inventories	313	172	303
Difference in depreciable value of property, plant and equipment	289	212	120
Allowance for doubtful long-term advances paid for rent, accounts receivable and prepaid expenses	33	21	20
Other items	43	34	33
Total	**3 723**	**3 195**	**2 576**
Deferred tax liabilities			
Difference in depreciable value of intangible assets	167	111	72
Other items	-	-	1
Total	**167**	**111**	**73**
Deferred tax assets, net	**3 556**	**3 084**	**2 503**

As at 31 December 2015, 2014 and 2013 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

(in millions of Russian Rubles)

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2015 and 2014 to the actual expense recorded in the Group's consolidated statement of profit or loss and other comprehensive income:

	2015	2014 (Restated)
Profit before tax	5 995	10 699
Income tax expense calculated at 20%	(1 199)	(2 140)
Effect of expenses/(income) that are not deductible in determining taxable profit:		
Inventory losses	*(126)*	*(89)*
Loss on conversion of cash into foreign currency (Note 23)	*-*	*(61)*
Change in provision for taxes other than income tax (Note 29)	*60*	*(60)*
Other non-deductible expenses, net	*(183)*	*(175)*
Income tax expense recognized in profit or loss	**(1 448)**	**(2 525)**

As at 31 December 2015 and 2014 there were no taxable temporary differences related to investments in subsidiary 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.

16. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2015, 2014 and 2013 consisted of the following:

	2015	2014 (Restated)	2013 (Restated)
Rent and utilities	4 012	3 757	2 130
Salaries and bonuses	1 095	1 224	807
Other current liabilities related to purchase of property, plant and equipment and intangible assets	730	556	545
Other current liabilities to related parties (Note 27)	17	96	31
Other	692	695	700
Total	**6 546**	**6 328**	**4 213**

As at 31 December 2015 accounts payable and accruals for rent and utilities included accrued liabilities for lease payments calculated on a straight-line basis over the lease term in the amount of 3 515 (31 December 2014: 3 102, 31 December 2013: 1 743).

17. ADVANCES RECEIVED

Advances received as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
Prepayments received for goods (i)	1 276	3 441
Advances received for gift cards	701	884
Other advances received	92	97
Total	**2 069**	**4 422**

(i) Prepayments received for goods represent cash received for goods which have not yet been delivered to customers at the reporting date. These relate mostly to online sales and goods sold in stores for future delivery.

(in millions of Russian Rubles)

18. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2015 and 2014 consisted of the following:

	2015	2014
VAT payable	508	787
Payroll taxes	287	505
Other taxes payable	39	96
Total	**834**	**1 388**

19. DEFERRED REVENUE

Deferred revenue as at 31 December 2015 and 2014 consisted of the following:

	2015			2014		
	Customer loyalty programs	Other programs	Additional services	Customer loyalty programs	Other programs	Additional services
As at 1 January	1 201	1 131	2 637	788	1 146	2 621
Revenue deferred during the period	5 995	2 070	1 650	5 865	2 501	2 033
Revenue released to the consolidated statement of profit or loss and other comprehensive income	(5 856)	(2 133)	(1 894)	(5 452)	(2 516)	(2 017)
As at 31 December	**1 340**	**1 068**	**2 393**	**1 201**	**1 131**	**2 637**

Other programs represent primarily granting of gift cards to the Group's customers.

20. REVENUE

Revenue for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Retail revenue	157 944	168 310
Additional services revenue	1 894	2 017
Other services	1 853	2 385
Total	**161 691**	**172 712**

Retail revenue includes sales of goods in stores, pick-up in stores, internet home-delivery and commission fees.

Other services include revenue from services of installation, digital assistant, utilization and delivery.

(in millions of Russian Rubles)

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014 (Restated)
Payroll and related taxes (including share-based payments – Note 26)	10 089	11 048
Lease expenses, net of income from sublease (2015: 30; 2014: 33)	8 054	8 812
Advertising and promotional expenses, net	3 640	3 923
Depreciation, amortization and impairment loss	3 231	2 809
Maintenance and other property operating costs	1 904	1 833
Warehouse services	1 489	1 915
Bank charges	1 121	1 283
Repairs and servicing	985	940
Utilities	936	982
Security	880	971
Consulting services	862	712
Communication	320	353
Taxes other than income tax	193	234
(Release)/accrual of provisions for taxes other than income tax (Note 29)	(300)	300
Other expenses	1 192	1 122
Total	**34 596**	**37 237**

Payroll and related taxes for the year ended 31 December 2015 include 1 489 contribution to the state pension fund (2014: 1 656) and social and medical insurance in the amount of 579 (2014: 602).

During 2015 the Group received 366 from its suppliers as a compensation of advertising and promotional expenses (2014: 278).

Starting 1 January 2015 the Group recognizes outsourcing expenses and remuneration of the Board of Directors within the “other expenses” line of selling, general and administrative expenses. With this regard the Group made the following reclassifications to the prior period’s amounts to conform to the presentation of the current reporting period: payroll and related taxes were decreased by 36 with regards to remuneration of the Board of Directors, consulting services were decreased by 172 with regard to outsourcing expenses, other expenses were increased by 208 respectively.

Starting 1 January 2015 the Group recognizes expenses related to the lease of warehouses within the “lease expenses, net of income from sublease” line of selling, general and administrative expenses and presents maintenance and other property operating costs within the separate line of selling, general and administrative expenses. With this regard the Group made the following reclassifications to the prior period’s amounts to conform to the presentation of the current reporting period: expenses related to the lease of warehouses in the amount of 355 were excluded from “warehouse services” and included in “lease expenses, net of income from sublease” within selling, general and administrative expenses, maintenance and other property operating costs were excluded from “lease expenses, net of income from sublease” in the amount of 1 005, “warehouse services” in the amount of 105 and “utilities” in the amount of 723 and included in “maintenance and other property operating costs” within selling, general and administrative expenses in total amount of 1 833.

22. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2015 and 2014 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising materials placed in the Group’s stores, non-commission income from mobile operators, income from lease of commercial space owned by the Group and other items.

(in millions of Russian Rubles)

23. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2015 include charity expense of 49 (2014: 43), expense on corporate events in amount of 43 (2014: 31), loss of 1 (2014: 306) arising from conversion of cash in Russian Rubles into foreign currencies at bank rates different from the Central Bank of the Russian Federation official exchange rate, loss on disposal of property, plant and equipment of 21 (2014: 99) and other individually insignificant items.

24. FINANCE INCOME AND EXPENSES

Finance income/(expenses), net for the years ended 31 December 2015 and 2014 consisted of the following:

	2015	2014
Interest income on bank deposits	884	436
Interest expense on bank loans	(191)	(68)
Exchange loss from revaluation of investments (i)	(297)	-
Total	**396**	**368**

(i) On 30 January 2015 the Group placed foreign currency deposits with banks in the amount of USD 16 million and EUR 5 million with maturity on 29 January 2016. The interest rates on these deposits were 5,55% and 4,70% respectively. These deposits were withdrawn in June 2015 ahead of their maturities. Foreign exchange loss incurred on these deposits was 297.

25. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2015	2014
Net profit attributable to equity holders of the Company	4 547	8 174
Weighted average number of ordinary share in issue (millions of shares)	179,25	178,26
Effect of share options granted to employees (millions of shares)	0,29	1,28
Basic earnings per share (in Russian rubles)	**25,37**	**45,85**
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions of shares)	179,53	179,53
Diluted earnings per share (in Russian rubles)	**25,33**	**45,53**

(in millions of Russian Rubles)

26. SHARE-BASED PAYMENTS

During the years ended 31 December 2015 and 2014 the Group had one equity-settled share option plan – Long-term incentive plan Series 3 – in operation and adopted cash-settled share option plan – Long-term incentive plan Series 4.

Long-term incentive plan Series 3 (LTIP 3)

On 9 December 2009 the Board of Directors approved the adoption of Series 3 of the LTIP for selected members of the Group’s management team. 56 positions were enrolled in the plan and 3 170 000 of the shares were designated for LTIP 3. The shares will be granted by the Group to the participants of the plan at the appropriate vesting dates provided that the participants are employed to exercise their right unless the Board of Directors waives this condition. Consideration given to this non-market vesting condition requires the management to estimate the number of shares that will eventually vest and to adjust accordingly the number of shares included in the measurement of the transaction amount. Based on existed accumulated data on staff turnover at the moment of approval of LTIP 3 the management best estimate of the number of shares eventually expected to vest was 2 615 010.

On 25 March 2015 the Board of Directors approved the amendments to LTIP 3 stipulating increase in the number of options by 10% from 1 April 2015 at the expense of forfeited options of previous participants. The number of options additionally granted to the existing participants totaled 116 000. Additionally granted options were classified as equity-settled options and accounted for at fair value of 28 in consolidated financial statements based on estimation of average market share price at the date of exercise of LTIP 3.

Summary of the arrangements in existence as at 31 December 2015 and 2014

The following table contains details of the arrangements that were in existence as at 31 December 2015 and 2014:

Option series	Number of options as at 31 December 2015	Number of options as at 31 December 2014	Grant date	Vesting date	Expiry date	Exercise price (RUB)	Fair value at grant date (RUB)
LTIP 3							
Issued 9 December 2009	-	1 160 000	9 December 2009	1 April 2015	30 April 2015	-	118,49

Movements in share options during the period

The following reconciles the outstanding share options granted under LTIP 3 at the beginning and end of the years ended 31 December 2015 and 2014:

	LTIP 3	
	Number of options expected to vest	**Weighted average exercise price (RUB)**
Balance as at 1 January 2014	**1 395 000**	**-**
Forfeited during the period	(235 000)	-
Balance as at 31 December 2014	**1 160 000**	**-**
Balance as at 1 January 2015	**1 160 000**	**-**
Forfeited during the period	(8 000)	-
Granted during the period	116 000	-
Exercised during the period	(1 268 000)	-
Balance as at 31 December 2015	**-**	**-**

(in millions of Russian Rubles)

On 7 April 2015 LTIP 3 participants exercised the second tranche, and 1 268 000 shares were granted to option holders. The transaction was reflected as decrease in treasury shares for 276 in correspondence with retained earnings account.

Fair value of share options

The weighted average fair value of the share options granted under LTIP 3 and outstanding as at 31 December 2014 was as follows (in RUB):

Option series	31 December 2014
LTIP 3	118,49

Options were evaluated at grant date using the Black-Scholes pricing model. Where relevant, the model has reflected management's best estimate of the future volatility of the Company's share price, expected dividend yield, risk-free interest rates and expected staff turnover. Management draws upon a variety of external sources to aid in the determination of the appropriate data to use in such situations.

Inputs into the model at grant date	LTIP 3 share options vesting on 1 April 2015
Grant date share price, RUB	122,27
Exercise price, RUB	-
Expected volatility	123,55%
Option life (years)	5
Dividend yield	0%
Risk-free interest rate	7,5%

The expected volatility was determined based on the ending weekly share price for the period from 1 November 2007 to 9 December 2009. The expected volatility is equal to the historical volatility due to the brief history of trading activity and lack of comparable industry data.

Long-term incentive plan - Series 4 ("LTIP 4")

On 25 March 2015 the Group's Board of Directors approved LTIP 4 for 49 members of the management team for the period of 2015-2019 with the grant date being 1 April 2015.

The plan stipulates three awards based on results for 2014, 2015 and 2016. The awards will vest if:

- the Group meets EBITDA (earnings before interest, tax, depreciation and amortization) targets established at the beginning of each year;
- the plan participants hold their employment within the Group.

Each award is to be paid in tranches during 2016-2019. The settlement will be made in cash where the amount of each payment is to be calculated based on the quantity of shares allocated to particular participants within each tranche, and average share price of the Company calculated for the week preceding the payment. The Group classified LTIP 4 as cash-settled share-based payment and consequently recognized a liability in the consolidated statement of financial position as at 31 December 2015 at its fair value.

(in millions of Russian Rubles)

The fair value of liability was calculated using the Black-Scholes pricing model. Where relevant, the model reflected management's best estimate of the expected dividend yield, expected staff turnover and other. At 31 December 2015 the fair value of liability to the participants of LTIP 4 was 138. Short-term portion of liability being 71 was reflected within "Other payables and accrued expenses" and the long-term portion being 67 – within "Other long-term liabilities".

	Number of shares equivalents granted to participants
Balance as at 1 January 2015	**-**
Granted during the period	1 280 000
Forfeited during the period	(20 000)
Balance as at 31 December 2015	**1 260 000**

The detailed information on awards outstanding as at 31 December 2015 is as follows:

Awards under LTIP 4	Vesting date	Expected number of plan participants at the vesting date (i)	Number of shares equivalents granted to participants	Expected number of shares equivalents at the vesting date (i)	Exercise price (RUB)	Fair value as at 31 December 2015
Award 1						
Tranche 1	April 2016	48	315 000	315 000	-	71
Tranche 2	April 2017	42	265 000	230 000	-	24
Tranche 3	April 2018	4	50 000	40 000	-	2
Award 2						
Tranche 1	April 2017	42	315 000	270 000	-	28
Tranche 2	April 2018	36	265 000	200 000	-	12
Tranche 3	April 2019	3	50 000	30 000	-	1
Total			**1 260 000**	**1 085 000**	**-**	**138**

(i) Estimated based on historical data on staff turnover.

Share-based payments expense

The summary of expenses recognized by the Group in respect of share-based payments in the years ended 31 December 2015 and 2014 is as follows:

Option series	For the year ended 31 December 2015	31 December 2014
LTIP 3	28	1
LTIP 4	138	-
Total	**166**	**1**

The above expense has been included into "Selling, general and administrative expenses" in the line item "Payroll and related taxes" (Note 21).

(in millions of Russian Rubles)

27. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, entities under control of key management personnel and entities over which the Group has significant influence.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances owed by / to related parties as at 31 December 2015 and 2014, respectively:

	2015		31 December 2015		2014		31 December 2014	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control (except otherwise noted)								
Transservice Group of Companies (i)	-	301	15	-	-	357	7	62
LLC "Private Security Agency Bars-SB" (ii)	2	282	-	8	2	264	-	5
Avtoritet Group of Companies (iii)	1	60	-	6	1	86	-	20
LLC "Avto-Express" (iv)	-	30	-	2	-	37	-	3
LLC "FAST-I" (v)	-	10	-	1	-	-	-	-
LLC "TechnoVideoService" (vi)	-	9	-	-	-	11	-	-
LLC "Noviy Format" (vii)	-	2	-	-	-	30	-	6
CONplementation International business Consulting Vienna (viii)	-	-	-	-	-	10	-	-
LLC "MV. Stil" (ix)	-	-	-	-	1	-	-	-
Total	**3**	**694**	**15**	**17**	**4**	**795**	**7**	**96**

The nature of transactions with related parties is as follows:

(i) Transservice Group of Companies – provides after sale and other servicing of the Group's merchandise;
(ii) LLC "Private Security Agency Bars-SB" – provides store and head office security services;
(iii) Avtoritet Group of Companies – provides rental services;
(iv) LLC "Avto-Express" – provides a car leasing service to the Group and logistic services;
(v) LLC "FAST-I" – provides redecoration and network repair services in the central office and shops located in Moscow;
(vi) LLC "TechnoVideoService" – provides home appliances installation services;
(vii) LLC "Noviy Format" – provides rental services;
(viii) CONplementation International business Consulting Vienna – provides consulting services to LLC "M.video Management". The entity is under control of key management personnel;
(ix) LLC "MV. Stil" – acquires rental services from the Group.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. Impairment of accounts receivable relating to amounts owed by related parties has been recorded in the amount of 9 for the year ended 31 December 2015 (for the year ended 31 December 2014: 0). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(in millions of Russian Rubles)

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the years ended 31 December 2015 and 2014 was as follows:

	2015	2014
Short-term benefits*	421	368
Share-based payments**	69	-
Total	**490**	**368**

* Short-term benefits include salaries, bonuses and annual leave, medical and relocation expenses.
** Amounts relate to the participation of the key management personnel in the incentive program posted in the consolidated statement of profit or loss and other comprehensive income (Note 26).

As at 31 December 2015 there were outstanding payables of 175 to key management personnel (2014: 74).

The number of key management positions was 14 in 2015 (2014: 15).

The Group did not provide any material post-employment or other long-term benefits to key management personnel during the period other than those disclosed in Note 26, contributions to the state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. Social security contributions paid relating to compensation of key management personnel amounted to 38 for the year ended 31 December 2015 (2014: 21) and is included in the amounts stated above.

28. OPERATING LEASE AGREEMENTS

The Group enters into long-term leases for the stores for the periods from 1 to 20 years. Some of these leases are not able to be fully registered and thus legally enforceable until the landlord is able to produce all valid ownership papers and therefore are arranged as 11-month rolling leases; at the same time some of the long-term lease contracts contain cancellation clauses and some of the short-term lease contracts contain prolongation clauses. As discussed in Note 5, for each lease the Group assesses non-cancellable lease term based on both legal and economic conditions which can have an impact on the Group’s future decisions on exercising its cancelation rights or its rights to renew the contract.

Certain lease contracts stipulate terms requiring the Group to pay the higher of minimum lease payments or a percentage of revenue. The amounts paid in excess of the minimum lease payments are disclosed as contingent rentals below. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Payments recognized as an expense

	2015	2014
Minimum lease payments	7 519	8 272
Contingent rentals	565	573
Total	**8 084**	**8 845**

(in millions of Russian Rubles)

Non-cancellable operating lease commitments

Future minimum rentals payable during non-cancellable term of operating leases for premises occupied as at 31 December 2015 and 2014 were as follows:

	2015	**2014**
Within one year	7 652	7 794
After one year but not more than five years	26 598	26 399
More than five years	17 934	19 579
Total	**52 184**	**53 772**

Future minimal rental payments will be subject to VAT.

29. COMMITMENTS AND CONTINGENCIES

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A recent downturn in the Russian economy and general slowdown in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group's operating results.

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Russian Federation tax and regulatory environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transaction to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to 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.

Recent events within the Russian Federation suggest that the tax authorities are taking a more 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. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable. 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 provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

The Group obtains various types of supplier bonuses. Prior to 1 July 2013 the VAT legislation of the Russian Federation provided no guidance with regards to the assessment and payment of VAT related to bonuses from suppliers and the respective court practice was controversial. In April 2013 an amendment to the Tax Code was adopted in Russia with the purpose to clarify the VAT rules going forward. The amendment is effective 1 July 2013 and does not apply retrospectively. The Group believes that it has correctly interpreted the current tax legislation with regard to this issue in accordance with the accepted industry practice both before and after 1 July 2013.

During 2014 the Group recognized an additional tax provision for VAT of 300 which was recorded within Selling, General and Administrative expenses (Note 21) in the consolidated statement of profit or loss and other comprehensive income and in current provisions in the consolidated statement of financial position. Having considered the results of the tax authorities' audit for 2012-2013, which was completed during the year ended 31 December 2015, the Group released the tax provision for VAT of 300 in full in the current year. Respective income of 300 was included in Selling, General and Administrative expenses (Note 21) in the consolidated statement of profit or loss and other comprehensive income.

The Group has also identified possible tax contingencies for the two-year period ended 31 December 2015. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed half the amount of the Group's profit before income tax expense.

Customs

During the years ended 31 December 2015 and 2014, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into the Russian Federation directly. As the Group was not involved in clearing customs for the goods purchased on the territory of the Russian Federation, management cannot be certain that the entities which imported the goods into the Russian Federation were in full compliance with the applicable regulations of the Russian customs code.

As described above in *Russian Federation tax and regulatory environment* section, the relevant authorities may take a more assertive position in their interpretation of the applicable laws. Under Russian law a company in possession of goods that were imported with proven violations of the customs law may be subject to significant administrative or civil penalties and/or confiscation of the goods, if it was involved in, aware of, or should have known that violation of the customs code were occurring. To date, the Group has not been subject to any notification of violations of the customs code.

Management believes that the Group entities were acting in compliance with all applicable tax and legal requirements in respect of imported products, were not involved, not aware and could not be expected to know of any significant violations of the applicable customs code by the Russian wholesalers or resellers. Accordingly, management did not recognize any provisions in respect of such contingencies in these consolidated financial statements and determined that with current limitations in access to customs clearance documents it is not practicable to estimate the likely potential financial effect, if any, of such contingent liabilities.

License agreements

As at 31 December 2015, the Group had a total commitment of approximately 147,8 – 172,2 million RUB per annum for technical support services with respect to existing SAP licenses and software during the period from 2015 to 2017 (31 December 2014: 135,5 – 172,2 million RUB).

The Group uses SAP software for finance, supply chain and human resources functions.

Litigation

In the normal course of business, the Group is subject to proceedings, lawsuits, and other claims. While such matters are subject to other uncertainties, and outcomes are not predictable with assurance, the management of the Group believes that any financial impact arising from these matters would not be material to its financial position or annual operating results.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its environmental obligations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental matters.

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts banks provide guarantees in favour of the Group's suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2015 the Group entered into such guarantee contracts for the total amount of 3 660 (2014: 1 425). The Group has not pledged any assets (2014: none) as collateral under these guarantee contracts.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Generally the Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade and other receivables and cash and short-term deposits that arrive directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management provides assurance to the Group's Board of Directors that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2015 and 2014.

The capital structure of the Group consists of cash and cash equivalents (Note 12) and equity attributable to equity holders of the Company, comprising issued capital (less treasury shares), additional paid in capital and retained earnings.

(in millions of Russian Rubles)

The primary objective of the Group's capital management program is to maximize shareholder value while minimizing the risks associated with the loan portfolio. The consumer electronics business is a cyclical business and as such requires short-term fluctuations in capital to purchase goods to satisfy the seasonal demand. The Group uses a combination of short-term loans and supplier credit terms to meet the seasonal capital needs. The store expansion program adds to the capital needs as the capital and pre-opening costs associated with the new stores put additional pressure on the Group's financial resources. While the Group has not established any formal policies regarding debt to equity proportions the Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders' capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt.

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments as at 31 December 2015 and 2014 were as follows:

	2015	2014
Financial assets		
Loans and receivables (including cash and cash equivalents)	22 106	36 508
Financial liabilities		
Liabilities carried at amortized cost	61 193	60 654

Foreign currency risk management

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group's exposures to foreign currency risk arise from cash and cash equivalents held in US Dollars and Euro as well as from lease payments tied-in to currencies other than functional currency. At 31 December 2015 approximately 32% (at 31 December 2014: 31%) of the Group's operating lease agreements for stores and warehouses were tied-in to either US Dollars or Euro and these contracts accounted for approximately 49% (2014: 46%) of the Group's operating lease expenses for the year ended 31 December 2015. The Group minimizes, to the extent possible, the risk arising from foreign currency-denominated lease contracts by negotiating a fixed exchange rate or a cap for an exchange rate with the lessors.

During the years ended 31 December 2015 and 2014 the Group did not use forward exchange contracts to eliminate the currency exposures.

The carrying amount of the Group's foreign currency-denominated assets and liabilities at the reporting date are as follows:

	US Dollar		Euro	
	2015	2014	2015	2014
Assets				
Cash and cash equivalents	84	1 074	7	346
Total assets	**84**	**1 074**	**7**	**346**
Liabilities				
Accounts payable and accruals for operating leases (shown within other accounts payable)*	(1 849)	(1 363)	(338)	(276)
Total liabilities	**(1 849)**	**(1 363)**	**(338)**	**(276)**
Total net position	**(1 765)**	**(289)**	**(331)**	**70**

* Although accrued liabilities for lease payments calculated on a straight-line basis over the lease term do not represent financial instruments they have been included in the table above since they subject the Group to foreign currency risk.

(in millions of Russian Rubles)

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to changes in the exchange rates of the US Dollar and Euro. The following table details the Group's sensitivity to a 30% (31 December 2014: 20%) change of the Russian Ruble against these two currencies. As at 31 December 2015 the sensitivity rate of 30% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated assets and liabilities at year end and adjusts their translation for a movement in foreign currency exchange rates. Positive numbers below indicate an increase in profit and respective increase in equity where the Russian Ruble appreciates against the relevant currency. For a depreciation of the Russian Ruble against the relevant currency, there would be an equal and opposite impact on profit and equity.

	USD		EUR	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2015	+30%	(530)	+30%	(99)
	-30%	530	-30%	99

	USD		EUR	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2014	+20%	(58)	+20%	(14)
	-20%	58	-20%	14

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2015 the Group does not have any borrowings or other financial liabilities bearing floating interest rates (31 December 2014: none).

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 bonuses receivable from suppliers, other receivables, short-term investments as well as cash on current and deposit accounts with banks and other financial institutions.

Bonuses receivable from suppliers are either offset against respective accounts payable or paid in cash. At 31 December 2015 bonuses receivable from three major suppliers comprised 43% of the Group's consolidated accounts receivable and prepaid expenses (31 December 2014: 42%). 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.

(in millions of Russian Rubles)

The table below shows the balances that the Group had with 5 of its major counterparties as at 31 December 2015 and 2014:

			Carrying amount	
Counterparty	**Currency**	**Rating**	**2015**	**2014**
VTB	RUB	Ba2	4 201	4 106
Alfa-bank	RUB	Ba2	3 899	9 394
Sberbank	RUB	Ba2	2 657	10 859
Gazprombank	RUB	Ba2	-	388
Credit Bank of Moscow	RUB	B1	-	28
Nonbanking credit company Rapida	RUB	-	1	-
Total			**10 758**	**24 775**

The carrying amount of financial assets recorded in the consolidated statement of financial position, 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 2015 (31 December 2014: none).

Liquidity risk management

The Group's treasury monitors the risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

As at 31 December 2015 the Group had obtained uncommitted standby borrowing facilities in the total amount of 13 900 (31 December 2014: 11 000).

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2015 and 2014 based on contractual undiscounted payments:

As at 31 December 2015	**Less than 3 months**	**3-12 months**	**Total**
Trade accounts payable	50 170	7 992	58 162
Other accounts payable and accrued expenses	3 031	-	3 031
Total	**53 201**	**7 992**	**61 193**

As at 31 December 2014	**Less than 3 months**	**3-12 months**	**Total**
Trade accounts payable	48 940	8 488	57 428
Other accounts payable and accrued expenses	3 226	-	3 226
Total	**52 166**	**8 488**	**60 654**

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as at 31 December 2015 and 2014 approximate their fair values.

31. SUBSEQUENT EVENTS

After the balance sheet date no events have occurred which require disclosure in the consolidated financial statements.