Translation of the original Russian version

OJSC "OR"

Consolidated financial statements

for the year ended 31 December 2013

Translation of the original Russian version

OJSC "OR"

Consolidated financial statements

for the year ended 31 December 2013

Contents

Translation of the original Russian version

OJSC "OR"

Consolidated statement of comprehensive income

for the years ended 31 December 2013, 2012 and 2011

(in thousands of Russian Rubles)

	Note	2013	2012	2011
Revenues	5	4,914,927	3,425,634	2,210,019
Cost of sales		(2,530,987)	(1,963,502)	(1,155,324)
Gross profit		**2,383,940**	**1,462,132**	**1,054,695**
Selling expenses	6	(1,191,375)	(764,559)	(582,744)
Administrative expenses	7	(373,139)	(172,381)	(119,387)
Other income	8	105,499	42,002	14,870
Other expenses	8	(38,475)	(39,053)	(39,552)
Finance income	9	100,598	76,714	46,521
Finance costs	9	(260,858)	(174,459)	(116,762)
Profit before tax		**726,190**	**430,396**	**257,641**
Income tax expenses	10	(152,663)	(33,594)	(20,597)
Net profit for the year		**573,527**	**396,802**	**237,044**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income for the year		**573,527**	**396,802**	**237,044**
Weighted average number of outstanding ordinary shares, thousand		70,660	70,660	70,660
Basic earnings per share (in RUB)		**8.117**	**5.616**	**3.355**

General Director, A.M. Titov originally signed in Russian version

Chief Financial Officer, E.Y. Ageeva originally signed in Russian version

Chief Accountant, A.U. Kayrbekova originally signed in Russian version

30 April 2014

The notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

OJSC "OR"

Consolidated statement of financial position

as of 31 December 2013, 2012 and 2011

(in thousands of Russian Rubles)

	Note	31 December 2013	31 December 2012	31 December 2011
Non-current assets				
Property, plant and equipment	11	496,842	253,471	192,589
Intangible assets		3,318	3,537	3,586
Other non-current financial assets	15	19,893	6,594	201,124
Long-term trade and other receivables		1,200	–	4,949
Deferred tax assets	10	14,249	1,470	4,586
Total non-current assets		**535,502**	**265,072**	**406,834**
Current assets				
Inventories	12	1,810,564	1,209,847	754,695
Trade and other receivables	13	1,305,671	498,144	688,933
Advances issued	14	276,819	255,348	250,888
Prepaid income tax		339	443	333
Prepaid other taxes and VAT recoverable		87,148	13,120	15,889
Other current financial assets	15	555,316	723,443	67,654
Cash and cash equivalents	16	224,140	341,663	25,682
Total current assets		**4,259,997**	**3,042,008**	**1,804,074**
Total assets		**4,795,499**	**3,307,080**	**2,210,908**
Equity				
Share capital	17	7,066,000	74,348	61,080
Additional paid-in capital	17	(6,991,648)	–	–
Retained earnings		1,832,627	1,278,899	894,100
Total equity		**1,906,979**	**1,353,247**	**955,180**
Long-term liabilities				
Interest-bearing loans and borrowings	18	1,313,134	1,039,481	773,562
Deferred tax liabilities	10	17,111	4,844	392
Total long-term liabilities		**1,330,245**	**1,044,325**	**773,954**
Short-term liabilities				
Interest-bearing loans and borrowings	18	1,242,427	531,161	328,326
Trade and other payables	20	245,306	311,276	116,131
Advances received		6,006	33,676	11,404
Current income tax payable		41,180	9,332	3,054
Deferred revenue	19	1,085	1,714	9,740
Other taxes payable		20,329	21,822	12,884
Provisions	21	1,942	527	235
Total short-term liabilities		**1,558,275**	**909,508**	**481,774**
Total liabilities		**2,888,520**	**1,953,833**	**1,255,728**
Total equity and liabilities		**4,795,499**	**3,307,080**	**2,210,908**

The notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

OJSC "OR"

Consolidated statement of changes in equity

for the years ended 31 December 2013, 2012 and 2011

(in thousands of Russian Rubles)

	Note	Share capital (Note 17)	Additional capital (Note 17)	Retained earnings	Total equity
Balance at 31 December 2010		**61,070**	**–**	**668,550**	**729,620**
Net profit for the year		–		237,044	**237,044**
Total comprehensive income for the year		**–**	**–**	**237,044**	**237,044**
Contributions to share capital	17	10	–	–	**10**
Profit distribution	17	–	–	(11,494)	**(11,494)**
Balance at 31 December 2011		**61,080**	**–**	**894,100**	**955,180**
Net profit for the year		–	–	396,802	**396,802**
Total comprehensive income for the year		**–**	**–**	**396,802**	**396,802**
Contributions to share capital	17	13,268	–	–	**13,268**
Profit distribution	17	–	–	(12,003)	**(12,003)**
Balance at 31 December 2012		**74,348**	**–**	**1,278,899**	**1,353,247**
Net profit for the year		–	–	573,527	**,573,527**
Total comprehensive income for the year		**–**	**–**	**573,527**	**573,527**
Contributions to share capital	17	4	–	–	**4**
Issue of share capital	17	6,991,648	(6,991,648)	–	**–**
Profit distribution	17	–	–	(19,799)	**(19,799)**
Balance at 31 December 2013		**7,066,000**	**(6,991,648)**	**1,832,627**	**1,906,979**

The notes are an integral part of these consolidated financial statements.

Translation of the original Russian version

OJSC "OR"

Consolidated cash flow statements

for the years ended 31 December 2013, 2012 and 2011

(in thousands of Russian Rubles)

	Note	2013	2012	2011
Profit before tax for the year		**726,190**	**430,396**	**257,641**
Adjustments:				
Depreciation of property, plant and equipment	11	43,520	29,762	18,621
Provision for impairment of accounts receivable and other financial assets	7	154,666	33,804	12,797
Finance income		(100,598)	(76,714)	(46,521)
Finance costs		260,858	174,459	116,762
(Gain)/ loss on disposal of property, plant and equipment	8	2,156	199	(1,456)
Gain from transfer of receivables	8	(82,179)	-	-
Operating profit before changes in working capital		**1,004,613**	**591,906**	**357,844**
Changes in working capital				
(Increase)/ decrease in trade and other receivables		(624,433)	171,230	(518,280)
Increase in inventories		(600,717)	(455,152)	(54,871)
Increase in advances issued		(21,471)	(4,460)	(7,139)
(Increase)/decrease in VAT recoverable		(74,028)	829	(4,347)
Increase/(decrease) in trade and other payables		(52,084)	192,626	47,229
Increase/(decrease) in other tax liabilities		(1,493)	10,878	10,627
Increase/(decrease) in payables to employees		(13,886)	2,519	6,787
Increase/(decrease) in deferred revenue		(629)	(8,026)	7,946
Increase/decrease in advances received		(27,670)	22,272	226
Increase in micro-loans receivable		(234,830)	(319,730)	(4,587)
Net cash from/(used in) operating activities before income tax and interest paid		**(646,628)**	**204,892**	**(158,565)**
Interest paid		(253,279)	(162,891)	(117,483)
Income tax paid		(121,637)	(19,858)	(19,230)
Net cash from/ (used in) operating activities		**(1,021,544)**	**22,143**	**(295,278)**
Investing activities				
Purchase of property, plant and equipment and intangible assets		(279,851)	(91,774)	(201,272)
Proceeds from sale of property, plant and equipment and intangible assets		295	1,271	1,790
Loans issued		(550,496)	(338,736)	(172,740)
Repayment of loans issued		672,289	220,623	88,362
Repayment of interest on loans issued		80,889	44,499	25,143
Net cash used in investing activities		**(76,874)**	**(164,117)**	**(258,717)**
Financing activities				
Payment of the share capital	17	4	13,268	10
Proceeds from loans and borrowings		1,971,860	893,091	1,701,221
Repayment of loans and borrowings		(971,170)	(436,401)	(1,161,632)
Dividends paid	17	(19,799)	(12,003)	(11,494)
Net cash flows from financing activities		**980,895**	**457,955**	**526,883**
Net increase/(decrease) in cash and cash equivalents		**(117,523)**	**315,981**	**(27,112)**
Cash and cash equivalents, beginning		341,663	25,682	52,794
Cash and cash equivalents, ending		**224,140**	**341,663**	**25,682**

The notes are an integral part of these consolidated financial statements.

(in thousands of Russian Rubles)

1. General information

1.1. Corporate information

OJSC "OR" ("the Company") and its subsidiaries ("the Group") is a federal retail shoe chain, one of major operators of the Russian shoe market. The Group was established in 2003, its head office is located in Novosibirsk. The Company was founded on 12 August 2013 as a holding company of the Group.

The Group develops several business directions:

- retail trade of footwear, accessories and related goods;
- wholesale and franchising;
- footwear production;
- micro-financing activity;
- research and development in footwear production.

Retail trade is represented by three brands:

- Westfalika is the main retail chain of Obuv Rossii; mono-brand shops of the mid-price segment.
- Peshekhod is a chain of shoe supermarkets, multi-brand.
- Emilia Estra is a brand of fashionable bags and accessories and the same-name chain of specialized shops.

The Group comprises:

Company	Principal activity	2013	2012	2011
OJSC "OR"	Management activity	Parent company*	–	–
LLC Obuv Rossii	Trade, financial activity	100%	100%	100%
LLC Westfalika M	Trade, production, financial operations	100%	100%	100%
LLC Peshekhod	Trade, financial activity	100%	100%	100%
LLC Obuvrus	Trade, financial activity	100%	100%	100%
LLC MFO	Trade, financial activity	100%	100%	100%
LLC Obuv Rossii	Production	100%	100%*	–
LLC Research & Development Center "Modified Polymers"	Research and development in natural engineering sciences	100%*	–	–

* newly established subsidiaries

As of 31 December 2013, Anton Mikhailovich Titov is the ultimate controlling party holding 96.4% of the Company's shares.

1. General information (continued)

1.1. Corporate information (continued)

As of 31 December 2012 and 2011, 100% of the share capitals of the Group companies belonged to Anton Mikhailovich Titov.

As of 31 December 2013, the Group's headcount is 2,403 employees (31 December 2012: 1,594 employees; 31 December 2011: 1,321 employees).

1.2. Business environment in the Russian Federation

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation and summary of significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below.

All values in the financial statements are rounded to the nearest thousand except where otherwise indicated.

2. Basis of preparation and summary of significant accounting policies (continued)

2.2. Basis of consolidation

In 2013, the Group completed its organizational and legal structure and, therefore, prepared the consolidated financial statements. On 12 August 2013, newly established OJSC "OR" became the Parent company of the Group. Since reorganization of the Group was performed under the common control of Mr. A.M. Titov, consolidation of subsidiaries was recorded retrospectively and consolidated financial statements of OJSC "OR" is the continuation of the combined financial statements of Obuv Rossii Group (Note 17).

The consolidated financial statements comprise the financial statements of the Parent company and its subsidiaries as of 31 December 2013 (Note 1). The Group is considered to have control when it is entitled to variable benefit from investment or is exposed to the risk of change in the investment, and may affect the benefit as a result of its authority for the investee. In particular, the Group has control over the investee only when the following conditions are met:

- the Group has the power over the investee (existing rights securing the ability to control significant activity of the investee);
- the Group is entitled to variable benefit from the investment or is exposed to the risk of change in the investment;
- the Group may affect the benefit as a result of its authority for the investee.

If the Group controls an investee with less than a majority of voting rights or similar rights, the Group considers all relevant facts and circumstances when assessing the existence of the power over the investee:

- agreement with other parties with voting rights in the investee;
- rights arising from other agreements;
- voting rights and potential voting rights held by the Group.

The Group reassesses the existence of control over the investee if the facts and circumstances evidence that one or more of three control components have been changed.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary, acquisition and disposal of which occurred during the year, are included in the statement of comprehensive income from the date of acquisition of control by the Group and recognized till the date when the control over the subsidiary ceases.

2. Basis of preparation and summary of significant accounting policies (continued)

2.2. Basis of consolidation (continued)

Profit or loss, as well as every component within other comprehensive income, are attributable to owners of the Parent company and the Group even if that results in a deficit balance.

All inter-group assets and liabilities, equity, income, expenses and cash flows resulting from operations within the Group are entirely eliminated for consolidation purposes.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any resulting surplus or deficit in profit or loss;
- Reclassifies the share of the Parent company in the components previously recognized in other comprehensive income to profit or loss or retained earnings in accordance with specific IFRS requirements as if the Group disposed respective assets or liabilities.

2.3. Going concern

These consolidated financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations in the foreseeable future and will be able to realize its assets and meet its liabilities in the normal course of business.

2.4. Functional and presentation currency

These consolidated financial statements are presented in the national currency of the Russian Federation - Russian ruble ("RUB"), which is the functional currency of all Group companies.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Group companies in their functional currency at the spot rate effective at the date when the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on restatement of non-monetary items is treated in line with the principles on recognizing gain or loss on change in fair value of the item (i.e., translation differences on items fair value gain or loss of which is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Financial instruments

Financial assets – initial recognition and valuation

Financial assets within the scope of IAS 39 are classified as follows:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments
- available-for-sale financial assets
- derivatives designated as hedging instruments in an effective hedge.

The Group determines the classification of its financial assets at initial recognition.
Financial assets of the Group are represented by loans issued, trade and other receivables, and cash and cash equivalents. All of the above assets are classified to loans and receivables.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost measured using the effective interest method.

The Group initially recognizes loans and receivables and deposits on the date that they originated.

Financial assets - derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired,
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the new asset is recognized to the extent of the Group’s continuing involvement in the transferred asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial assets - impairment

At each reporting date the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, and there is the probability that they will enter bankruptcy or other financial reorganization Such evidences also include the observable data which indicate that there is a measurable decrease in the estimated future cash flows of a financial instrument, such as changes in arrears or economic conditions that correlate with defaults.

The Group considers evidence of impairment for loans issued and receivables both at the level of individual assets, and an asset portfolio. All individually significant assets are assessed for impairment on an individual basis. All individually significant receivables not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss for the period and are reflected on the provision account against receivables.

Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Financial liabilities – initial recognition and valuation

Financial liabilities within the scope of IAS 39 are classified as follows:

- Financial liabilities at fair value through profit or loss;
- Other financial liabilities.

The Group classifies its financial liabilities at initial recognition.

Financial liabilities of the Group are represented by loans and borrowings, trade and other receivables and other transactions. All of the above liabilities are classified to other financial assets.

Other financial liabilities

Other financial liabilities are initially recognized at fair value less transaction costs directly attributable to such loans and borrowings.

Subsequent to initial recognition other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses related to such financial liabilities are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The EIR amortization is included in finance cost in the income statement 2.

A financial liability is derecognized in the consolidated statements of financial position when the obligation under the liability is discharged or canceled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying values is recognized in the statement of comprehensive income.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a currently enforceable legal right to offset them and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined at each reporting date by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in the active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- using recent arm’s length market transactions;
- reference to the current fair value of similar instruments;
- discounted cash flow analysis or other valuation models.

Analysis of fair value of financial instruments is presented in Note 24.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks, cash in transit and at stores, short-term deposits with an original maturity of three months or less and credit card payments made during 24 hours of the next business day.

Equity instruments (equity)

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 carried at the amount of proceeds received, less any costs attributable to the issuance.

Equity instruments are classified either as liabilities or as equity based on the substance of the contractual arrangements.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Dividends are recognized as liabilities in the period in which they are declared by the decision of the General Meeting of Participants and are payable in accordance with the legislation. Dividends are disclosed in the financial statements 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.

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts of equipment and borrowing costs for long-term construction projects, if the capitalization criteria are met.

Significant restoration or modernization of property, plant and equipment are capitalized and depreciated over the useful life of the respective asset. All other repairs and maintenance are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is accrued to write off the cost or revaluation of assets using the straight-line method over their estimated useful lives as follows:

Buildings	18-20 years
Machinery and equipment	2-5 years
Office equipment	2-5 years
Vehicles	3-7 years
Shop equipment	3-5 years
Other property, plant and equipment	2-24 years

Where an item of property, plant and equipment comprises several components having different useful lives, such components are accounted for as separate items of property, plant and equipment.

Retail equipment is depreciated over the specified estimated useful life except as where store equipment is planned to be totally upgraded by the end of its useful life. In such circumstances, residual value of retail equipment is depreciated over its remaining useful life which is equal to the period to complete the upgrade.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted, if appropriate.

A previously recognized item of property, plant and equipment or any significant part thereof is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

Intangible assets

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

Amortization of intangible assets

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Expected useful lives of intangible assets are adopted as follows:

Exclusive rights for software and developments	15 years

The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Leased assets

Leases where the Group assumes substantially all the risks and benefits of leased assets ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the respective leased assets are not recognized in the Group's consolidated statement of financial position.

Inventories

Inventories are carried at the lower of acquisition cost and net realizable value.

Supplier rebates which do not represent reimbursement of direct, incidental or identified costs to promote the goods, are eliminated from the cost of inventories. Transportation to the central distribution warehouse of the Group and to retail outlets is expensed to cost of sales. Other costs related to warehousing and storage are expensed as incurred and recognized in selling and administrative expenses.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs to sell.

Impairment of non-financial assets

The carrying values of the Group's non-financial assets, other than inventories, deferred tax assets and non-current assets classified as held for sale and tax prepayments are tested for impairment at each of the reporting dates. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

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

An impairment loss is recognized if the carrying value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units (group of units) are allocated to the non-current assets of such unit (group of units) pro rata to the carrying value of unit (group of units) assets.

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

Employee benefits

Salaries paid to employees are recognized as expenses for the reporting period.

The Group makes contributions to the state pension and insurance funds. The Group does not have any employer-sponsored benefit plans.

Provisions

Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made.

The amount recognized as a provision represents the best estimate of costs to settle the obligation at the reporting date, given the risks and uncertainties related to the obligation.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

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.

The Group's provisions represent warranties. The Group accrues the respective provision for warranties. Such expenses are recognized at the date of selling the respective goods in the amount of expenses assessed by the management to cover respective obligations.

Recognition of revenues from sale of goods

Revenues are recognized at fair value of consideration received or receivable. Revenues are decreased by the amount of goods expected to be returned by customers, rebates and VAT. Revenues from intra-group sales of goods are eliminated for the purposes of the consolidated financial statements.

Revenues are recognized only subject to the below specific recognition criteria:

- the Group has transferred significant risks and benefits of the goods' ownership to the buyer;
- the Group retains neither management functions (to the extent associated with ownership) nor real control over the goods;
- the amount of revenue can be reliably measured;
- the Group will obtain economic benefits associated with the transaction;
- costs incurred or to be incurred in respect of the transaction can be reliably measured.

The Group recognizes retail revenue upon transfer of goods to buyers. Cash proceeds received as payment of installment fees are recognized as deferred revenue and then are allocated to finance income on a straight-line basis over the installment term.

If goods are sold without fees or commissions, the Group recognizes revenues in the amount of fair value of receivables upon transfer of the title to the goods, as described above. The fair value of receivables is measured as present value of future cash flows discounted using rates established for similar instruments.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Revenue from sale of gift certificates is recognized by the Group at the moment of exchanging the gift certificate to the goods. The amounts received by the Group from sale of gift certificates are recognized as deferred revenue.

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received reduce the total lease expense, over the term of the lease. Lease income is taken to other income.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of comprehensive income.

Finance income and expenses

Finance income comprises interest income on funds invested and loans calculated based on the effective interest rate (including finance income from installment sales) and gain on disposal of financial instruments.

Financial expenses comprise interest expense on loans calculated based on the effective interest rate, recognized loss from impairment of financial assets and loss from disposal of financial instruments.

Income tax

Income tax expense comprises current and deferred tax.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes at the reporting date.
Deferred tax liabilities are not recognized in respect of:

- deferred tax liability arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- deferred tax asset relating to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities against each other, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group entities. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

Unified tax on imputed income

Until 30 June 2013, the Group companies applied special tax regime according to which unified tax on imputed income was assessed on certain operations. In accordance with such tax regime, tax is calculated using tax rates established for one square meter of retail trade area.

Starting from 1 July 2013, the Group companies ceased to comply with the qualifying criteria of such regime, therefore they applied general tax regime.

Value added tax and other taxes

Value Added Tax (VAT) on the goods sold is payable to the state budget. VAT paid on purchase of goods and services is generally recoverable against VAT related to sales revenue upon receipt of the VAT invoice.

VAT related to sales and purchases which have not been settled at the reporting date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as assets and liabilities. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Other taxes payable include tax liabilities except for income tax and VAT accrued in accordance with adopted or substantially adopted laws and repaid by the end of the reporting period.

2. Basis of preparation and summary of significant accounting policies (continued)

2.5. Summary of significant accounting policies (continued)

Pre-opening costs

Pre-opening costs which do not qualify for capitalization under IAS 16 Property, Plant and Equipment are expensed when incurred. Pre-opening costs comprise lease and utilities payments and other operating expenses.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying value of assets or liabilities affected in future periods.

3.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating leases – Group as a lessee

The Group entered into lease agreements with third parties for premises. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties, and thus accounts for the agreements as operating leases, except for agreements accounted for as finance leases.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year, are described below. The Group's assumptions and estimates are based on the inputs available at the time of preparing the consolidated financial statements. But current circumstances and assumptions concerning the future may change as a result of changes in the market environment or circumstances beyond the Group's control. Such changes are reflected in the assumptions as they occur.

3. Significant accounting judgments, estimates and assumptions (continued)

3.2. Estimates and assumptions (continued)

Useful lives of property, plant and equipment

Property, plant and equipment is depreciated over expected useful lives as disclosed in Note 2. Useful lives are reviewed at the end of the year and adjusted where necessary

Impairment of financial assets

The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes professional judgments as to whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio before decrease will be identified for an individual loan. This evidence may include measurable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on liabilities. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to the loan portfolio assets used to forecast future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

Provision for doubtful debt is based on the historical data related to recoverability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of debtors is to deteriorate, actual write-offs may be higher than expected.

Net realizable value of inventories

Management analyzes trading balances to identify options to sell inventories at their carrying value or above plus cost of sales. Such analysis comprises identification of slow-selling inventories. Identification suggests analysis of historical data and current operating plans for respective inventories, industry trends and consumer preferences.

If carrying value of inventories exceeds its net realizable value, management writes such inventories down to their net realizable value,

In case actual results differ from management estimates concerning sales of inventories at carrying value or below, management will have to adjust the carrying value of inventories.

3. Significant accounting judgments, estimates and assumptions (continued)

3.2. Estimates and assumptions (continued)

Tax legislation

Russian tax, currency and customs legislation are subject to varying interpretations and frequent changes. Tax authorities are able to claim for such transaction or accounting method for which it had no claims before. As of 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Fair value of financial instruments at initial recognition

In the course of its business, the Group has transactions with related parties, including provision of loans on terms which may differ from market terms. In accordance with IAS 39, financial instruments are initially recognized at fair value. Where no active market exists, professional judgments are used to determine whether transactions were made at market rates. Judgments are based on prices in comparable related party transactions and analysis of effective interest rate.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

4. Standards issued but not yet effective (continued)

IFRS 9 *Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect of adoption of this standard on the amounts disclosed in the financial statements in conjunction with the other phases, when the final standard is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments become effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendment is not expected to apply to the Group, since none of the Group's entities qualifies to be an investment entity under IFRS 10.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments become effective for annual periods beginning on or after 1 January 2014. The Group expects that these amendments will have no impact on the Group's financial position or performance.

4. Standards issued but not yet effective (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when an activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. IFRIC 21 becomes effective for annual periods beginning on or after 1 January 2014. IFRIC 21 is not expected to impact the Group's financial position or performance.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments become effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives in the current period. However, these amendments will be taken into account when considering future novations.

5. Revenue

Revenue for the years ended 31 December 2013, 2012 and 2011 consisted of the following:

	2013	2012	2011
Revenue from retail sale	3,756,045	2,812,312	1,931,319
Revenue from wholesale	589,477	522,094	277,028
Income from micro-financing activities	569,405	91,228	1,672
Total	**4,914,927**	**3,425,634**	**2,210,019**

6. Selling expenses

Selling expenses for the years ended 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Leases	536,097	301,674	196,076
Payroll and payroll taxes	326,687	187,009	111,980
Advertising and marketing	184,614	134,222	155,201
Material costs	34,602	44,248	28,110
Warehouse expenses	12,350	22,355	15,978
Bank fees, cash collection in stores	41,901	28,764	23,762
Depreciation of property, plant and equipment and amortization of intangible assets	33,595	20,248	8,693
Insurance	1,563	407	1,317
Other	19,966	25,632	41,627
Total	**1,191,375**	**764,559**	**582,744**

7. Administrative expenses

Administrative expenses for the years ended 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Payroll and payroll taxes	91,675	45,851	21,805
Allowance for doubtful receivables (Note 13)	50,563	24,509	12,612
Leases	14,413	17,910	13,786
Business travel expenses	30,681	17,488	14,767
Communication, post	29,746	13,288	8,540
Allowance for other financial assets (Note 15)	104,103	9,295	185
Depreciation	9,527	8,679	9,303
Material costs	12,915	8,541	22,010
Utilities	–	7,802	4,428
Information, consulting, audit and legal fees	16,500	3,606	5,272
Taxes other than income tax	2,422	2,564	1,411
Other	10,594	12,848	5,268
Total	**373,139**	**172,381**	**119,387**

8. Other operating income and expenses

Other operating income and expenses for the years ended 31 December 2013, 2012 and 2011 comprised the following:

Other income	2013	2012	2011
Lease of office premises and motor vehicles	2,076	702	4,689
Agent fees	3,691	–	–
Gain from sale of installment receivables and micro-loans issued to individuals	82,179	–	–
Foreign exchange differences	–	295	–
Penalties received	11,083	6,458	1,770
Gain from disposal of property, plant and equipment	–	–	1,456
Write off of accounts payable	–	28,460	4,635
Other	6,470	6,087	2,320
Other operating income	**105,499**	**42,002**	**14,870**

In 2013, the Group sold overdue retail trade receivables and micro-loans to individuals in the amount of RUB 314,903 thousand to a factoring company for RUB 252,000 thousand. Disposing the above debts, the Group used previously accrued provisions for doubtful debts on installment sales of RUB 63,800 thousand (Note 13) and provisions for micro-loans of RUB 81,282 thousand (Note 15). Gain from the sale amounted to RUB 82,179 thousand.

Other expenses	2013	2012	2011
Foreign exchange differences	296	–	7,975
Penalties paid	32	25	57
Loss on disposal of property, plant and equipment	2,156	199	–
Production closure costs	–	–	9,295
Agent fees	–	690	–
Writing off of receivables and advances issued	5,599	6,000	–
Writing off of goods for resale	17,968	8,188	3,938
Other expenses	12,424	23,951	18,287
Other operating expenses	**38,475**	**39,053**	**39,552**

9. Finance income and costs

Finance income and costs for the years ended 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Finance income			
Interest on loans issued	43,285	42,464	23,695
Interest on installment sales	57,313	34,250	22,826
Total	**100,598**	**76,714**	**46,521**
Finance costs			
Interest on loans	169,480	86,011	71,468
Interest on bonds	91,378	86,800	43,779
Loss from discounting of borrowings at the market interest rate	–	1,648	1,515
Total	**260,858**	**174,459**	**116,762**

10. Income tax

The main components of the income tax expense for the years ended 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Current income tax	(153,175)	(26,026)	(19,405)
Deferred income tax	512	(7,568)	(1,192)
Total	**(152,663)**	**(33,594)**	**(20,597)**

The taxation charge for the year is different from the amount that would be received when applying the statutory income tax rate to the net profit before income tax. Reconciliation between the theoretical income tax calculated at the statutory rate of 20% applicable for 2013, 2012 and 2011, and the actual income tax expense recorded by the Group in the consolidated statement of comprehensive income is provided below:

	2013	2012	2011
Profit before tax	726,190	430,396	257,641
Theoretical income tax at the rate of 20%	(145,238)	(86,079)	(51,528)
Effect of UTII on income tax before 30 June 2013	14,940	50,569	19,927
Effect of transition from UTII to standard regime after 1 July 2013	(11,012)	–	–
Deferred tax on unrealized income	10,182	–	–
Non-taxable income/ (non-deductible expense)	(21,535)	1,916	11,004
Total	**(152,663)**	**(33,594)**	**(20,597)**

Differences between the value of assets and liabilities reported in the consolidated financial statements and their tax value result in certain temporary differences. The tax effect of the movement on these temporary differences is recorded at the rate of 20%.

10. Income tax (continued)

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of 31 December 2013, 2012 and 2011 is as follows:

(in thousands of Russian rubles)	2011	Recognized in the income statement	2012	Recognized in the income statement	2013
Deferred tax asset					
Property, plant and equipment	737	(8)	729	(729)	–
Other financial assets	–	–	–	6,460	6,460
Accounts receivable	2,076	(1,455)	621	814	1,435
Inventories	–	–	–	12,510	12,510
Deferred revenue	1,773	(1,653)	120	(120)	–
Provisions	–	–	–	388	388
Trade and other payables	–	–	–	3,864	3,864
Tax losses	–	–	–	6,296	6,296
Off set	–	–	–	–	(16,704)
Total deferred tax asset	**4,586**	**(3,116)**	**1,470**	**29,483**	**14,249**
Deferred tax liability					
Property, plant and equipment	–	–	–	(31,856)	(31,856)
Financial assets	(214)	(4,134)	(4,348)	4,005	(343)
Other	(178)	(318)	(496)	(1,120)	(1,616)
Off set	–	–	–	–	16,704
Total deferred tax liability	**(392)**	**(4,452)**	**(4,844)**	**(28,971)**	**(17,111)**
Total net deferred tax asset/ tax liability	**4,194**	**(7,568)**	**(3,374)**	**512**	**(2,862)**

11. Property, plant and equipment

Property plant and equipment as of 31 December 2013, 2012 and 2011 comprised the following:

	Land	Buildings	Machinery and equipment, office equipment	Motor vehicles	Retail space equipment	Other property, plant and equipment	Total
Carrying value at 1 January 2011	**–**	**–**	**3,445**	**4,587**	**4,250**	**1,368**	**13,650**
Cost							
At the beginning of the year	–	–	25,311	7,740	16,491	4,597	**54,139**
Additions	8,484	84,785	5,086	5,800	95,239	3,472	**202,866**
Disposals	–	–	(18,010)	(2,564)	(9,508)	(2,545)	**(32,627)**
At the end of the year	**8,484**	**84,785**	**12,387**	**10,976**	**102,222**	**5,524**	**224,378**
Accumulated depreciation							
At the beginning of the year	–	–	(21,866)	(3,153)	(12,241)	(3,229)	**(40,489)**
Depreciation charge	–	(4,241)	(1,378)	(2,278)	(9,940)	(784)	**(18,621)**
Depreciation disposal	–	–	14,197	1,339	9,331	2,454	**27,321**
At the end of the year	**–**	**(4,241)**	**(9,047)**	**(4,092)**	**(12,850)**	**(1,559)**	**(31,789)**
Carrying value at 31 December 2011	**8,484**	**80,544**	**3,340**	**6,884**	**89,372**	**3,965**	**192,589**

	Land	Buildings	Machinery and equipment, office equipment	Motor vehicles	Shop equipment	Other property, plant and equipment	Total
Carrying value at 1 January 2012	**8,484**	**80,544**	**3,340**	**6,884**	**89,372**	**3,965**	**192,589**
Cost							
At the beginning of the year	8,484	84,785	12,387	10,976	102,222	5,524	224,378
Additions	–	–	1,354	5,575	58,947	26,292	92,168
Disposals	–	–	(385)	(415)	(3,880)	(1,479)	(6,159)
At the end of the year	**8,484**	**84,785**	**13,356**	**16,136**	**157,289**	**30,337**	**310,387**
Accumulated depreciation							
At the beginning of the year	–	(4,241)	(9,047)	(4,092)	(12,850)	(1,559)	(31,789)
Depreciation charge	–	(4,566)	(1,235)	(2,334)	(20,735)	(680)	(29,550)
Depreciation disposal	–	–	207	325	3,279	612	4,423
At the end of the year	**–**	**(8,807)**	**(10,075)**	**(6,101)**	**(30,306)**	**(1,627)**	**(56,916)**
Carrying value at 31 December 2012	**8,484**	**75,978**	**3,281**	**10,035**	**126,983**	**28,710**	**253,471**

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Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

	Land	Buildings	Machinery and equipment, office equipment	Motor vehicles	Retail space equipment	Other property, plant and equipment	Total
Carrying value at 31 December 2012	**8,484**	**75,978**	**3,281**	**10,035**	**126,983**	**28,710**	**253,471**
Cost							
At the beginning of the year	8,484	84,785	13,356	16,136	157,289	30,337	**310,387**
Additions	–	–	1,287	12,467	115,829	157,906	**287,489**
Disposals	–	–	(3,800)	(648)	(2,944)	(1,149)	**(8,541)**
At the end of the year	**8,484**	**84,785**	**10,843**	**27,955**	**270,174**	**187,094**	**589,335**
Accumulated depreciation							
At the beginning of the year	–	(8,807)	(10,075)	(6,101)	(30,306)	(1,627)	**(56,916)**
Depreciation charge	–	(4,566)	(1,123)	(3,878)	(33,016)	(937)	**(43,520)**
Depreciation disposal	–	–	3,418	648	2,938	939	**7,943**
At the end of the year	**–**	**(13,373)**	**(7,780)**	**(9,331)**	**(60,384)**	**(1,625)**	**(92,493)**
Carrying value at 31 December 2013	**8,484**	**71,412**	**3,063**	**18,624**	**209,790**	**185,469**	**496,842**

Depreciation of property, plant and equipment is included in the cost of sales, commercial and administrative expenses in the amount of RUB 398 thousand, RUB 33,595 thousand and RUB 9,527 thousand respectively (2012: RUB 623 thousand, RUB 20,248 thousand and RUB 8,679 thousand; 2011: RUB 625 thousand, RUB 8,693 thousand and RUB 9,303 thousand).

12. Inventories

Inventories as of 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Raw materials (at cost)	15,626	27,709	10,907
Finished goods and goods for resale (at the lower of cost and net realizable value)	1,794,938	1,182,138	743,788
Total	**1,810,564**	**1,209,847**	**754,695**

Finished goods and goods for resale written down to net realizable value amounted to RUB 5,682 thousand (2012: RUB 5,909 thousand; 2011: RUB 7,298 thousand).

13. Trade and other receivables

Trade and other receivables as of 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Trade receivables of wholesale customers	63,350	34,064	193,664
Trade receivables of retail customers	888,398	452,074	255,409
Provision for doubtful receivables of retail customers	(24,528)	(37,765)	(13,257)
Other receivables	373,278	34,435	83,877
Receivables from related parties (Note 22)	5,173	15,336	169,240
Total	**1,305,671**	**498,144**	**688,933**

Trade receivables of wholesale customers and other receivables are denominated in Russian rubles and are usually settled in 12 months. Trade receivables of wholesale customers and other receivables are interest free.

Trade receivables of retail customers are denominated in Russian rubles and arise when the Group uses installment sales. Installment matures in 10 months. These receivables bear an interest of 11%.

Movement of allowance for doubtful receivables:

	2013	2012	2011
At 1 January	**37,765**	**13,257**	**645**
Charge	50,563	24,508	12,612
Reversal	–	–	–
Utilized (Note 8)	(63,800)	–	–
At 31 December	**24,528**	**37,765**	**13,257**

Details of the past due trade and other receivables are shown in the tables below:

31 December 2013	Neither past due nor impaired	Past due but not impaired			
		1 and 30 days	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	63,350	–	–	–	–
Trade receivables of retail customers	844,718	15,030	3,635	487	–
Other receivables	373,278	–	–	–	–
Receivables from related parties	5,173	–	–	–	–
Total	**1,286,519**	**15,030**	**3,635**	**487**	**–**

13. Trade and other receivables (continued)

31 December 2012	Neither past due nor impaired	Past due but not impaired 1 and 30 days	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	34,064	–	–	–	–
Trade receivables of retail customers	393,176	14,691	3,482	2,960	–
Other receivables	34,435	–	–	–	–
Receivables from related parties	15,336	–	–	–	–
Total	**477,011**	**14,691**	**3,482**	**2,960**	**–**

31 December 2011	Neither past due nor impaired	Past due but not impaired 1 and 30 days	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	193,664	–	–	–	–
Trade receivables of retail customers	237,678	2,825	1,031	618	–
Other receivables	83,877	–	–	–	–
Receivables from related parties	169,240	–	–	–	–
Total	**684,459**	**2,825**	**1,031**	**618**	**–**

14. Advances issued

In 2013, advances issued to related parties were repaid in full. As of 31 December 2012 and 2011, advances issued included RUB 133,323 thousand and RUB 2,259 thousand of advances issued to related parties respectively (Note 22).

15. Other financial assets

Other financial assets as of 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Other non-current financial assets			
Loans issued to third parties	–	–	19,025
Loans issued to related parties	–	6,594	182,099
Micro-loans issued to individuals	21,102	–	–
Provision for micro-loans impairment	(1,209)	–	–
Total	**19,893**	**6,594**	**201,124**
Other current financial assets			
Loans issued to third parties	33,531	53,686	43,058
Micro-loans issued to individuals	327,258	325,188	5,458
Provision for micro-loans impairment	(31,092)	(9,480)	(185)
Loans issued to related parties	225,619	354,049	19,323
Total	**555,316**	**723,443**	**67,654**

Loans issued to third parties are denominated in Russian rubles, bear interest rate of 12.4% to 15% (2012: 0% to 15%; 2011: 12% to 15%) and mature in 6 months to 1 year. Borrowings issued to third parties are not secured.

Micro-loans issued to individuals comprise RUB-denominated unsecured amounts of less than RUB 50 thousands, maturing in two years. Such receivables bear interest of 120% to 365% p.a., which mainly depend on the maturity period of the borrowing (2012: 45% - 164.25%; 2011: 14% to 45%).

Movements in provision for other financial assets:

	2013	2012	2011
At 1 January	**9,480**	**185**	**–**
Charge	104,103	9,295	185
Reversal	–	–	–
Utilized (Note 8)	(81,282)	–	–
At 31 December	**32,301**	**9,480**	**185**

15. Other financial assets (continued)

Details of the past due financial assets are shown in the tables below:

31 December 2013	Neither past due nor impaired	Past due but not impaired 1 to 30 days	31 to 91 days	92 to 540 days	Over 540 days
Loans issued to third parties	33,531	–	–	–	–
Micro-loans issued to individuals	248,467	12,603	5,223	2,309	–
Interest receivable on micro-loans	47,457	–	–	–	–
Loans issued to related parties	225,619	–	–	–	–
	555,074	**12,603**	**5,223**	**2,309**	**–**

31 December 2012	Neither past due nor impaired	Past due but not impaired 1 to 30 days	31 to 91 days	92 to 540 days	Over 540 days
Loans issued to third parties	53,686	–	–	–	–
Micro-loans issued to individuals	288,880	3,030	1,475	534	–
Interest receivable on micro-loans	21,789	–	–	–	–
Loans issued to related parties	360,643	–	–	–	–
	724,998	**3,030**	**1,475**	**534**	**–**

As of 31 December 2011, the Group had no past due and impaired financial assets.

16. Cash and cash equivalents

As of 31 December 2013, 2012 and 2011, cash and cash equivalents consisted of the following:

	2013	**2012**	**2011**
Cash on hand	11,397	7,902	4,450
Cash at banks	87,743	83,761	21,232
Cash deposits at banks	125,000	250,000	–
Total	**224,140**	**341,663**	**25,682**

Cash at bank accounts comprise cash at current bank accounts that carry no interest.

16. Cash and cash equivalents (continued)

In 2013, cash deposits were placed for the period from 6 to 56 days at the interest rate from 2.25% to 6.14% p.a. (2012: for the period up to three months at the interest rate of 4.5% p.a., 2011: 0).

17. Equity

Share capital

OJSC "OR" was registered on 26 September 2013 as a holding company of Obuv Rossii Group. The Company's share capital comprises 70,660,000 shares with the nominal value of RUB 10 each and as of 31 December 2013, the share capital of 7,066,000 shares was paid in full by shares of the subsidiaries.

Before reorganization, as of 31 December 2012 and 2011, share capital comprised the capitals of the following companies:

Company	2012	2011
LLC Obuv Rossii	8,000	8,000
LLC Westfalika M	14,161	11,328
LLC Peshekhod	52,167	41,734
LLC Obuvrus	10	8
LLC MFO	10	10
Total	**74,348**	**61,080**

In 2012, the Group increased its share capital by RUB 13,268 thousand.

Additional capital

Additional capital of RUB 6,991,648 thousand represents the difference between the nominal value of the share capital and present value of share capitals of the companies which were contributed as payment for the capital.

Dividends

In 2013, the Group declared and paid dividends in the amount of RUB 19,799 thousand (2012: RUB 12,003 thousand, 2011: RUB 11,494 thousand) for 2012.

In April 2014, the General Meeting of the shareholders approved the decision not to pay dividends for 2013.

18. Interest-bearing loans and borrowings

Interest bearing loans and borrowings as of 31 December 2013, 2012 and 2011 comprised the following:

Long-term loans and borrowings	2013	2012	2011
Bank loans	1,313,134	345,591	76,000
Bonded loan	–	693,890	697,562
Total	**1,313,134**	**1,039,481**	**773,562**

Short-term loans and borrowings	2013	2012	2011
Bank loans	544,570	509,602	328,324
Bonded loan	697,643	–	–
Borrowings from legal entities	212	21,557	–
Borrowings from related parties (Note 22)	2	2	2
Total	**1,242,427**	**531,161**	**328,326**

Bank loans are denominated in Russian rubles. They bear interest of 9.6% -14.48% p.a. (2012: 10.6% - 12.25%; 2011: 9.3% - 12.25%). Long-term bank loans mature in 2015-2017.

Bonded loan was issued in 2011 and comprise an issue of RUB 695,500 thousand (2011: RUB 700,000 thousand) bonds with nominal value of RUB 1 thousand each maturing on 25 June 2014. Coupon is paid in June and December during the entire maturity term. As of 31 December 2013, coupon rate was 12.85% (2012, 2011: 12.25%). Effective interest rate was 13.38% p.a. (2012: 13.26% p.a., 2011: 12.62% p.a.).

As of 31 December 2013, the Group has undrawn credit facilities of RUB 2,570,000 thousand.

For more details on maturity profile of loans and borrowings refer to Note 24.

Pledges

As of 31 December 2013, property, plant and equipment, as well as goods for resale, used as collateral for the loans received, amounted to RUB 224,696 thousand and RUB 34,579 thousand (2012: RUB 93,108 thousand and RUB 484,199 thousand; 2011: RUB 105,000 thousand and RUB 274,320 thousand), respectively.

19. Deferred revenue

As of 31 December 2013, 2012 and 2011 deferred value is comprised by customer payments received to pay for installments and gift certificates. Beginning with July 2013, the Group ceased to charge fees on installment sales.

	2013	2012	2011
Prepaid installment fees	–	610	8,866
Unused gift certificates	1,085	1,104	874
Total	**1,085**	**1,714**	**9,740**

20. Trade and other payables

Trade and other payables as of 31 December 2013, 2012 and 2011 comprised the following:

	2013	2012	2011
Trade payables	169,206	291,180	95,615
Payables to employees	40,707	17,308	14,789
Other payables	35,382	2,779	5,718
Other payables to related parties (Note 22)	11	9	9
Total	**245,306**	**311,276**	**116,131**

21. Provisions

The Group charges provision for the shoe warranty repairs. At 31 December 2013, the provision amounted to RUB 1,942 thousand (2012: RUB 527 thousand; 2011: RUB 235 thousand).

22. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if parties are under common control (this includes parents, subsidiaries and fellow subsidiaries). In considering each possible related party relationship, attention is directed to its substance, not merely the legal form.

Related parties include the ultimate owner, key management personnel, entities under common control of the ultimate owner, entities under key management's control and entities in relation to which the Group has significant influence.

22. Related party transactions (continued)

Overall amounts of transactions with related parties are shown in the table below:

2013	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Entities under common control	14,635	–	6,373	9
Ultimate owner	661	–	–	–
Close relatives	29	4,205	–	2
Total	**15,325**	**4,205**	**6,373**	**11**

2012	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Entities under common control	7,396	8,329	15,336	9
Ultimate owner	–	–	133,323	–
Close relatives	1,150	–	–	–
Total	**8,546**	**8,329**	**148,659**	**9**

2011	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Entities under common control	5,981	1,336	7,085	9
Ultimate owner	–	–	166,278	–
Close relatives	–	383	–	–
Total	**5,981**	**1,719**	**173,363**	**9**

Terms and conditions of related party transactions

Sales to related parties primarily included sales of goods and provision of services.

Receivables from the ultimate owner mainly comprise of amounts used to proceed transactions on behalf of the Group and also includes loans issued.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Balances with related parties outstanding as of the end of the year were unsecured; respective settlements were made in cash. No guarantees were provided or received for any related party receivables or payables. For the years ended 31 December 2013, 2012 and 2011 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. The Group assesses whether there are any indicators of impairment in each financial year by analyzing the financial position of the respective related party and conditions existing on the market where such related party operates.

22. Related party transactions (continued)

Terms and conditions of related party transactions (continued)

In 2013, related parties pledged land with collateral value of 66,956 thousand under loan agreements with banks. At 31 December 2013, the outstanding bank loans collateralized by related parties amount to RUB 400,000 thousand.

Loans issued to and received from related parties are detailed below:

2013	Loans issued to related parties	Borrowings from related parties	Interest income	Interest expenses
Entities under common control	40,598	–	2,392	–
Ultimate owner	185,021	2	4,457	–
Close relatives	–	–	–	–
Total	**225,619**	**2**	**6,849**	**–**

2012	Loans issued to related parties	Borrowings from related parties	Interest income	Interest expenses
Entities under common control	327,254	–	44,402	–
Ultimate owner	32,270	–	5,112	–
Close relatives	1,119	2	824	–
Total	**360,643**	**2**	**50,338**	**–**

2011	Loans issued to related parties	Borrowings from related parties	Interest income	Interest expenses
Entities under common control	188,829	–	25,644	–
Ultimate owner	11,656	–	–	–
Close relatives	937	2	510	–
Total	**201,422**	**2**	**26,154**	**–**

Loans issued to related parties in 2013 bore interest of 12.4%-24% p.a. (2012: 12.3%-13%; 2011: 8%-13%). When the interest rate was lower than the market interest rate, the Group recognized respective loss on discounting included in finance costs (Note 9). Loans issued to related parties mature in 2014.

Compensation to key management personnel of the Group

As of June 2013, key management personnel comprises of five top-managers of the Group (2012: four; 2011: four). In 2013, compensation paid to the key management personnel amounted to RUB 6,234 thousand (2012: RUB 3,787 thousand; 2011: RUB 2,327 thousand). The amount of compensation included payroll, bonuses and paid vacations.

23. Contingencies and commitments

Operating lease commitments - Group as Lessee

The Group has concluded a number of lease agreements in respect of retail property, warehouse and office premises. Leases under these agreements have a life from 1 to 6 years.

The Group's future minimum lease payments under the non-cancellable leases as of 31 December 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Less than 1 year	23,213	18,693	32,616
1 to 5 years	1,249	3,097	1,568
Over 5 years	1,443	344	147
Total	**25,905**	**22,134**	**34,331**

Litigations

In the course of its business activity, the Group is exposed to various legal actions and complaints. In spite of the fact that such uncertainties are effective in relation to such litigations and their outcome cannot be reliably predicted, the Group's management believes that the financial impact of these issues on the Group's financial position or annual performance will be insignificant.

At 31 December 2013, the Group's management is unaware of any significant ligations, suits or claims against the Group that could result in potential losses.

Legislation and regulations regarding taxation in Russia continue to evolve. Certain laws and regulations are not always laid down clearly and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and fines related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Penalties and fines are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and fines can be significant in relation to the amounts of unreported taxes.

In Russia tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

The management believes that the Group has paid or accrued all taxes that are applicable. For taxes where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

24. Financial risk management objectives and policies

The Group is exposed to market risk, credit risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are subject to four types of risk: interest rate risk, currency risk, commodity price risk, and other price risks, such as equity risk.

Interest rate risk

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.

The Group is not exposed to interest rate risk because the loans issued by the Group bear fixed interest rates.

Generally, the Group receives loans and borrowings on a fixed rate basis and that is why does not use any hedging instruments to manage its interest risk. The share of loan agreements with floating interest makes less than 2% of the total loan portfolio. Such agreements shall include a provision for early redemption, in particular in case of interest rates increases.

Thus, income and expenses as well as the operating cash flows are primarily independent from changes in market interest rates.

When the interest rates change the Group generally applies various instruments in order to minimize their adverse effects on the Group's financial performance. Such instruments include refinancing, renewal of existing positions and alternative financing. The Group has sufficient open undrawn credit facilities with fixed interest rate to replace loans with floating interest rates should the latter spike.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As of 31 December 2013, 2012 and 2011, the Group did not have any financial assets and liabilities denominated in foreign currencies.

24. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that the Group will incur financial losses as a result of its counterparty defaulting on a financial instrument or contractual obligations. The Group is exposed to credit risk arising from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Customer credit risks related to trade and other receivables are continuously monitored. Where necessary, allowances are created against doubtful debts. The present value of trade and other receivables, net of allowance for doubtful accounts receivable, represents the maximum amount exposed to credit risk with respect to a certain asset. The Group evaluates the concentration of risk with respect to trade receivables as high as its customers primarily operate in the same geographical and business segment.

Credit risk is managed by the Group. Generally the Group does not determine the indicators of customers' creditworthiness but evaluates credit worthiness based on their financial position and previous experience. Each new wholesale customer is approved by the Group's management. The Group's customers are homogeneous in the quality of their debt and exposure to credit risk. Based on the previous experience of work with such customers and taking into consideration the history of payments during the recent credit crisis, the Group's management believes that the risk that such customers will not meet their obligations is very low.

Regardless of the fact that the collection of receivables depends on the economic factors, the Group's management believes that the credit risk related to trade and other receivables does not exceed the allowance recorded in the financial statement of financial position (Note 13).

Management of credit risk of the installment sales assumes determining creditworthiness of retail customers including their financial position, history of relations and other factors. Overdue amounts are recovered according to the approved regulation on overdue amounts, which establishes operations for the financial safety department, legal collection procedure and services of "collection" agencies.

Risk management under the microloans program includes the assessment of the individual's creditworthiness as well as financial position, history of relations with the Group, contact details and other measures.

24. Financial risk management objectives and policies (continued)

Credit risk (continued)

Cash and short-term deposits are placed in credit and financial institutions, which are considered to have minimal risk of default at the time of placing a deposit or opening an account. Regardless of the fact that some banks are not assigned an international credit rating, the Group's management considers them to be reliable counterparties with stable positions in the Russian market.

Other financial assets include loans issued to third parties and related parties and are unsecured. The Group monitors the financial position of its debtors on a continuous basis. As of 31 December 2013, 2012 and 2011, there were no factors that would indicate the necessity of impairment of such assets.

The Group neither holds nor issues financial instruments for hedging or resale purposes. Accounts receivable and loans issued are unsecured. The maximum credit risk exposure is treated as equal to the present value of each financial asset in the statement of financial position as of 31 December as detailed below:

	2013	2012	2011
Cash and cash equivalents	224,140	341,663	25,682
Trade and other receivables	1,305,671	498,144	688,933
Other current financial assets	555,316	723,443	67,654
Long-term trade and other receivables	1,200	–	4,949
Other non-current financial assets	19,893	6,594	201,124
Total	**2,106,220**	**1,569,844**	**988,342**

Liquidity risk

Liquidity risk is the risk that the Group will not have enough assets available for timely settlement of financial liabilities when they fall due.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases and hire purchase contracts.

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool.

In order to provide continuous daily control of liquidity the Group established separate operating units within the Financial department.

24. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Department of budgeting and financial analysis develops and regularly actualizes long-term, mid-term and short-term plans of cash flows from operating and financing activities, considering retail chain development plan, increase in number of stores and seasonality. Thus, the Group determines the need of cash during the forecast period. During the periods of low liquidity the Group plans raising funds in order to meet its obligations. Considering the seasonality of sales the Group raises funds during the low period and settles liabilities during the high period with sufficient revenue proceeds.

The Group established the fund raising department aimed at receiving credit limits of banks and funds attraction using instruments of the open financial markets. Fund raising department manages the liquidity risk by providing sufficient provisions for open and unused credit facilities in several banks and by using short-term bank deposits to accumulate funds before settling major forward liabilities (bank credits, bonded loans).

All of the Group’s financial liabilities represent non-derivative financial instruments.

The Group has analyzed the level of risk concentration related to refinancing the Group's debt and has considered it as low. The Group has access to sufficient funding, and settlement of liabilities to be paid within 12 months can be postponed, subject to arrangement with the existing creditors.

Summary of contractual non-discounted payments under the Group's financial liabilities broken down by maturities of these liabilities is provided in the table below:

24. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 31 December 2013	Carrying value	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 18)	1,857,704	2,808,364	1,493,244	1,228,485	86,635
Bonded loan (Note 18)	697,643	740,061	740,061	–	–
Trade payables (Note 20)	169,206	169,206	169,206	–	–
Payables to employees (Note 20)	40,707	40,707	40,707	–	–
Other payables (Note 20)	35,382	35,382	35,382	–	–
Other payables to related parties (Note 20)	11	11	11	-	-
Total	**2,800,653**	**3,793,731**	**2,478,611**	**1,228,485**	**86,635**

At 31 December 2012	Carrying value	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 18)	876,752	986,494	593,015	287,131	106,348
Bonded loan (Note 18)	693,890	829,758	89,409	740,349	–
Trade payables (Note 20)	291,180	291,180	291,180	–	–
Payables to employees (Note 20)	17,308	17,308	17,308	–	–
Other payables (Note 20)	2,779	2,779	2,779	–	–
Other payables to related parties (Note 20)	9	9	9	–	–
Total	**1,881,918**	**2,127,528**	**993,700**	**1,027,480**	**106,348**

At 31 December 2011	Carrying value	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 18)	404,326	455,275	351,786	8,558	94,931
Bonded loan (Note 18)	697,562	915,270	85,512	89,409	740,349
Trade payables (Note 20)	95,615	95,615	95,615	–	–
Payables to employees (Note 20)	14,789	14,789	14,789	–	–
Other payables (Note 20)	5,718	5,718	5,718	–	–
Other payables to related parties (Note 20)	9	9	9	–	–
Total	**1,218,019**	**1,486,676**	**553,429**	**97,967**	**835,280**

24. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The management believes that the carrying value of the financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as of 31 December 2013, 2012 and 2011 approximates their fair value mainly due to the short-term maturities of these instruments.

Capital management

In order to manage its capital, the Group uses the share capitals of its subsidiaries and their retained earnings as the capital. The primary objective of the Group’s capital management is to ensure business solvency and an adequate level of capital in order to support its operations and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in accordance to changes in economic conditions.

To fulfill its capital needs the Group combines such forms of borrowings as short-term and long-term loans, bonded loans, loans of individuals and amounts payable to suppliers. The program of increase of number of stores intensifies the need in capital as the costs needed to open new stores increase the Group's cost loading. The Group regularly analyses its capital needs in order to determine the measures necessary to provide for the balance of capital structure through new debt issuance or settling the existing liabilities. In order to support its economic stability the Group monitors capital using gearing ratio on a quarterly basis. The limit is 2/3.

In case of deterioration of the conditions the Group may repay a number of loans in order to return the ratio to an acceptable level. The Group's income allows attracting additional borrowings for development retaining the financial stability at the acceptable level. When the Group has allowances with such ratio during a quarter, the owner keeps the cash for the future development.

The Group also monitors capital using a gearing ratio which is net debt divided by total capital plus net debt. The net debt includes interest-bearing loans and borrowings, trade and other payables less cash and cash equivalents.

24. Financial risk management objectives and policies (continued)

Capital management (continued)

	2013	2012	2011
Interest-bearing loans and borrowings	2,555,561	1,570,642	1,101,888
Trade and other payables	245,306	311,276	116,131
Less cash and cash equivalents	(224,140)	(341,663)	(25,682)
Net debt	**2,576,727**	**1,540,255**	**1,192,337**
Share capital	7,066,000	74,348	61,080
Additional paid-in capital	(6,991,648)	–	–
Retained earnings	1,832,627	1,278,899	894,100
Total equity	**1,906,979**	**1,353,247**	**955,180**
Capital and net debt	**4,483,706**	**2,893,502**	**2,147,517**
Gearing ratio	57%	53%	56%

25. Operating segments

Management believes that the Group operates in one segment only. To evaluate the Group's performance and make managerial decisions, the management uses combined management information based on accounting data prepared using Russian statutory accounting principles.

The tables below show reconciliation of revenue and profit analyzed by the management of the Group with the same items of the consolidated financial statements for the years ended 31 December 2013, 2012 and 2011, respectively.

Revenue	2013	2012	2011
Revenue for the reporting period according to the management reports	**4,966,692**	**3,334,523**	**2,203,355**
Adjustments:			
Inclusion of interest accrued on micro-loans into revenues	–	91,228	1,672
Differences in methods for accrual of interests on micro-loans	(20,107)	–	–
Differences in revenue recognition estimates	(45,045)	–	–
Other	13,387	(117)	4,992
Consolidated	**4,914,927**	**3,425,634**	**2,210,019**

25. Operating segments (continued)

Profit for the period	2013	2012	2011
Comprehensive income according to the management reports	**506,067**	**341,587**	**359,749**
Adjustments:			
Allowance for doubtful receivables	(10,280)	(33,803)	(12,798)
Adjustment of interest accrued on micro-loans	(20,107)	19,988	119
Capitalization of property, plant and equipment valued RUB 40 thousand or less, written off in the management reports	66,055	28,108	66,956
Revaluation of Intangible assets	–	–	(196,917)
Amortization of intangible assets recorded in the management reports at the revalued amount	29,825	13,128	–
Timing differences in income and cost recognition	(13,230)	9,820	22,285
Adjustment of deferred taxes	(9,061)	(7,568)	(1,192)
Adjustment of deferred revenue	611	8,256	(7,366)
Amortization of loss from borrowings issued at below-the-market interest rate	4,034	4,646	3,793
Differences in estimates on recognition of installment sales revenue	(45,045)	–	–
Interests accrued on installments receivable	17,911	–	–
Supplier rebates	40,174	–	–
Other	6,573	12,640	2,415
Consolidated	**573,527**	**396,802**	**237,044**

The table below shows reconciliation of assets and liabilities of the Group's segment with the same items of the consolidated financial statements for the years ended 31 December 2013, 2012 and 2012:

Assets	2013	2012	2011
According to the management reports	**5,655,185**	**4,139,958**	**2,353,856**
Adjustments:			
Difference in value of intangible assets	(1,014,682)	(909,223)	(196,917)
Allowance for doubtful receivables	(56,829)	(47,245)	(13,442)
Adjustments to property, plant and equipment	158,858	91,369	66,952
Gross presentation of assets and liabilities	36,960	10,921	29,798
Loss from discounted loans issued at below-the-market interest rates	–	(4,034)	(8,680)
The effect of accruals in different periods	(2,569)	10,729	841
Adjustment of assessed receivables	(24,426)	–	–
Supplier rebates	40,174	–	–
Other	2,828	14,605	(21,500)
Consolidated	**4,795,499**	**3,307,080**	**2,210,908**

25. Operating segments (continued)

Liabilities	2013	2012	2011
According to the management reports	**2,817,692**	**1,923,797**	**1,212,772**
Adjustments:			
Gross presentation of assets and liabilities	36,960	45,624	29,798
Deferred tax liabilities	17,111	4,844	392
Other	16,757	(20,432)	12,766
Consolidated	**2,888,520**	**1,953,833**	**1,255,728**

26. Events after the reporting date

In April 2014, the Group decided to purchase up to 350,000 (three hundred fifty thousand) bonds of LLC Obuvrus at 100% (one hundred percent) of the nominal value (with the nominal value of RUB 1 thousand) excluding accrued coupon income. The purchase is scheduled for 8 May 2014.

After the reporting date, the Group reached certain agreements with commercial banks to raise long-term credit facilities totaling RUB 1,700,000 thousand.