Independent auditor's report
on the consolidated financial statements of
OJSC OR
for 2014, 2015 and 2016

August 2017

Translation of the original Russian version

Independent auditor's report
on the consolidated financial statements of
OJSC OR

Translation of the original Russian version

Contents | Page

Independent auditor's report 3

Appendices

Consolidated statement of comprehensive income 6
Consolidated statement of financial position 7
Consolidated statement of changes in equity 8
Consolidated statement of cash flows 9

Notes to the consolidated financial statements 10

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

Translation of the original Russian version

To the Shareholders of OJSC OR

Opinion

We have audited the consolidated financial statements of OJSC OR and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 31 December 2015, 31 December 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

We draw attention to Note 5 to the consolidated financial statements which describes that the OJSC OR has previously issued consolidated financial statements for the years ended 31 December 2014 and 31 December 2015, on which the predecessor auditor expressed an unmodified opinion on 26 May 2015 and 11 May 2016. OJSC OR has previously issued consolidated financial statements for the year ended 31 December 2016, on which we expressed an unmodified opinion on 22 February 2017. The previously issued consolidated financial statements for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 authorised for issue on 26 May 2015, 11 May 2016 and 22 February 2017 have been revised as disclosed in Note 5. Our opinion is not modified in respect of this matter.

A member firm of Ernst & Young Global Limited

Translation of the original Russian version

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

A member firm of Ernst & Young Global Limited

Translation of the original Russian version

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A.A. SHLENKIN
Partner
Ernst & Young LLC

16 August 2017

Details of the audited entity

Name: OJSC OR
Record made in the State Register of Legal Entities on 12 August 2012, State Registration Number 1027739707203.
Address: 630110, Russia, Novosibirsk, str. Bogdana Khmelnitskogo, building 56.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

A member firm of Ernst & Young Global Limited

ОБУВЬ РОССИИ

Translation of the original Russian version

OR OJSC

Consolidated statement of comprehensive income

for the years ended 31 December 2016, 2015 and 2014

(in thousands of Russian rubles)

	Note	2016 Restated*	2015 Restated*	2014 Restated*
Revenue	6	9,965,460	9,155,713	7,663,393
Cost of sales	7	(4,106,332)	(3,645,934)	(3,675,917)
Gross profit		**5,859,128**	**5,509,779**	**3,987,476**
Selling and distribution expenses	8	(2,275,995)	(2,219,262)	(2,171,923)
Administrative expenses	9	(1,254,096)	(874,854)	(547,935)
Other income	10	119,319	155,412	204,796
Other expenses	10	(125,482)	(101,888)	(234,308)
Finance income	11	25,575	21,387	20,400
Finance expense	11	(1,018,912)	(814,644)	(458,918)
Profit before tax		**1,329,537**	**1,675,930**	**799,588**
Income tax expense	12	(146,869)	(206,987)	(162,230)
Net profit for the year		**1,182,668**	**1,468,943**	**637,358**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**1,182,668**	**1,468,943**	**637,358**
Weighted average number of outstanding ordinary shares (thousand)		70,660	70,660	70,660
Basic earnings per share, RUB		**16.737**	**20.789**	**9.020**

* *Certain amounts shown in this column do not correspond to the consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 and reflect adjustments made, refer to Note 5.*

General Director A.M. Titov ___________________

16 August 2017

ОБУВЬ РОССИИ

Translation of the original Russian version

OR OJSC

Consolidated statement of financial position

as at 31 December 2016, 2015 and 2014

(in thousands of Russian rubles)

	Note	31 December 2016 Restated*	31 December 2015 Restated*	31 December 2014 Restated*
Non-current assets				
Property, plant and equipment	13	1,909,543	1,809,077	1,286,260
Goodwill and intangible assets	14	34,373	30,686	20,315
Other non-current financial assets	18	–	29,845	11,140
Advances for construction in progress	17	175,390	29,127	22,576
Deferred tax assets	12	72,414	45,379	52,163
Total non-current assets		**2,191,720**	**1,944,114**	**1,392,454**
Current assets				
Inventories	15	6,035,754	5,114,523	4,285,399
Trade and other receivables	16	2,380,485	2,226,742	2,121,961
Advances issued		1,586,281	610,519	615,743
Income tax receivable		10,536	20,732	2,059
Other taxes receivable and VAT recoverable		57,038	210,652	175,843
Other current financial assets	18	1,262,354	1,054,402	563,273
Cash and cash equivalents	19	352,190	287,151	291,900
Total current assets		**11,684,638**	**9,524,721**	**8,056,178**
Total assets		**13,876,358**	**11,468,835**	**9,448,632**
Equity				
Share capital	20	7,066,000	7,066,000	7,066,000
Additional paid-in capital	20	(6,904,204)	(6,937,043)	(6,984,237)
Retained earnings		5,121,596	3,938,928	2,469,985
Total equity		**5,283,392**	**4,067,885**	**2,551,748**
Long-term liabilities				
Interest-bearing loans and borrowings	21	3,236,200	4,411,469	3,181,376
Deferred tax liabilities	12	33,605	43,539	6,839
Total long-term liabilities		**3,269,805**	**4,455,008**	**3,188,215**
Short-term liabilities				
Interest-bearing loans and borrowings	21	4,104,509	1,608,157	2,208,811
Trade and other payables	22	954,779	993,306	1,286,124
Advances received		6,408	9,810	5,220
Current income tax liabilities		35,192	23,816	51,903
Deferred revenue		2,021	1,752	1,287
Other taxes payable		217,728	307,506	149,149
Provisions		2,524	1,595	6,175
Total short-term liabilities		**5,323,161**	**2,945,942**	**3,708,669**
Total liabilities		**8,592,966**	**7,400,950**	**6,896,884**
Total equity and liabilities		**13,876,358**	**11,468,835**	**9,448,632**

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

ОБУВЬ РОССИИ

Translation of the original Russian version

OR OJSC

Consolidated statement of changes in equity

for the years ended 31 December 2016, 2015 and 2014

(in thousands of Russian rubles)

	Note	Share capital (Note 20)	Additional paid-in capital (Note 20) Restated*	Retained earnings Restated*	Total equity Restated*
Balance at 31 December 2013		**7,066,000**	**(6,991,648)**	**1,832,627**	**1,906,979**
Net profit for the year		–	–	637,358	**637,358**
Total comprehensive income for the year		**–**	**–**	**637,358**	**637,358**
Contributions from controlling party		–	7,411	–	**7,411**
Balance at 31 December 2014		**7,066,000**	**(6,984,237)**	**2,469,985**	**2,551,748**
Net profit for the year		–	–	1,468,943	**1,468,943**
Total comprehensive income for the year		**–**	**–**	**1,468,943**	**1,468,943**
Contributions from controlling party		–	47,194	–	**47,194**
Balance at 31 December 2015		**7,066,000**	**(6,937,043)**	**3,938,928**	**4,067,885**
Net profit for the year		–	–	1,182,668	**1,182,668**
Total comprehensive income for the year		**–**	**–**	**1,182,668**	**1,182,668**
Contributions from controlling party		–	32,839	–	**32,839**
Balance at 31 December 2016		**7,066,000**	**(6,904,204)**	**5,121,596**	**5,283,392**

ОБУВЬ РОССИИ

Translation of the original Russian version

OR OJSC

Consolidated statement of cash flows

for the years ended 31 December 2016, 2015 and 2014

(in thousands of Russian rubles)

	Note	2016 Restated*	2015 Restated*	2014 Restated*
Profit before tax for the year		**1,329,537**	**1,675,930**	**799,588**
Adjustments:				
Depreciation of property, plant and equipment and amortization of intangible assets	13, 14	216,974	132,674	87,272
Changes in the provision for impairment of receivables and other financial assets	9	864,047	585,691	253,887
Finance income		(25,575)	(21,387)	(20,400)
Finance expense		1,018,912	814,644	458,918
Loss on disposal of property, plant and equipment	13	337	1,404	315
Gain on transfer of right to claim		–	–	(10,725)
Gain on purchase of subsidiaries (Rossita Group)	27	–	–	(125,670)
Operating profit before changes in working capital		**3,404,232**	**3,188,956**	**1,443,185**
Changes in working capital				
Increase in trade and other receivables		(465,463)	(270,555)	(498,378)
Increase in inventories		(921,231)	(826,721)	(2,133,800)
(Increase)/decrease in advances issued		(975,762)	(23,737)	(339,377)
(Increase)/decrease in VAT recoverable		153,614	(32,356)	(69,340)
Increase/(decrease) in trade and other payables		(43,105)	(301,943)	855,405
Increase/(decrease) in other tax liabilities		(89,778)	159,493	120,611
Increase/(decrease) in payables to employees		5,507	(68)	(20,550)
Increase in deferred revenue		269	465	202
Increase/(decrease) in advances from customers		(3,402)	3,756	(15,515)
Increase in loans to individuals receivable		(662,868)	(819,127)	(370,615)
Net cash from / (used in) operating activities before income tax and interest paid		**402,013**	**1,078,163**	**(1,028,172)**
Interest paid		(1,027,475)	(802,102)	(443,001)
Income tax paid		(162,266)	(235,260)	(206,243)
Net cash from / (used in) operating activities		**(787,728)**	**40,801**	**(1,677,416)**
Investing activities				
Purchase of property, plant and equipment and intangible assets		(469,324)	(551,330)	(864,502)
Proceeds from sale of property, plant and equipment and intangible assets		1,597	23,882	243
Loans issued		(498,267)	(478,605)	(985,328)
Repayment of loans issued		435,875	400,848	1,140,112
Interest received on loans issued		10,113	9,977	41,023
Acquisition of subsidiaries, net of cash acquired	27	–	(94,524)	(406,952)
Interest received on deposits		10,288	8,345	–
Net cash used in investing activities		**(509,718)**	**(681,407)**	**(1,075,404)**
Financing activities				
Proceeds from loans and borrowings		5,844,538	4,735,729	5,425,202
Repayment of loans and borrowings		(4,514,892)	(4,147,066)	(2,612,033)
Cash receipt from controlling party		32,839	47,194	7,411
Net cash from financing activities		**1,362,485**	**635,857**	**2,820,580**
Net increase/(decrease) in cash and cash equivalents		**65,039**	**(4,749)**	**67,760**
Cash and cash equivalents at the beginning of the year		287,151	291,900	224,140
Cash and cash equivalents at the end of the year		**352,190**	**287,151**	**291,900**

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

Translation of the original Russian version

OR OJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

(in thousands of Russian rubles)

1. General information

1.1. Corporate information

OR OJSC ("the Company") and its subsidiaries (together referred to as "the Group") form a federal retail footwear chain, one of major players in the Russian footwear market. The Group was established in 2003; it's head office is located at: Novosibirsk, str. Bogdana Khmelnitskogo, building 56. The Company was founded on 12 August 2013 as a holding company of the Group.

The Group is developing several business lines:

- Retail trade of footwear, accessories and related goods;
- Wholesale and franchising;
- Footwear production;
- Cash loans;
- Research and development in footwear production;
- Cash transfers with no bank accounts opened.

Retail line is represented by seven brands:

- Westfalika is the main retail chain of Obuv Rossii that comprises mono-brand stores of mid-price segment;
- Peshekhod is a chain of footwear supermarkets (multi-brand stores);
- Emilia Estra is a trademark for fashionable footwear, bags and accessories and the same-name chain of specialized stores;
- Rossita is a chain of supermarkets. It comprises family-centered mono-brand stores of European footwear of mid-price segment;
- Lisette is a chain of mono-brand stores of youth footwear of mid-price segment;
- All.Go is a trademark for beach, summer, gardening, sport and hiking footwear;
- Snow Guard is a trademark for outdoor activity clothes.

1. General information (continued)

1.1. Corporate information (continued)

The Group comprises:

Entity	Principal activity	2016	2015	2014
OR OJSC	Operations management	Parent	Parent	Parent
Obuv Rossii LLC*	Trade	100%	100%	100%
Westfalika M LLC*	Trade, manufacturing	100%	100%	100%
Peshekhod LLC	Trade	100%	100%	100%
Obuvrus LLC	Trade	100%	100%	100%
MFO LLC*	Trade	100%	100%	100%
OBUV ROSSII LLC	Manufacturing	100%	100%	100%
R&D Center Modified Polymers LLC	Research and development in natural sciences and engineering	100%	100%	100%
Integra LLC**	Trade, financial transactions	0%	0%	0%
MFO MiraStil LLC**	Trade, financial transactions	0%	0%	0%
ModernShoes LLC**	Trade	0%	0%	0%
Trade House Rossita LLC***	Trade	0%	0%	0%
StilMarket LLC**	Trade, financial transactions	0%	0%	0%
Dion LLC**	Trade, financial transactions	0%	0%	0%
Design Studia LLC**	Trade	0%	0%	0%
NKO Platezhny Standard LLC	Financial transactions	100%	100%	100%
MasterShoes LLC***	Footwear manufacturing	–	100%	–
MKK Arifmetika LLC****	Financial transactions	100%	–	–

* *MFO Obuv Rossii LLC, MFO Westfalika M LLC, MFO Peshekhod LLC, MFO Obuvrus LLC, MFO LLC, and MFO Trade House Rossita LLC, were renamed Obuv Rossii LLC, Westfalika M LLC, Peshekhod LLC, Obuvrus LLC, MFO LLC, and Trade House Rossita LLC, respectively, as they loss the status of microfinance organization.*

** *The entity is under control of the parent based on an option (Note 27).*

*** *In May 2016, MasterShoes LLC was reorganized by merging with OBUV ROSSII LLC.*

**** *In June 2016, MKK Arifmetika LLC, a subsidiary, was established.*

As at 31 December 2016, Anton Mikhailovich Titov is the ultimate controlling party holding 96.4% of the Company's shares.

1.2. Business environment in the Russian Federation

The Group operates in the Russian Federation that displays certain characteristics of an emerging market.

Russian tax, currency and customs legislation continues to evolve and is subject to varying interpretations and changes, which can occur frequently.

The Russian economy continued to be negatively impacted by persistent political tension in the region and international sanctions imposed against Russia.

1. General information (continued)

1.2. Business environment in the Russian Federation (continued)

In 2016, Russian exchange markets saw the Russian ruble appreciation against major currencies. In addition, in 2016, the Bank of Russia made several decisions to keep the key interest rate at 11% p.a. as in 2015. However, on 14 June 2016, the key interest rate decreased to 10% p.a.

The economic instability and political uncertainty remain high and may negatively affect foreign exchange and inflation expectations.

The above changes in macroeconomic conditions resulted in uncertainty regarding future economic growth, availability of financing and cost of capital.

However, 2016 saw economic recovery under maintaining a moderately hard monetary policy.

Management of the Group believes that these changes will not have a material effect on its operations, because the Group has been cooperating with suppliers from Russia and countries that have not imposed any sanctions (e.g., China).

The Group decided to expand its footwear production to mitigate currency and import-related risks, as well as to reduce international business uncertainties and dependence on external markets.

These financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The actual impact of the future business environment may differ from management's assessment.

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 the development of its organizational and legal structure and, therefore, started preparing the consolidated financial statements. The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries (Note 1) as at 31 December 2016.

Subsidiaries are entities controlled, directly or indirectly, by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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 acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 intra-group assets and liabilities, equity, income, expenses and cash flows resulting from transactions within the Group are eliminated in full on consolidation.

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

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

2.2. Basis of consolidation (continued)

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 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.

Business combination and goodwill

Business combination is accounted for using the acquisition method at the acquisition date, which is the date when the Group gains control over an entity.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree; plus
- In a business combination achieved in stages, of fair value of previously held equity interest in the acquiree; less
- Net amount (usually measured at fair value) of the identifiable assets acquired and the liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

The consideration transferred does not include amounts relating to previous settlements. Such amount are recognized in profit or loss.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration for the acquiree is recognized at fair value at the acquisition date. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity. Otherwise, all subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

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

2.2. Basis of consolidation (continued)

Goodwill on an acquisition of a subsidiary is included in intangible assets.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses relating to goodwill cannot be reversed. Where the impairment loss recognized in respect of a cash-generating unit exceeds the carrying amount of its goodwill, the exceeding amount is allocated pro rata to all other assets, however, the allocated amount shall not be less than the fair value of these assets.

Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 the Group.

2.5. Summary of 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 foreign exchange spot rate of functional currency, ruling 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 as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as of the date when the fair value was 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 whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

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

2.5. Summary of accounting policies (continued)

Financial instruments

Financial assets – initial recognition and measurement

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.

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 using the effective interest method.

The Group initially recognizes loans and receivables and deposits at the date when they are 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 where:

- 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
- The Group has either 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.

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

2.5. Summary of accounting policies (continued)

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 it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. 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

The Group assesses, at each reporting date, whether there is 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.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data 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 amount 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 reflected in an allowance 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 accounting policies (continued)

Financial liabilities – initial recognition and measurement

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 determines the classification of its financial liabilities at initial recognition.

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

Other financial liabilities

Other financial liabilities are initially recognized at fair value less directly attributable transaction costs.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate 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 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 effective interest rate amortization is included in finance costs in the income statement.

A financial liability is derecognized in the consolidated statement 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. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and their net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

2.5. Summary of accounting policies (continued)

Fair value of financial instruments

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

For financial instruments not traded in an 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 another instrument that is substantially the same;
- Discounted cash flow analysis or other valuation models.

Analysis of fair value of financial instruments is presented in Note 25.

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 to be received during next 24 hours.

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 attributable costs of the issuance.

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

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 part of equipment and borrowing costs for long-term construction projects, if the recognition 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.

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

2.5. Summary of accounting policies (continued)

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

Buildings	18 to 20 years
Equipment (process, office)	2 to 5 years
Computer hardware	2 to 5 years
Transport	3 to 7 years
Retail equipment	3 to 5 years
Other items of property, plant and equipment	2 to 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 in-store equipment is planned to be totally upgraded before 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.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

A previously recognized item of property, plant and equipment or any significant component 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 amount 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 useful life from indefinite to finite is made on a prospective basis.

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

2.5. Summary of accounting policies (continued)

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:

Trademarks	50 years
Exclusive right for software and developments	15 years

The amortization period and the amortization method for an intangible asset with a finite useful life are 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.

Leased assets

Leases where the Group assumes substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. 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 are not 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 necessary to make the sale.

Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories, deferred tax assets, 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 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 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 amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss for the period. 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) in proportion to the balance value of assets of such unit (group of units).

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 amount does not exceed the carrying amount 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.

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 management to cover respective obligations.

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

2.5. Summary of accounting policies (continued)

Recognition of revenues from sale of goods

In 2016, the Group early adopted IFRS 15 *Revenue from Contracts with Customers*.

The Group accounts for the contract with the customer when all of the following criteria are met:

- The parties to the contract have approved the contract and are committed to perform their respective obligations;
- The Group can identify each party's right regarding the goods or services to be transferred;
- The Group can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e. risks, timing or the amount of the Group's future cash flows are expected to change as a result of the contract); and
- It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of the amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due. If the consideration is variable, the amount of consideration to which the Group will be entitled may be less than the price stated in the contract because the Group may offer the customer a price concession.

Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to the customer, excluding amounts collected on behalf of third parties. The consideration in a contract may include fixed amounts, variable amounts, or both.

Where the contract contains variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer. Variable consideration can arise as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Revenues from intra-group sales of goods are eliminated for the purposes of the consolidated financial statements.

The Group recognizes retail revenue upon transfer to buyers.

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.

The Group has also used modified application and does not recognize time component of installments as interest income due to a short installment period.

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

2.5. Summary of accounting policies (continued)

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 under finance lease 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 recognized in the consolidated statement of comprehensive income.

Finance income and expense

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.

Finance expense comprises 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 taxes.

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 situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

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

2.5. Summary of accounting policies (continued)

Deferred tax liabilities are not recognized in respect of the following:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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;
- 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, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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:

- Where the deferred income tax asset relating to the deductible temporary difference arises 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 amount 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 asset to be utilized. Unrecognized deferred tax assets are reviewed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply 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, 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 group entity 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.

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

2.5. Summary of accounting policies (continued)

Unified tax on imputed income (UTII)

Before 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 areas.

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

Starting from 1 October 2014, some of the group companies acquired under business combination started applying general tax regime with retention of special tax regime, which is applied in retail.

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.

New retail stores pre-opening costs

New retail storespre-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 amount 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 so 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 amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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.

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

3.2. Estimates and assumptions (continued)

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 position of debtors were to deteriorate, actual write-offs might 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 to sell. 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 the carrying amount of inventories exceeds its net realizable value, management writes such inventories to their net realizable value.

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

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is subject to frequent changes. Tax authorities are able to claim for such transaction or accounting method for which it had no any claims before. As at 31 December 2016, 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 unrelated party transactions and analysis of effective interest rate.

4. New standards, interpretations and amendments to existing standards and interpretations

The Group applied for the first time certain new standards and amendments to existing standards, which become effective for annual periods beginning on or after 1 January 2016.

The nature and impact of these changes are described below. Although these new standards and amendments were applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard (amendment) are described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and its operations are not subject to rate-regulation, this standard would not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are effective prospectively. These amendments are not expected to have any impact on the financial statements of the Group, since interest in the joint operation were not acquired in the period under review.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively and do not have any impact on the financial statement of the Group since the Group did not use a revenue-based method to depreciate its non-current assets.

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. The amendment have no impact on the Group's consolidated financial statements.

A number of new standards, amendments to standards and interpretations were not yet effective as at 31 December 2016, and, therefore, were not applied in preparing these financial statements. The Group intends to adopt these standards and interpretations when they become effective.

- Amendments to IFRS 2 *Share-based Payment* clarify issues relating to recognition of share-based payment transactions. The amendments are applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.
- IFRS 9 *Financial Instruments* replaces IAS 39 in terms of new requirements for classification and measurement, impairment, hedge accounting and write-off. The standard is effective for annual periods beginning on or after 1 January 2018.
- In accordance with IFRS 16, leases are no longer classified as operating or finance leases for lessee. IFRS 16 will become effective from 1 January 2019.
- Amendments to IAS 7 *Disclosure Initiative* clarify IAS 7 to improve information provided to users of financial statements about financing activities of an entity. Amendments to IAS 7 are effective for annual periods beginning on or after 1 January 2017.
- Amendments to IAS 12 *Income Taxes* (Recognition of deferred tax assets for unused losses) clarify the accounting treatment of deferred tax assets of debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.
- IFRS 16 *Leases* will supersede IAS 17 starting from 1 January 2019.

The first-time adoption of new or revised standards in 2016 is not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (continued)

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group, as no interest in a joint venture has been acquired during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. The amendments do not have any impact on the Group, as the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS.

The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group’s interim consolidated financial statements.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include the following:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other should not be considered a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to interim condensed financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2012-2014 Cycle (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit and loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

5. Restatement of data for the previous periods

Completion of valuation of acquired business

In 2016, the Group completed measurement of the fair value of identifiable assets and liabilities of Mastershoes LLC acquired in October 2015. In accordance with IFRS 3 *Business Combinations*, management of the Group recognized the adjustmentretrospectively. Therefore, as at the acquisition date, the cost of acquisition increased by RUB 94,522, property, plant and equipment increased by RUB 120,314, inventories decreased by RUB 94,522, goodwill and intangible assets increased by RUB 124, deferred tax liabilities increased by RUB 24,063. Previously recognized difference between the cost of acquisition and net assets of the acquired business according to the preliminary valuation for RUB 1,853 was eliminated.

As at 31 December 2015, as a result of the completion of the valuation, property, plant and equipment increased by RUB 118,841, inventories decreased by RUB 94,522, goodwill and intangible increased by RUB 124 and deferred tax liabilities increased by RUB 23,768. As at 31 December 2015, retained earnings increased by RUB 675.

Effect on the consolidated statement of comprehensive income after the acquisition date was RUB 1,473, RUB 1,853 and RUB 295 for cost of sales, other expenses and income tax expense, respectively.

Adoption of new standard

In 2016, the Group early adopted IFRS 15 *Revenue from Contracts with Customers* and restated its comparative data accordingly. The consolidated financial statements were mainly affected by simplification of practical manner, which, in accordance with IFRS 15, allows not to adjust promised contribution payable, considering the influence of a significant financing component, if as at the contractual date the entity expects that the period between transfer of promised good or service to the customer and the customer's payment for such good or service will not exceed one year. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group applied the above standard retrospectively.

As a result of early adoption revenue for the years ended 31 December 2015 and 2014 increased by RUB 239,680 and RUB 91,856, respectively; finance income for the years ended 31 December 2015 and 2014 decreased by RUB 220,362 and RUB 91,856, respectively; trade and other receivables as at 31 December 2015 increased by RUB 8,382; administrative expenses for the year ended 31 December 2015 increased by RUB 8,130; deferred revenue as at 31 December 2015 decreased by RUB 2,626. Income tax expenses and deferred tax liability increased by RUB 1,151 and retained earnings increased by RUB 9,857.

5. Restatement of data for the previous periods (continued)

Other adjustments

1) Starting from 1 January 2016, the Group management revised the approach to calculate provision for receivables from individuals related to installment sales and cash loans issued and adopted historical cost method, which enabled the Group to record provisions more accurately as the credit quality of borrowers deteriorates. Management of the Group decided to recognize this restatement retrospectively. As a result, trade and other receivables as at 31 December 2015 and 2014 decreased by RUB 160,417 and RUB 42,120, respectively. Other non-current financial assets as at 31 December 2015 and 2014 decreased by RUB 48 and RUB 696, respectively. Other current financial assets as at 31 December 2015 and 2014 decreased by RUB 145,457 and RUB 192,484, respectively, and administrative expenses for the year ended 31 December 2015 and 2014 increased by RUB 70,622 and RUB 235,300, respectively.

2) Management of the Group identified several items that meet the property, plant and equipment criteria, which as at 31 December 2015 and 2014, were recorded in inventories and advances issued for construction in progress. Due to that, the Group's management decided to adjust comparative data. As a result, property, plant and equipment as at 31 December 2015 and 2014 increased by RUB 110,481 and RUB 23,502, respectively, inventories decreased by RUB 98,612 and RUB 10,482, respectively, and advances issued for construction in progress as at 31 December 2014 decreased by RUB 15,364. Selling and distribution expenses for the year ended 31 December 2015 decreased by RUB 11,869.

3) The Group management identified expenses recorded within work in progress or expensed in the reporting period but which, in fact, were recorded as expenses of previous reporting periods. Due to that, the Group's management decided to adjust comparative data. As a result, inventories as at 31 December 2015 and 2014 decreased by RUB 6,376 and RUB 127,946, respectively, and cost of sales expenses for the years ended 31 December 2015 and 2014 increased by RUB 378 and RUB 1,910, respectively. Administrative and other expenses for the year ended 31 December 2015 increased by RUB 3,993 and RUB 989, respectively. Selling and distribution expenses for the years ended 31 December 2015 and 2014 decreased by RUB 119,838 and RUB 126,036, respectively. Advances issued at 31 December 2015 decreased by RUB 7,092.

4) In 2016, management of the Group recalculated fair value of trademarks identified upon completion of valuation of acquired net assets of Rossita Group that was disclosed in the consolidated financial statements of the Group for the year ended 31 December 2014. Therefore, management of the Group decided to recognize this restatement retrospectively. As a result, intangible assets at 31 December 2015 and 2014 decreased by RUB 602,035 and RUB 614,449, respectively, and selling and distribution expenses for the years ended 31 December 2015 and 2014 decreased by RUB 12,414 and RUB 6,206, respectively. Other income for the year ended 31 December 2014 decreased by RUB 496,524.

5. Restatement of data for the previous periods (continued)

Other adjustments (continued)

5) As at 31 December 2015 and 2014, the Group did not record receipt of goods, the title for which had already been transferred to the Group. Management decided to correspondingly restate comparative data at 31 December 2015 and 2014. As a result, inventories increased by RUB 62,092 and RUB 9,639, respectively. Advances issued decreased by RUB 61,892 and RUB 5,495, respectively, and trade and other payables increased by RUB 200 and RUB 4,144, respectively.

6) Management of the Group made some other restatements in its consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 to present the comparative data correctly.

7) As at 31 December 2014 and 2015, cumulative effect of the above-mentioned restatements on the deferred tax asset and deferred tax liability amounted to RUB 44,312 and RUB 157,994, respectively; as at 31 December 2015 it amounted to RUB 26,563 and RUB 156,668, respectively. In addition, income tax expense for 2015 and 2014 increased by RUB 19,075 and decreased by RUB 78,175, respectively.

8) As at 31 December 2016, 2015 and 2014, cumulative effect of the above-mentioned restatements on retained earnings amounted to RUB 92,688, RUB 872,199 and RUB 944,550, respectively.

On 26 May 2015, management of the Group authorized and issued IFRS consolidated financial statements for the year ended 31 December 2014. On 11 May 2016, management of the Group authorized and issued IFRS consolidated financial statements for the year ended 31 December 2015. On 22 February 2017, management of the Group authorized and issued IFRS consolidated financial statements for the year ended 31 December 2016. With the newly identified facts that have significant impact on the consolidated financial statements of the Group which comprise the consolidated statement of financial position as at 31 December 2014, 2015 and 2016, consolidated statement of comprehensive income for the years ended 31 December 2014, 2015 and 2016 and Notes thereto, management of the Group restated the consolidated financial statements.

Restatements in the consolidated financial statements were based on the changes made to the consolidated financial statements to correct the errors identified after the consolidated financial statements were authorized for issue, and due to early application of the new reporting standard.

5. Restatement of data for the previous periods (continued)

Other adjustments (continued)

Overall restatements of comparative data as at 31 December 2016, 2015 and 2014 and for 2015 and 2014, considering correction of errors and adoption of a new standard, were as follows:

Effect on the consolidated statement of financial position

Line	Before restatement at 31 December 2016	Other adjustments	Commen-tary reference	After restatement at 31 December 2016	Before restatement at 31 December 2015	Other adjustments	Commen-tary reference	Effect of application of new standard	Effect of completion of acquired business valuation	After restatement at 31 December 2015	Before restatement at 31 December 2014	Other adjustments	Commen-tary reference	After restatement at 31 December 2014
Property, plant and equipment	**1,909,543**	–		**1,909,543**	**1,579,755**	110,481	[2]	–	118,841	**1,809,077**	**1,262,758**	23,502	[2]	**1,286,260**
Goodwill and intangible assets	**34,373**	–		**34,373**	**632,597**	(602,035)	[4]	–	124	**30,686**	**634,764**	(614,449)	[4]	**20,315**
Other non-current financial assets		–			**29,893**	(48)	[1]	–	–	**29,845**	**11,836**	(696)	[1]	**11,140**
Advances issued for construction in progress	**175,390**	–		**175,390**	**18,271**	10,856	[6]	–	–	**29,127**	**37,940**	(15,364)	[2]	**22,576**
Deferred tax assets	**72,414**	–		**72,414**	**18,816**	26,563	[7]	–	–	**45,379**	**7,851**	44,312	[7]	**52,163**
Inventories	**6,035,754**	–		**6,035,754**	**5,254,140**	(98,612)	[2]	–	(94,522)	**5,114,523**	**4,442,921**	(10,482)	[2]	**4,285,399**
						(6,376)	[3]					(28,733)	[6]	
						62,092	[5]					(127,946)	[3]	
						(2,199)	[6]					9,639	[5]	
Trade and other receivables	**2,380,485**	–		**2,380,485**	**2,389,976**	(160,417)	[1]	8,382	–	**2,226,742**	**2,175,454**	(42,120)	[1]	**2,121,961**
						(11,199)	[6]					(11,373)	[6]	
Advances issued	**1,586,281**	–		**1,586,281**	**690,359**	(61,892)	[5]	–	–	**610,519**	**621,616**	(5,495)	[5]	**615,743**
						(10,856)	[6]					(378)	[6]	
						(7,092)	[3]							
Other taxes receivable and VAT recoverable	**57,038**	–		**57,038**	**234,425**	(23,773)	[6]	–	–	**210,652**	**173,499**	2,344	[2]	**175,843**
Other current financial assets	**1,302,416**	(40,062)	[6]	**1,262,354**	**1,219,460**	(145,457)	[1]	–	–	**1,054,402**	**759,509**	(192,484)	[1]	**563,273**
						(19,601)	[6]					(3,752)	[6]	
Total assets	**13,916,420**	**(40,062)**		**13,876,358**	**12,375,575**	**(939,565)**		**8,382**	**24,443**	**11,468,835**	**10,422,107**	**(973,475)**		**9,448,632**
Deferred tax liabilities	**33,605**			**33,605**	**175,288**	(156,668)	[7]	1,151	23,768	**43,539**	**164,833**	(157,994)	[7]	**6,839**
Trade and other payables	**954,779**			**954,779**	**993,106**	200	[5]	–	–	**993,306**	**1,281,980**	4,144	[5]	**1,286,124**
Deferred revenue	**2,021**			**2,021**	**4,378**	–		(2,626)	–	**1,752**	**1,287**	–		**1,287**
Other taxes payable	**165,102**	52,626	[6]	**217,728**	**216,858**	90,648	[6]	–	–	**307,506**	**34,728**	114,421	[6]	**149,149**
Provisions	**2,524**			**2,524**	**3,141**	(1,546)	[6]	–	–	**1,595**	**3,082**	3,093	[6]	**6,175**
Total liabilities	**8,540,340**	**52,626**		**8,592,966**	**7,446,023**	**(67,366)**		**(1,475)**	**23,768**	**7,400,950**	**6,933,220**	**(36,336)**		**6,896,884**
Net effect on equity	**5,376,080**	**(92,688)**	[8]	**5,283,392**	**4,929,552**	**(872,199)**	[8]	**9,857**	**675**	**4,067,885**	**3,488,887**	**(937,139)**	[8]	**2,551,748**

5. Restatement of data for the previous periods (continued)

Other adjustments (continued)

Effect on the consolidated statement of comprehensive income

Line	Before restatement for 2016	Other adjustments	Commen-tary reference	After restatement for 2016	Before restatement for 2015	Other adjustments	Commen-tary reference	Effect of application of new standard	Effect of completion of acquired business valuation	After restatement for 2015	Before restatement for 2014	Other adjustments	Commen-tary reference	Effect of application of new standard	After restatement for 2014
Revenue	**9,965,460**	–		**9,965,460**	**8,911,249**	4,784	[6]	239,680	–	**9,155,713**	**7,630,020**	(58,483)	[6]	91,856	**7,663,393**
Cost of sales	**(4,106,332)**	–		**(4,106,332)**	**(3,668,998)**	24,915	[6]	–	(1,473)	**(3,645,934)**	**(3,952,768)**	(1,910)	[3]	–	**(3,675,917)**
						(378)	[3]					278,761	[6]		
Selling and distribution expenses	**(2,275,995)**	–		**(2,275,995)**	**(2,336,692)**	11,869	[2]	–	–	**(2,219,262)**	**(2,052,093)**	(126,036)	[3]	–	**(2,171,923)**
						119,838	[3]					6,206	[4]		
						12,414	[4]								
						(26,691)	[6]								
Administrative expenses	**(1,254,096)**	–		**(1,254,096)**	**(818,620)**	(70,622)	[1]	(8,310)	–	**(874,854)**	**(312,635)**	(235,300)	[1]	–	**(547,935)**
						(3,993)	[3]								
						26,691	[6]								
Other income	**119,319**	–		**119,319**	**174,065**	(18,653)	[6]	–	–	**155,412**	**975,768**	(496,524)	[4]	–	**204,796**
												(274,448)	[6]		
Other expenses	**(125,482)**	–		**(125,482)**	**(113,688)**	(989)	[3]	–	1,853	**(101,888)**	**(140,223)**	(94,085)	[6]		**(234,308)**
						10,936	[6]								
Finance income	**78,875**	(53,300)	[6]	**25,575**	**241,749**			(220,362)	–	**21,387**	**125,751**	(13,495)	[6]	(91,856)	**20,400**
Finance expense	**(1,018,912)**	–		**(1,018,912)**	**(761,344)**	(53,300)	[6]	–	–	**(814,644)**	**(451,507)**	(7,411)	[6]	–	**(458,918)**
Profit before tax	**1,382,837**	**(53,300)**		**1,329,537**	**1,627,721**	**36,821**		**11,008**	**380**	**1,675,930**	**1,822,313**	**(1,022,725)**		**–**	**799,588**
Income tax expense	**(146,869)**	–		**(146,869)**	**(187,056)**	(19,075)	[7]	(1,151)	295	**(206,987)**	**(240,405)**	78,175	[8]	–	**(162,230)**
Net effect on profit	**1,235,968**	**(53,300)**		**1,182,668**	**1,440,665**	**17,746**		**9,857**	**675**	**1,468,943**	**1,581,908**	**(944,550)**		**–**	**637,358**

Effect on basic earnings per share

	Before restatement for 2016	Other adjustments	After restatement for 2016	Before restatement for 2015	Other adjustments	Effect of application of new standard	After restatement for 2015	Before restatement for 2014	Other adjustments	After restatement for 2014
Basic earnings per share, RUB	**17.492**	(0.755)	**16.737**	**20.389**	0.26	0.14	**20.789**	**22.388**	(13.368)	**9,020**

5. Restatement of data for the previous periods (continued)

Other adjustments (continued)

Effect on the consolidated statement of cash flows

	Before restatement for 2016	Effect of application of new standard, acquired business valuation and other adjustments	After restatement for 2016	Before restatement for 2015	Effect of application of new standard, acquired business valuation and other adjustments	After restatement for 2015	Before restatement for 2014	Effect of application of new standard, acquired business valuation and other adjustments	After restatement for 2014
Operating activity									
Profit before tax for the year	1,382,837	(53,300)	1,329,537	1,627,721	48,209	1,675,930	1,822,313	(1,022,725)	799,588
Depreciation of property, plant and equipment and amortization of intangible assets	225,872	(8,898)	216,974	139,626	(6,952)	132,674	89,321	(2,049)	87,272
Changes in the provision for impairment of receivables and other financial assets	864,047		864,047	506,759	78,932	585,691	18,587	235,300	253,887
Finance income	(78,875)	53,300	(25,575)	(241,749)	220,362	(21,387)	(125,751)	105,351	(20,400)
Finance expense	1,018,912		1,018,912	761,344	53,300	814,644	451,507	7,411	458,918
Gain on purchase of subsidiaries (Rossita Group)	–		–	–	–	–	(622,194)	496,524	(125,670)
Other	–		–	1,853	(1,853)	–	–	–	–
Operating profit before changes in working capital	**3,413,130**	**(8,898)**	**3,404,232**	**2,796,958**	**391,998**	**3,188,956**	**1,623,373**	**(180,188)**	**1,443,185**
Increase in trade and other receivables	(611,726)	146,263	(465,463)	(143,492)	(127,063)	(270,555)	(325,587)	(172,791)	(498,378)
Increase in inventories	(910,892)	(10,339)	(921,231)	(777,216)	(49,505)	(826,721)	(2,291,322)	157,522	(2,133,800)
Increase in advances issued	(975,762)		(975,762)	(21,516)	(2,221)	(23,737)	(334,959)	(4,418)	(339,377)
Increase in VAT recoverable	153,614		153,614	(47,020)	14,664	(32,356)	(64,728)	(4,612)	(69,340)
Decrease in trade and other payables	(43,105)		(43,105)	(309,653)	7,710	(301,943)	854,858	547	855,405
Decrease in payables to employees	5,507		5,507	19,962	(20,030)	(68)	(20,550)	–	(20,550)
Increase in deferred revenue	269		269	3,091	(2,626)	465	202	–	202
Increase in other tax liabilities	(89,778)		(89,778)	183,366	(23,873)	159,493	5,797	114,814	120,611
Net cash from / (used in) operating activities	**(914,754)**	**(127,026)**	**(787,728)**	**(148,253)**	**189,054**	**40,801**	**(1,588,290)**	**(89,126)**	**(1,677,416)**
Investing activities									
Purchase of property, plant and equipment and intangible assets	(342,298)	(127,026)	(469,324)	(493,708)	(57,622)	(551,330)	(836,843)	(27,659)	(864,502)
Loans issued	(498,267)		(498,267)	(438,038)	(40,567)	(478,605)	(1,095,410)	110,082	(985,328)
Interest received on loans issued	42,952	(32,839)	10,113	4,358	5,619	9,977	48,434	(7,411)	41,023
Acquisition of subsidiaries, net of cash acquired	–		–	(2)	(94,522)	(94,524)	(406,952)	–	(406,952)
Net cash flows used in investing activities	**(349,853)**	**(159,865)**	**(509,718)**	**(494,315)**	**(180,541)**	**(674,856)**	**(1,150,416)**	**75,012**	**(1,075,404)**
Financing activities									
Proceeds from loans and borrowings	5,844,538		5,844,538	4,731,585	4,144	4,735,729	5,418,499	6,703	5,425,202
Repayment of loans and borrowings	(4,514,892)		(4,514,892)	(4,093,766)	(53,300)	(4,147,066)	(2,612,033)	–	(2,612,033)
Cash receipt from controlling party	–	32,839	32,839	–	47,194	47,194	–	7,411	7,411
Net cash from financing activities	**1,329,646**	**32,839**	**1,362,485**	**637,819**	**(1,962)**	**635,857**	**2,806,466**	**14,114**	**2,820,580**
Net increase/(decrease) in cash and cash equivalents	**65,039**	**–**	**65,039**	**(4,749)**	**–**	**(4,749)**	**67,760**	**–**	**67,760**

6. Revenue

	2016	2015 Restated	2014 Restated
Revenue from retail	7,663,179	6,844,226	5,873,780
Revenue from wholesale	824,581	947,726	987,284
Income from cash loans	1,477,700	1,363,761	802,329
Total	**9,965,460**	**9,155,713**	**7,663,393**

7. Cost of sales

	2016	2015 Restated	2014 Restated
Cost of goods sold	3,717,432	3,521,700	3,582,272
Material costs	283,294	108	46
Payroll and social charges	37,655	7,266	3,998
Depreciation of property, plant and equipment and amortization of intangible assets	18,395	1,639	701
Other	49,556	115,221	88,900
	4,106,332	**3,645,934**	**3,675,917**

8. Selling and distribution expenses

	2016	2015 Restated	2014 Restated
Leases	1,122,515	1,132,584	1,023,215
Payroll and social charges	603,843	610,469	607,208
Depreciation of property, plant and equipment and amortization of intangible assets	151,546	92,449	64,309
Advertising and marketing expenses	150,510	149,809	225,801
Bank fees, cash collection in stores	83,921	68,497	59,823
Warehouse expenses	58,268	71,584	85,859
Material costs	54,844	43,893	61,254
Other	31,214	45,451	32,083
Information technologies	16,107	1,108	7,685
Property insurance	3,227	3,418	4,686
Total	**2,275,995**	**2,219,262**	**2,171,923**

9. Administrative expenses

	2016	2015 Restated	2014 Restated
Provision for other financial assets (Note 18)	552,206	389,778	200,162
Provision for doubtful receivables (Note 16)	311,841	195,913	53,725
Payroll and social charges	139,602	111,845	97,858
Communication, post	65,146	43,569	44,321
Leases	60,582	41,025	38,745
Depreciation of property, plant and equipment	47,033	38,586	22,262
Travel expenses	22,502	21,918	34,054
Material costs	16,918	7,563	11,265
Information, advisory, audit and legal fees	16,880	8,863	30,132
Taxes other than income tax	11,738	11,594	7,684
Other	9,648	4,200	7,727
Total	**1,254,096**	**874,854**	**547,935**

10. Other operating income and expenses

Other income	2016	2015 Restated	2014 Restated
Penalties received	110,671	124,981	47,890
Foreign exchange difference	–	21,828	–
Lease of premises and motor vehicles	–	1,567	5,667
Agency fee	4,281	716	–
Income from transfer of right to claim on installments receivable and from cash loans to individuals	–	–	11,421
Other operating income on acquisition of subsidiaries (Note 27)	–	–	125,670
Other	4,367	6,320	14,148
Other operating income	**119,319**	**155,412**	**204,796**

Other expenses	2016	2015 Restated	2014 Restated
Write-down of goods for resale	46,488	35,376	51,408
Write-down of receivables and advances issued	17,123	19,087	6,498
Foreign exchange difference	13,866	–	29,973
Fee and commission expense	7,219	2,370	–
Tax expence and other penalties paid	4,090	26,316	115,318
Expenses related to leased out items	3,517	–	–
Loss on disposal of property, plant and equipment	337	1,404	315
Agency fee	–	–	5,781
Other expenses	32,842	17,335	25,015
Other operating expenses	**125,482**	**101,888**	**234,308**

11. Finance income and expenses

	2016 Restated	2015 Restated	2014 Restated
Finance income			
Interest receivable on loans issued	25,575	21,387	20,400
Total	**25,575**	**21,387**	**20,400**
Finance expense			
Interest on loans received	743,889	656,650	389,135
Interest on bonds	274,988	157,984	69,783
Other	35	10	–
Total	**1,018,912**	**814,644**	**458,918**

12. Income tax

	2016	2015 Restated	2014 Restated
Current income tax	(183,838)	(187,321)	(214,694)
Deferred income tax	36,969	(19,666)	52,464
Total	**(146,869)**	**(206,987)**	**(162,230)**

The taxation charge for the year is different from the amount that would have been 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 2016, 2015 and 2014, and the actual income tax expense recorded by the Group in the consolidated statement of comprehensive income is provided below:

	2016 Restated	2015 Restated	2014 Restated
Profit before tax	**1,329,537**	**1,675,930**	**799,588**
Theoretical tax at the rate of 20%	**(265,907)**	**(335,186)**	**(159,918)**
Effect of UTII on income tax	160,609	165,851	12,721
Non-deductible expenses	(41,571)	(37,652)	(15,033)
Total	**(146,869)**	**(206,987)**	**(162,230)**

12. Income tax (continued)

Differences between the value of assets and liabilities recorded in the consolidated financial statements and their value for tax purposes give rise to certain temporary differences. Tax effect of changes in these temporary differences is recorded at the rate of 20%.

Tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of 31 December 2016, 2015 and 2014 is as follows:

	31 December 2013	Deferred taxes at business combination Restated	Recognized in profit or loss Restated	31 December 2014 Restated	Deferred taxes at business combination Restated	Recognized in profit or loss Restated	31 December 2015 Restated	Recognized in profit or loss	31 December 2016
Deferred tax asset									
Other financial assets	6,460	–	32,176	38,636	–	(9,849)	28,787	(18,262)	10,525
Receivables	1,435	585	23,710	25,730	142	2,972	28,844	(1,195)	27,649
Inventories	12,510	25	19,332	31,867	–	(21,043)	10,824	39,923	50,747
Deferred revenue	–	–	–	–	–	–	–	–	–
Provisions	388	77	710	1,175	–	(988)	187	105	292
Trade and other payables	3,864	5	2,676	6,545	4	(3,903)	2,646	(841)	1,805
Tax losses	6,296	–	(6,296)	–	99	(1)	98	(98)	–
Netting	(16,704)	–	–	(51,790)	–	–	(26,007)	–	(18,604)
Total deferred tax asset	**14,249**	**692**	**72,308**	**52,163**	**245**	**(32,812)**	**45,379**	**19,632**	**72,414**
Deferred tax liability									
Property, plant and equipment	(31,856)	(1,504)	(21,330)	(54,690)	(24,063)	13,332	(65,421)	18,675	(46,746)
Intangible assets	–	(3,466)	34	(3,432)	–	67	(3,365)	68	(3,297)
Financial assets	(343)	–	(164)	(507)	–	(253)	(760)	(1,406)	(2,166)
Other	(1,616)	–	1616	–	–	–	–	–	–
Netting	16,704	–	–	51,790	–	–	26,007	–	18,604
Total deferred tax liability	**(17,111)**	**(4,970)**	**(19,844)**	**(6,839)**	**(24,063)**	**13,146**	**(43,539)**	**17,337**	**(33,605)**
Total net deferred tax asset / tax liability	**(2,862)**	**(4,278)**	**52,464**	**45,324**	**(23,818)**	**(19,666)**	**1,840**	**36,969**	**38,809**

12. Income tax (continued)

In 2016, a Group's subsidiary incurred tax losses in the amount of RUB 187,586 (2015: nil; 2014: nil). These losses are available for offset against future taxable profits of the companies in which the losses arose within an indefinite period of time.

Deferred tax assets were not recognized in respect of these losses as they may not be offset against taxable profits elsewhere in the Group and they arose in a subsidiary for which there are no indicators proving that the tax losses may be reversed in the near term. If the Group was able to record all unrecognized deferred tax assets profit would increase by RUB 37,540. The Group will assess the possibility to recognize deferred tax assets on losses.

The aggregate temporary differences associated with investments in subsidiaries for which a deferred tax liability was not recognized amounted to RUB 5,716,770 (2015: RUB 4,530,835; 2014: RUB 3,119,207). The Group determined that retained earnings of its subsidiaries would not be distributed in the foreseeable future.

13. Property, plant and equipment

Property plant and equipment as at 31 December 2016, 2015 and 2014 comprised the following:

	Land Restated	Buildings Restated	Machinery and equipment, office equipment Restated	Vehicles Restated	Retail space equipment Restated	Other property, plant and equipment Restated	Construction in progress Restated	Total Restated
Carrying amount at 1 January 2016	**30,112**	**578,008**	**183,600**	**12,785**	**464,747**	**24,431**	**515,394**	**1,809,077**
Cost								
Balance at the beginning of the year	**30,112**	**625,128**	**204,426**	**30,260**	**675,808**	**34,640**	**515,394**	**2,115,768**
Additions	–	–	–	–	–	–	357,433	**357,433**
Commissioning	10,000	46,140	376,580	5,952	135,124	1,100	(574,896)	**–**
Disposals	–	–	(60,202)	(5,724)	(68,689)	(354)	(14,044)	**(149,013)**
Balance at the end of the year	**40,112**	**671,268**	**520,804**	**30,488**	**742,243**	**35,386**	**283,887**	**2,324,188**
Accumulated depreciation								
Balance at the beginning of the year	**–**	**(47,120)**	**(20,826)**	**(17,475)**	**(211,061)**	**(10,209)**	**–**	**(306,691)**
Depreciation charge	–	(25,337)	(42,110)	(4,703)	(148,932)	(4,985)	–	**(226,067)**
Depreciation disposal	–	–	45,343	4,703	67,868	199	–	**118,113**
Balance at the end of the year	**–**	**(72,457)**	**(17,593)**	**(17,475)**	**(292,125)**	**(14,995)**	**–**	**(414,645)**
Carrying amount at 31 December 2016	**40,112**	**598,811**	**503,211**	**13,013**	**450,118**	**20,391**	**283,887**	**1,909,543**

ОБУВЬ РОССИИ

13. Property, plant and equipment (continued)

	Land Restated	Buildings Restated	Machinery and equipment, office equipment Restated	Vehicles Restated	Retail space equipment Restated	Other property, plant and equipment Restated	Construction in progress Restated	Total Restated
Carrying amount at 1 January 2015	**29,354**	**513,869**	**124,562**	**15,874**	**471,458**	**28,998**	**102,145**	**1,286,260**
Cost								
Balance at the beginning of the year	**29,354**	**539,038**	**134,774**	**29,256**	**598,003**	**33,860**	**102,145**	**1,466,430**
Business combinations	–	68,230	64,743	1,004	–	481	11,491	**145,949**
Additions	–	–	–	–	–	–	581,645	**581,645**
Commissioning	758	17,860	10,890	–	131,487	11,981	(172,976)	**–**
Disposals	–	–	(5,981)	–	(53,682)	(11,682)	(6,911)	**(78,256)**
Balance at the end of the year	**30,112**	**625,128**	**204,426**	**30,260**	**675,808**	**34,640**	**515,394**	**2,115,768**
Accumulated depreciation								
Balance at the beginning of the year	**–**	**(25,169)**	**(10,212)**	**(13,382)**	**(126,545)**	**(4,862)**	**–**	**(180,170)**
Depreciation charge	–	(21,951)	(14,954)	(4,093)	(88,741)	(6,867)	–	**(136,606)**
Depreciation disposal	–	–	4,340	–	4,225	1,520	–	**10,085**
Balance at the end of the year	**–**	**(47,120)**	**(20,826)**	**(17,475)**	**(211,061)**	**(10,209)**	**–**	**(306,691)**
Carrying amount at 31 December 2015	**30,112**	**578,008**	**183,600**	**12,785**	**464,747**	**24,431**	**515,394**	**1,809,077**

	Land Restated	Buildings Restated	Machinery and equipment, office equipment Restated	Vehicles Restated	Retail space equipment Restated	Other property, plant and equipment Restated	Construction in progress Restated	Total Restated
Carrying amount at 1 January 2014	**8,484**	**71,785**	**3,063**	**18,624**	**209,417**	**12,232**	**173,237**	**496,842**
Cost								
Balance at the beginning of the year	**8,484**	**84,785**	**10,843**	**27,955**	**270,174**	**13,857**	**173,237**	**589,335**
Business combinations	–	–	4,577	–	5,544	1,341	891	**12,353**
Additions	–	–	–	–	–	–	883,844	**883,844**
Commissioning	20,870	454,253	119,758	1,301	322,843	20,428	(939,453)	**–**
Disposals	–	–	(404)	–	(558)	(1,766)	(16,374)	**(19,102)**
Balance at the end of the year	**29,354**	**539,038**	**134,774**	**29,256**	**598,003**	**33,860**	**102,145**	**1,466,430**
Accumulated depreciation								
Balance at the beginning of the year	**–**	**(13,000)**	**(7,780)**	**(9,331)**	**(60,757)**	**(1,625)**	**–**	**(92,493)**
Depreciation charge	–	(12,169)	(2,836)	(4,051)	(66,060)	(4,974)	–	**(90,090)**
Depreciation disposal	–	–	404	–	272	1,737	–	**2,413**
Balance at the end of the year	**–**	**(25,169)**	**(10,212)**	**(13,382)**	**(126,545)**	**(4,862)**	**–**	**(180,170)**
Carrying amount at 31 December 2014	**29,354**	**513,869**	**124,562**	**15,874**	**471,458**	**28,998**	**102,145**	**1,286,260**

Depreciation of property, plant and equipment is included in cost of goods sold, selling and distribution and administrative expenses in the amount of RUB 18,395, RUB 151,198 and RUB 46,370, respectively (2015: RUB 1,639, RUB 92,101 and RUB 37,676; 2014: RUB 701, RUB 64,135 and RUB 22,043).

14. Intangible assets

	Goodwill	Trademarks	Software	Other	Total
Carrying amount at 1 January 2016 (restated)	**124**	**17,489**	**12,347**	**726**	**30,686**
Cost					
Balance at the beginning of the year (restated)	**124**	**18,055**	**13,862**	**726**	**32,767**
Additions	–	–	2,715	1,983	**4,698**
Balance at the end of the year	**124**	**18,055**	**16,577**	**2,709**	**37,465**
Accumulated depreciation					
Balance at the beginning of the year (restated)	**–**	**(566)**	**(1,515)**	**–**	**(2,081)**
Depreciation charge	–	(361)	(650)	–	**(1,011)**
Balance at the end of the year	**–**	**(927)**	**(2,165)**	**–**	**(3,092)**
Carrying amount at 31 December 2016	**124**	**17,128**	**14,412**	**2,709**	**34,373**

	Goodwill	Trademarks	Software	Other	Total
Carrying amount at 1 January 2015 (restated)	**–**	**17,850**	**2,465**	**–**	**20,315**
Cost (restated)					
Balance at the beginning of the year (restated)	**–**	**18,055**	**3,083**	**–**	**21,138**
Business combinations (restated)	124	–	296	–	**420**
Additions (restated)	–	–	10,483	726	**11,209**
Balance at the end of the year	**124**	**18,055**	**13,862**	**726**	**32,767**
Accumulated depreciation (restated)					
Balance at the beginning of the year (restated)	**–**	**(205)**	**(618)**	**–**	**(823)**
Depreciation charge (restated)	–	(361)	(897)	–	**(1,258)**
Balance at the end of the year	**–**	**(566)**	**(1,515)**	**–**	**(2,081)**
Carrying amount at 31 December 2015 (restated)	**124**	**17,489**	**12,347**	**726**	**30,686**

	Trademarks	Software	Total
Carrying amount at 1 January 2014	**647**	**2,671**	**3,318**
Cost			
Balance at the beginning of the year	**665**	**3,083**	**3,748**
Business combinations (restated)	17,390	–	**17,390**
Balance at the end of the year (restated)	**18,055**	**3,083**	**21,138**
Accumulated depreciation			
Balance at the beginning of the year	**(18)**	**(412)**	**(430)**
Depreciation charge (restated)	(187)	(206)	**(393)**
Balance at the end of the year (restated)	**(205)**	**(618)**	**(823)**
Carrying amount at 31 December 2014 (restated)	**17,850**	**2,465**	**20,315**

Amortization of intangible assets is included in selling and distribution and administrative expenses in the amount of RUB 348 and RUB 663, respectively (2015: RUB 348 and RUB 910; 2014: RUB 174 and RUB 219).

15. Inventories

	2016	2015 Restated	2014 Restated
Raw materials and supplies	83,641	48,595	32,919
Work in progress	15,393	4,562	6,922
Finished goods and goods for resale	5,936,720	5,061,366	4,245,558
Total	**6,035,754**	**5,114,523**	**4,285,399**

Expenses on write-down of finished goods and goods for resale to net realizable value amounted to RUB 2,603 (2015: RUB 3,659; 2014: RUB 5,054).

16. Trade and other receivables

	2016	2015 Restated	2014 Restated
Trade receivables from wholesale customers	99,813	111,855	242,955
Trade receivables from retail customers	2,684,068	2,220,608	1,770,498
Provision for doubtful receivables from retail customers	(561,021)	(249,301)	(53,725)
Receivables from related parties (Note 23)	7,092	9,428	27,019
Other receivables	150,533	134,152	135,214
Total	**2,380,485**	**2,226,742**	**2,121,961**

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

Trade receivables from retail customers are denominated in Russian rubles and arise on sales with deferred payments. Terms of installment range from one to ten months. Trade receivables from retail customers are subject to commission ranging from 0% to 20% from the purchase amount depending on the terms of special offers effective at the certain date.

Movement in provision for doubtful receivables:

	2016	2015 Restated	2014 Restated
At 1 January	**249,301**	**53,725**	**24,528**
Provision charge (Note 9)	311,841	195,913	53,725
Reversal of provision	–	–	–
Utilization of provision	(121)	(337)	(24,528)
At 31 December	**561,021**	**249,301**	**53,725**

16. Trade and other receivables (continued)

Details of aging analysis of trade and other receivables are shown in the tables below:

31 December 2016	Neither past due nor impaired	Past due 1 to 30 days	Past due 31 to 91 days	Past due 92 to 540 days	Past due Over 540 days	Allowance for impairment
Trade receivables from wholesale customers	99,813	–	–	–	–	–
Trade receivables from retail customers	1,846,313	50,208	53,061	355,745	378,741	(561,021)
Other receivables	150,533	–	–	–	–	–
Receivables from related parties	7,092	–	–	–	–	–
Total	**2,103,751**	**50,208**	**53,061**	**355,745**	378,741	**(561,021)**

31 December 2015	Neither past due nor impaired	Past due 1 to 30 days	Past due 31 to 91 days	Past due 92 to 540 days	Past due Over 540 days	Allowance for impairment
Trade receivables from wholesale customers	111,855	–	–	–	–	–
Trade receivables from retail customers	1,686,996	50,969	51,791	384,999	45,853	(249,301)
Other receivables	134,152	–	–	–	–	–
Receivables from related parties	9,428	–	–	–	–	–
Total	**1,942,431**	**50,969**	**51,791**	**384,999**	**45,853**	**(249,301)**

31 December 2014	Neither past due nor impaired	Past due 1 to 30 days	Past due 31 to 91 days	Past due 92 to 540 days	Past due Over 540 days	Allowance for impairment
Trade receivables from wholesale customers	242,955	–	–	–	–	–
Trade receivables from retail customers	1,643,621	56,468	42,966	25,084	2,359	(53,725)
Other receivables	135,214	–	–	–	–	–
Receivables from related parties	27,019	–	–	–	–	–
Total	**2,048,809**	**56,468**	**42,966**	**25,084**	**2,359**	**(53,725)**

17. Advances for construction in progress

	2016	2015 Restated	2014 Restated
Advances issued to third parties	175,390	19,185	5,228
Advances issued to related parties	–	9,942	17,348
Total	**175,390**	**29,127**	**22,576**

18. Other financial assets

	2016 Restated	2015 Restated	2014 Restated
Other non-current financial assets			
Loans issued to related parties	–	27,392	8,480
Cash loans issued to individuals	–	2,504	3,387
Allowance for cash loans impairment	–	(51)	(727)
Total	**–**	**29,845**	**11,140**
Other current financial assets			
Loans issued to third parties	17,573	17,101	20,582
Cash loans issued to individuals	1,295,867	905,178	483,947
Allowance for cash loans impairment	(457,949)	(236,469)	(98,835)
Interest on cash loans receivable	860,649	585,966	187,187
Allowance for impairment of interest on cash loans	(677,118)	(346,459)	(100,600)
Loans issued to related parties	223,332	129,085	70,992
Total	**1,262,354**	**1,054,402**	**563,273**

Loans issued to third parties are denominated in Russian rubles, bear interest rate from 12.5% to 15% (2015: from 12% to 20.65%; 2014: from 12% to 17%) and mature within 1 year. Loans issued to third parties are not secured.

Cash loans issued to individuals comprise RUB-denominated unsecured amounts of less than RUB 30 with maturities ranging from 1 to 18 months. Interest rate on such cash loans ranges from 15.33% to 730% p.a. and mainly depends on the amount of the cash loan (2015: from 15.33% to 730%; 2014: from 15.33% to 365%).

Movements in provision for other financial assets:

	2016	2015 Restated	2014 Restated
At 1 January	**582,979**	**200,162**	**32,301**
Provision charge (Note 9)	552,206	389,778	200,162
Reversal of provision	–	–	–
Utilization of provision	(118)	(6,961)	(32,301)
At 31 December	**1,135,067**	**582,979**	**200,162**

18. Other financial assets (continued)

Details of aging analysis of other financial assets are shown in the tables below:

31 December 2016	Neither past due nor impaired	Past due: 1 to 30 days	Past due: 31 to 91 days	Past due: 92 to 540 days	Past due: Over 540 days	Allowance for impairment
Loans issued to third parties	17,573	–	–	–	–	–
Cash loans issued to individuals	725,439	28,976	31,176	243,809	266,467	(457,949)
Interest on cash loans receivable	54,064	8,020	15,973	323,379	459,213	(677,118)
Loans issued to related parties	223,332	–	–	–	–	
	1,020,408	**36,996**	**47,149**	**567,188**	**725,680**	**(1,135,067)**

31 December 2015	Neither past due nor impaired	Past due: 1 to 30 days	Past due: 31 to 91 days	Past due: 92 to 540 days	Past due: Over 540 days	Allowance for impairment
Loans issued to third parties	17,101	–	–	–	–	–
Cash loans issued to individuals	501,904	26,328	37,047	278,565	63,838	(236,520)
Interest on cash loans receivable	34,062	7,824	21,592	394,705	127,783	(346,459)
Loans issued to related parties	156,477	–	–	–	–	–
	709,544	**34,152**	**58,639**	**673,270**	**191,621**	**(582,979)**

31 December 2014	Neither past due nor impaired	Past due: 1 to 30 days	Past due: 31 to 91 days	Past due: 92 to 540 days	Past due: Over 540 days	Allowance for impairment
Loans issued to third parties	20,582	–	–	–	–	–
Cash loans issued to individuals	311,767	26,496	35,479	108,106	5,486	(99,562)
Interest on cash loans receivable	26,293	7,526	20,451	119,681	13,236	(100,600)
Loans issued to related parties	79,472	–	–	–	–	–
	438,114	**34,022**	**55,930**	**227,787**	**18,722**	**(200,162)**

19. Cash and cash equivalents

	2016	2015	2014
Cash on hand	87,195	29,925	28,031
Cash at bank accounts	181,635	112,626	186,869
Cash deposits at banks	83,360	144,600	77,000
Total	**352,190**	**287,151**	**291,900**

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

In 2016, cash deposits were placed for the period of up to 1 month with the interest rates ranging from 8% to 10.75% p.a. (2015: for the period of up to 1 month with the interest rates ranging from 9% to 18.5% p.a.; 2014: for the period from 1 to 33 days with the interest rates ranging from 4.5% to 20.46% p.a.).

20. Equity

Share capital

Share capital of OR OJSC is fully paid by shares in subsidiaries and comprises 70,660,000 shares with the nominal value of RUB 100.

Additional paid-in capital

Additional paid-in capital of RUB 6,904,204 represents the difference between the nominal value of the share capital and the current value of share capitals of the companies, which were contributed as payment of the share capital at the moment of repayment.

Additional paid-in capital includes contributions from ultimate controlling party for the year 2016 in the amount of RUB 32,839 (2015: RUB 47,194; 2014: RUB 7,411).

Dividends

The Group did not declare or pay any dividends in 2016, 2015 and 2014.

21. Interest-bearing loans and borrowings

Long-term loans and borrowings	2016	2015	2014
Bank loans	2,237,054	2,411,968	2,181,376
Bonds	999,146	1,999,501	1,000,000
Total	**3,236,200**	**4,411,469**	**3,181,376**

21. Interest-bearing loans and borrowings (continued)

Short-term loans and borrowings	2016	2015	2014
Bank loans	3,093,530	1,593,890	2,202,728
Bonds	1,010,586	13,926	5,555
Loans from companies	393	314	217
Loans from related parties	–	27	311
Total	**4,104,509**	**1,608,157**	**2,208,811**

Bank loans are denominated in Russian rubles and bear interest rates ranging from 12.75% to 16% p.a. (2015: from 14.36% to 18.75% p.a.; 2014: from 9.6% to 18.75% p.a.). Long-term bank loans mature in 2019-2021.

A bond issued in 2014 (stock-exchange bonds with identification number 4B02-04-16005-R dated 3 September 2014) is represented by 500 bonds with the nominal value of RUB 2,000 each and matures on 6 September 2019. The loan was early repaid in full during 2016. As at 31 December 2015, the coupon rate was 11.5% p.a. The effective rate was 11.7% p.a. (2014: 12.01% p.a.).

A bond issued in 2015 (stock-exchange bonds with identification number 4B02-05-16005-R dated 9 February 2015) is represented by 500 bonds with the nominal value of RUB 2,000 each and matures on 3 September 2020. Coupon is paid quarterly during the entire maturity term. As at 31 December 2016, the coupon rate was 13.8% p.a. The effective rate is 14.39% p.a. (2015: 13.93% p.a.).

A bond issued in 2016 (stock-exchange bonds with identification number 4B02-06-16005-R dated 21 March 2016) is represented by 500 bonds with the nominal value of RUB 2,000 each and matures on 22 March 2021. Coupon is paid quarterly during the entire maturity term. As at 31 December 2016, the coupon rate was 13.8% p.a. The effective rate was 14.49% p.a.

As at 31 December 2016, the Group has undrawn credit lines of RUB 748,215 (31 December 2015: RUB 1,418,195; 31 December 2014: RUB 2,710,490).

For more details on maturity profile of loans and borrowings refer to Note 25.

Pledges

As at 31 December 2016 and 2015, loans received were not secured with a pledge. As at 31 December 2014, property, plant and equipment, as well as goods for resale, pledged as collateral under the loans received, amounted to RUB 176,875 and RUB 34,579, respectively.

22. Trade and other payables

	2016	2015 Restated	2014 Restated
Trade payables	852,242	874,992	1,081,095
Payables to employees	48,745	50,416	50,881
Other payables	38,712	54,990	153,114
Payables to related parties	15,080	12,908	1,034
Total	**954,779**	**993,306**	**1,286,124**

23. 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The following table provides the total amount of transactions with related parties:

2016	Sales to related parties Restated	Purchases from related parties Restated	Receivables from related parties Restated	Payables to related parties
Entities under common control	9,246	81,442	5,197	15,068
Ultimate controlling party	35	–	41	–
Close relatives	1,571	7,641	4,068	12
Total	**10,852**	**89,083**	**9,306**	**15,080**

2015	Sales to related parties Restated	Purchases from related parties Restated	Receivables from related parties Restated	Payables to related parties Restated
Entities under common control	12,587	108,054	20,170	13,389
Close relatives	–	6,546	–	–
Total	**12,587**	**114,600**	**20,170**	**13,389**

23. Related party transactions (continued)

2014	Sales to related parties Restated	Purchases from related parties Restated	Receivables from related parties Restated	Payables to related parties Restated
Entities under common control	34,042	78,597	44,367	1,034
Ultimate controlling party	818	–	–	–
Total	**34,860**	**78,597**	**44,367**	**1,034**

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

Terms and conditions of related party transactions

Related parties may enter into transactions which unrelated parties might not, and the terms, conditions and amounts of those may differ from the terms, conditions and amounts of 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 year ended 31 December 2016, 2015 and 2014, the Group did not record any impairment of receivables from 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.

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

2016	Loans issued to related parties Restated	Loans received from related parties	Interest income Restated	Interest expense
Entities under common control	41,895	–	6,320	–
Ultimate controlling party	181,437	–	5,904	–
Close relatives	–	–	–	–
Total	**223,332**	**–**	**12,224**	**–**

2015	Loans issued to related parties Restated	Loans received from related parties Restated	Interest income Restated	Interest expense Restated
Entities under common control	50,397	–	6,549	–
Ultimate controlling party	106,080	27	5,344	93
Close relatives	–	–	–	–
Total	**156,477**	**27**	**11,893**	**93**

23. Related party transactions (continued)

Terms and conditions of related party transactions (continued)

2014	Loans issued to related parties Restated	Loans received from related parties	Interest income Restated	Interest expense
Entities under common control	51,205	–	3,781	–
Ultimate controlling party	28,267	311	6,957	1,817
Total	**79,472**	**311**	**10,738**	**1,817**

In 2016 loans were issued to related parties at annual interest rates ranging from 11% to 14% (2015: from 11% to 24%, 2014: from 11% to 24%). Loans issued to related parties as at 31 December 2016 mature in 2017.

Compensation to key management personnel of the Group

As at 31 December 2016, key management personnel comprises five top-managers of the Group (2015: five; 2014: five). In 2016, compensation paid to the key management personnel amounted to RUB 10,305 (2015: RUB 11,406; 2014: RUB 6,469). The amount of compensation included payroll, bonuses and paid vacations.

24. Commitments and contingences

Operating lease commitments – Group as lessee

The Group has concluded a number of lease agreements in respect of retail property, warehouse and office premises. The lease term under these agreements varies from one to six years.

As at 31 December 2016, 2015 and 2014 future minimum lease payments under non-cancellable leases are as follows:

	2016	2015	2014
Less than 1 year	6,096	10,642	35,721
From 1 to 5 years	1,558	8,792	3,929
More than 5 years	–	–	1,286
Total	**7,654**	**19,434**	**40,936**

Litigations

In the course of its business activity, the Group is exposed to various legal actions and complaints. While there are inherent uncertainties and the outcome of those litigations cannot be reliably predicted, the Group’s management believes that these issues will not significantly affect the Group’s financial position or annual performance.

At 31 December 2016, the Group’s management is unaware of any significant ligations, suits or claims against the Group, that could result in potential losses.

24. Commitments and contingences (continued)

Litigations (continued)

In the Russian Federation 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.

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.

The government of the Russian Federation continues to reform the business infrastructure in its transition to a market economy. Therefore, requirements by laws and regulations regulating activities of business companies are rapidly changing. These changes are not always clearly written and subject to varying interpretations; also, authorities are often arbitrary in its enforcement. There are common instances when tax audits and investigations are conducted by authorities that have the power to assess fines and penalties. The Group believes that it has accrued all taxes that are applicable in accordance with its interpretation of tax laws, however the facts described above could lead to additional tax risk. The Group's management estimates the maximum exposure to tax risk assessed as possible (5% to 50% probability) as RUB 75,000 (31 December 2015: RUB 45,000, 31 December 2014: RUB 1,000). The Group continues to track changes related to these risks and regularly reassesses risks and respective liabilities, provisions and disclosures.

25. 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 loans issued by the Group bear fixed interest rates.

25. Financial risk management objectives and policies (continued)

Market risk (continued)

Generally, the Group receives loans and borrowings on a fixed rate basis and does not use any hedging instruments to manage its interest risk.

There are no loans with a floating interest rate in the Group's loan portfolio. Thus, income and expenses as well as the operating cash flows are primarily independent from changes in market interest rates.

A significant share of the Group loan portfolio is taken by two bonds in the amount of RUB 2,009,732 (31 December 2015 2 013 427 and 2014: one bond in the amount of RUB 1,000,000). The interest rate for those loans is fixed till the offer dates (25 March 2019 and 23 January 2020) and may not be unilaterally increased till these dates.

When the interest rates change the Group generally applies various instruments in order to minimize the adverse effect on the Group's financial performance. Those instruments include refinancing, renewal of existing positions and alternative financing. The Group has sufficient open undrawn credit facilities with fixed interest rates.

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 at 31 December 2016, 2015 and 2014, the Group didn't have any material financial assets and liabilities denominated in foreign currencies.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. 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 impairment of doubtful accounts receivable, represents the maximum amount exposed to credit risk with respect to a certain asset.

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

25. Financial risk management objectives and policies (continued)

Credit risk (continued)

While settlement of receivables depends on economic factors, the Group management believes that the credit risk exposure related to trade and other receivables does not exceed the allowance recorded in the financial statement of financial position (Note 16).

Credit risk related to retail installment sales is managed by assessing the retail customers' solvency, including their financial position, the history of relations and other factors. Overdue amounts are recovered according to the approved regulation on overdue amounts which provides for engaging the Financial Safety Department and going to court.

Risk exposure under the cash loans program is managed by assessing the credit worthiness of individual borrowers, including reviewing their financial position, the history of relations with the Group and personal details, as well as taking other measures.

Cash and short-term deposits are placed with credit and financial institutions which are considered to have minimal risk of default at the time of placing a deposit or opening an account.

Other financial assets include unsecured loans issued to third and related parties. The Group management believes that the credit risk does not exceed the allowance recorded in the financial statement of financial position (Note 18).
.

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 at 31 December as detailed below:

	2016	2015	2014
Cash and cash equivalents	352,190	287,151	291,900
Short-term trade and other receivables (restated)	2,380,485	2,226,742	2,121,961
Other current financial assets (restated)	1,262,354	1,054,402	563,273
Other non-current financial assets (restated)	–	29,845	11,140
Total	**3,995,029**	**3,598,140**	**2,988,274**

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 liabilities 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 liquidity planning tool.

In order to provide continuous daily control over liquidity the Group established separate operating units within its Finance Function.

25. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The Budgeting and Capital market develops and regularly updates long-term, mid-term and short-term plans of cash flows from operating and financing activities, taking into account the planned retail chain development, increase in the number of stores and seasonal nature of sales. By doing so, the Group is able to accurately determine its liquidity needs in the forecast period. During low liquidity season the Group plans to attract borrowings in order to fulfill its obligations. Due to seasonal nature of sales, the Group attracts borrowings during the low season and settles liabilities during the high season when sufficient revenue proceeds are available.

The Group established the Fund Raising Department responsible for arranging bank credit facilities and attracting funds using the open financial market instruments. The Fund Raising Department manages the liquidity risk by providing sufficient open and undrawn credit facilities in several banks and by using short-term bank deposits to accumulate funds for settling major non-current liabilities.

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

The Group assessed the concentration of its debt refinancing risk and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

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:

At 31 December 2016	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 21)	5,330,584	5,975,304	3,659,586	2,206,822	108,896
Bonds (Note 21)	2,009,732	2,309,645	1,137,620	137,620	1,034,405
Trade payables (Note 22)	852,242	852,242	852,242	–	–
Payables to employees (Note 22)	48,745	48,745	48,745	–	–
Other payables (Note 22)	38,712	38,712	38,712	–	–
Payables to related parties (Note 22)	15,080	15,080	15,080	–	–
Total	**8,295,095**	**9,239,728**	**5,751,985**	**2,344,442**	**1,143,301**

At 31 December 2015	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 21)	4,005,858	4,697,429	2,126,244	2,298,647	272,538
Bonds (Note 21)	2,013,427	2,326,852	223,636	103,216	2,000,000
Trade payables (Note 22)	874,992	874,992	874,992	–	–
Payables to employees (Note 22)	50,416	50,416	50,416	–	–
Other payables (Note 22)	54,990	54,990	54,990	–	–
Payables to related parties (Note 22)	12,908	12,908	12,908	–	–
Total	**7,012,591**	**8,017,587**	**3,343,186**	**2,401,863**	**2,272,538**

25. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

At 31 December 2014	Carrying amount	Contractual payments	Less than 1 year	2 years	3 years and more
Bank loans (Note 21)	4,384,104	5,144,653	2,750,185	1,873,545	520,923
Bonds (Note 21)	1,005,555	1,200,699	114,685	86,014	1,000,000
Trade payables (Note 22)	1,081,095	1,081,095	1,081,095	–	–
Payables to employees (Note 22)	50,881	50,881	50,881	–	–
Other payables (Note 22)	153,114	153,114	153,114	–	–
Payables to related parties (Note 22)	1,034	1,034	1,034	–	–
Total	**6,675,783**	**7,631,476**	**4,150,994**	**1,959,559**	**1,520,923**

The management believes that the carrying amounts of the financial assets and financial liabilities recorded in the Group's consolidated statement of financial position as at 31 December 2016, 2015 and 2014 approximate their fair values 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 sustainable solvency and an adequate level of capital in order to support its operations and maximize the shareholder value.

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

To fulfill its capital needs the Group combines such forms of borrowings as short-term and long-term loans, bonds, loans to individuals and accounts payable to suppliers. The planned increase in the number of stores results in greater capital requirements as the costs to open new stores add to the Group's financial burden. The Group performs regular analysis of its capital needs and determines the measures necessary to maintain the balanced capital structure through either issuing new debt liabilities or settling the existing ones. To ensure its economic stability, the Group monitors capital using the gearing ratio on a quarterly basis.

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 it to attract additional borrowings for development while retaining the financial stability at the acceptable level. During the quarters when the gearing ratio is adequate, the owner keeps the cash for the future development.

26. Operating segments

For management purposes, the Group is divided into two reportable operating segments:

1) Retail trade of footwear, accessories and related goods;
2) Cash loans.

Comparative information by segment has been restated in these consolidated financial statements to ensure its comparability with the current year.

Management of the Group evaluates performance of its operating segments on the basis of consolidated data prepared in accordance with the International Financial Reporting Standards. The segment performance indicator communicated to management of the Group is EBITDA of the segments, which represents operating earnings before interest, taxes, depreciation, amortization and group-wide income and expenses.

EBITDA of the reporting segments includes items of income and expenses, which are directly attributable to the segment on a reasonable basis:

- Revenue;
- Cost of sales;
- Selling and distribution expenses;
- Administrative expenses allocated to segments:
  - Provision for other financial assets;
  - Provision for doubtful receivables;
- Other income/expenses allocated to segments:
  - Income/expenses from transfer of right to claim on installments receivable and from cash loans to individuals;
  - Foreign exchange differences;
  - Write down of accounts receivable/payable and advances issued;
  - Penalties received;
  - Write-off of goods for resale.

The following expenses are not allocated to segments:

- Other administrative (corporate) expenses, other (corporate) operating income and expenses;
- Depreciation of property, plant and equipment and amortization of intangible assets;
- Finance income and expenses;
- Income tax expense.

Assets are not allocated to operating segments and are not subject to analysis by an operating decision-maker.

26. Operating segments (continued)

Analysis of financial information on reporting segments analyzed by management for the years ended 31 December 2016, 2015 and 2014 is presented in the table below.

Revenue and EBITDA of reporting segments for the year ended 31 December 2016 comprise the following:

2016	Sale of goods	Cash loans
Revenue		
Revenue from external customers	8,487,760	1,477,700
Cost of sales, selling and administrative expenses	(6,218,328)	(858,105)
Other operating income (direct)	110,671	–
Other operating expenses (direct)	(77,477)	–
Segment EBITDA	**2,302,626**	**619,595**

Reconciliation of EBITDA reporting segments and net profit for the year ended 31 December 2016 is presented in the table below:

Total EBITDA of segments	**2,922,221**
Unallocated items by segment:	
Depreciation of property, plant and equipment and amortization of intangible assets	(216,974)
Administrative (corporate) expenses	(343,016)
Other (corporate) operating income	8,648
Other (corporate) operating expenses	(48,005)
Finance income	25,575
Finance expense	(1,018,912)
Income tax expense	(146,869)
Net profit	**1,182,668**

Revenue and EBITDA of reporting segments for the year ended 31 December 2015 comprise the following:

2015	Sale of goods	Cash loans
Revenue		
Revenue from external customers	7,791,952	1,363,761
Cost of sales, selling and administrative expenses	(5,661,400)	(695,399)
Other operating income (direct)	146,809	–
Other operating expenses (direct)	(54,463)	–
Segment EBITDA	**2,222,898**	**668,362**

26. Operating segments (continued)

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2015 is presented in the table below:

Total EBITDA of segments	**2,891,260**
Unallocated items by segment:	
Depreciation of property, plant and equipment and amortization of intangible assets	(132,674)
Administrative (corporate) expenses	(250,577)
Other (corporate) operating income	8,603
Other (corporate) operating expenses	(47,425)
Finance income	21,387
Finance expense	(814,644)
Income tax expense	(206,987)
Net profit	**1,468,943**

Revenue and EBITDA of reporting segments for the year ended 31 December 2014 comprise the following:

2014	**Sale of goods**	**Cash loans**
Revenue		
Revenue from external customers	6,861,064	802,329
Cost of sales, selling and administrative expenses	(5,625,375)	(411,342)
Other operating income (direct)	52,002	7,309
Other operating expenses (direct)	(87,879)	–
Segment EBITDA	**1,199,812**	**398,296**

Reconciliation of EBITDA of reporting segments and net profit for the year ended 31 December 2014 is presented in the table below:

Total EBITDA of segments	**1,598,108**
Unallocated items by segment:	
Depreciation of property, plant and equipment and amortization of intangible assets	(87,272)
Administrative (corporate) expenses	(271,786)
Other (corporate) operating income	145,485
Other (corporate) operating expenses	(146,429)
Finance income	20,400
Finance expense	(458,918)
Income tax expense	(162,230)
Net profit	**637,358**

27. Acquisition of subsidiaries

On 23 October 2015, the Group acquired 100% of shares in the footwear company Mastershoes LLC for RUB 94,532.

The Group acquired Mastershoes LLC due to the fact that the latter has unique expertise in footwear manufacturing and modern technologies, and is equipped with highly productive machinery for footwear manufacturing. Acquisition of this asset opens new markets to the Group and facilitates extension of the range of products offered to customers in the ‘casual footwear, semi-sport footwear, hiking shoes, everyday footwear, walking and crossover shoes, shoes for extreme weather conditions and special purpose footwear’ sector. Manufacturing of such footwear requires the use of special technologies and polymer materials, which improve wear and cold resistance properties, thermal insulation and slip resistance.

The business combination was accounted for using the acquisition method. These consolidated financial statements present the performance of Mastershoes LLC for the period starting from the acquisition date.

Acquired assets and assumed liabilities

As at the date of these consolidated financial statements, the Group has completed measurement of the fair value of identifiable assets and liabilities of the acquired entity. The information is presented below:

	Fair value recognized on acquisition
Property, plant and equipment	145,949
Intangible assets	296
Deferred tax assets	245
Inventories	2,403
Trade and other receivables	675
Advances issued	166
Income tax overpaid	72
Other taxes overpaid and VAT recoverable	2,453
Cash and cash equivalents	8
Total assets	**152,267**
Deferred tax liabilities	24,063
Interest-bearing loans and borrowings	28,234
Trade and other payables	4,613
Advances received	834
Current income tax liabilities	103
Other taxes payable	12
Total liabilities	**57,859**
Total identifiable net assets	**94,408**
Goodwill (Note 14)	124
Consideration paid on acquisition	**94,532**

27. Acquisition of subsidiaries (continued)

Acquired assets and assumed liabilities (continued)

The fair value of trade receivables amounts to RUB 635. The gross amount of trade receivables is RUB 675. Trade receivables were not impaired and all contractual amounts are expected to be received in full.

Deferred tax assets primarily arise from the tax effect from disposal of an item of property, plant and equipment and writing down of receivables.

From the date of acquisition, the acquiree's contribution to the Group's revenue and profit before tax totaled RUB 1,214 and RUB 2,548, respectively. If the business combination had taken place at the beginning of the year, the Group's revenue and profit before tax would have been RUB 9,159,897 and RUB 1,673,185, respectively.

Analysis of cash flows on acquisition

	2015
Consideration paid on acquisition	(94,532)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	8
Net cash flows on acquisition	**(94,524)**

On 13 August 2014, OR OJSC, through its owner Mr. A.M. Titov, acquired a 100% share in the footwear company Rossita, which owns the Rossita and Lisette brands, for RUB 430,010.

A.M. Titov acquired Rossita Group under the sale and purchase agreement for equity interest in the following limited liability companies: Integra LLC, MiraStil LLC, ModernShoes LLC, Trade House Rossita LLC, StilMarket LLC, Dion LLC, and Design Studia LLC. The Group acquired Rossita Group to extend the range of products in the 'retail trade of footwear, accessories and related goods' sector.

A.M. Titov and the Group entered into a significant option agreement for the acquisition of a 100% interest in Rossita Group by the Group that includes the provision to transfer profit, which has been distributed to the owner from the acquisition date, to the Group. Based on this option and other facts and circumstances, Rossita Group is under control of the Group starting from July 2014.

27. Acquisition of subsidiaries (continued)

Acquired assets and assumed liabilities (continued)

The Group exercised the option under the agreement in July 2017.

	Fair value recognized on acquisition
Property, plant and equipment	12,353
Intangible assets	17,390
Deferred tax assets	696
Inventories	341,035
Trade and other receivables	362,814
Advances issued	22,123
Income tax overpaid	2,433
Other taxes overpaid and VAT recoverable	19,355
Other current financial assets	1,056
Cash and cash equivalents	23,058
Total assets	**802,313**
Deferred tax liabilities	4,974
Interest-bearing loans and borrowings	5,540
Trade and other payables	209,532
Advances received	14,729
Current income tax liabilities	2,535
Other taxes payable	8,659
Provisions	664
Total liabilities	**246,633**
Total identifiable net assets	**555,680**
Profit before acquisition	(125,670)
Consideration paid on acquisition	**430,010**

The fair value of trade receivables amounts to RUB 311,595. The gross amount of trade receivables is also RUB 311,595. Trade receivables were not impaired and all contractual amounts are expected to be received in full.

Deferred tax liability primarily arises from the tax effect from revaluation at fair value of property, plant and equipment and intangible assets of the entity due to the first-time adoption of IFRS.

From the date of acquisition, the acquiree’s contribution to the Group’s revenue and profit before tax totaled RUB 559,577 and RUB 108,324, respectively. If the business combination had taken place at the beginning of the year, the Group’s revenue and profit before tax would have been RUB 8,090,896 and RUB 1,958,827, respectively.

27. Acquisition of subsidiaries (continued)

Acquired assets and assumed liabilities (continued)

Analysis of cash flows on acquisition

	2014
Consideration paid on acquisition	(430,010)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	23,058
Net cash flows on acquisition	**(406,952)**

28. Subsequent events

Finance raising

In January 2017, the Group issued five hundred (500) Series 7 exchange-traded bonds of the Group company Obuvrus LLC with the nominal value of RUB 2,000 each.

In January 2017, the Group entered into an agreement with MTS Bank to increase the limit of the credit facility opened in August 2016 maturing in 3 years from RUB 500 million to RUB 700 million.

During the first half of 2017, the Group paid dividends to the controlling party in the amount of RUB 7,741.

On 31 March 2017, the Group entered into an agreement with VTB Bank PJSC for a revolving credit line of RUB 1.4 billion maturing in 5 years.

In April 2017, as a result of an open tender, the Group concluded a three-year agreement with Sberbank PJSC to supply footwear for cash collection and security personnel. To finance its ongoing operation, as well as to finance this agreement, in June 2017, the Group entered into an agreement with Sberbank PJSC to open two non-revolving credit lines totaling RUB 435,000 maturing in 2 years 9 months and 2 years 6 months, respectively.

In July 2017, the Group company Obuvrus LLC issued stock-exchange bonds of BO-01 series. The issue involves 1,500,000 bonds with the nominal value of RUB 1,000 each and maturity period of three years. The coupon rate was 15% p.a.

On 5 July 2017, a transaction was closed with respect to the sale of 100% share owned by Mr. Anton Mikhailovich Titov, the ultimate controlling party, in the following companies: Design Studio LLC, Integra LLC, Dion LLC, MiraStil LLC, ModernShoes LLC, StilMarket LLC, Trading House Rossita LLC. The shares were sold to Obuv Rossii LLC and OR OJSC, which acquire 99.96% and 0.04% in the companies' share capital, respectively. The transaction amounted to RUB 496,000. The event had no impact on the financial statements of the Group, as the Group executed control over the above-mentioned companies (Note 27).

On 1 August 2017, the Group entered into an agreement with GLOBEXBANK for a revolving credit line of RUB 800 million maturing in 3 years.