



**Translation of the original Russian version**

**Obuv Rossii Group**

Combined Financial Statements

for the years ended 31 December 2012, 2011 and 2010



## Translation of the original Russian version

OBUV ROSSII GROUP

Combined Financial Statements

for the years ended 31 December 2012, 2011 and 2010

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## Independent auditors' report

### Translation of the original Russian version

To the owner and management of the Group Obuv Rossii

We have audited the accompanying combined financial statements of the Obuv Rossii Group (further "the Group"), which comprise the combined statements of financial positions as at 31 December 2012, 2011 and 2010, and the combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information (further "combined financial statements").

#### *Management's responsibility for the combined financial statements*

Management is responsible for the preparation of these combined financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for qualified opinion*

We were appointed as auditors of the Group after the reporting date therefore we were not able to participate in inventory counting as of 31 December 2010 and 1 January 2010 or satisfy ourselves as to inventory quantities at those days by alternative means. Since inventory balances enter into determination of the results of operations and cash flows, we could not determine whether adjustments might be necessary to the operating results stated in the combined statement of comprehensive income and net cash flows from operating activities stated in combined cash flow statement for 2011 and 2010.

*Qualified opinion*

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the combined financial statements present fairly, in all material respects the financial position of the Group Obuv Rossii as at 31 December 2012, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

Original version signed

5 November 2013



## Translation of the original Russian version

Obuv Rossii Group

Combined statement of financial position

as of 31 December 2012, 2011 and 2010

(in thousands of Russian rubles)

	Note	31 December 2012	31 December 2011	31 December 2010
<b>Non-current assets</b>				
Property, plant and equipment	11	253,471	192,589	13,650
Intangible assets		3,537	3,586	1,679
Other non-current financial assets	15	6,594	201,124	150,104
Long-term trade and other receivables		–	4,949	1,663
Deferred tax assets	10	1,470	4,586	5,621
<b>Total non-current assets</b>		<b>265,072</b>	<b>406,834</b>	<b>172,717</b>
<b>Current assets</b>				
Inventories	12	1,209,847	754,695	699,824
Trade and other receivables	13	498,144	688,933	186,551
Advances paid	14	255,348	250,888	243,749
Income tax receivable		443	333	562
Other taxes receivable and VAT recoverable		13,120	15,889	14,611
Other current financial assets	15	723,443	67,654	8,396
Cash and cash equivalents	16	341,663	25,682	52,794
<b>Total current assets</b>		<b>3,042,008</b>	<b>1,804,074</b>	<b>1,206,487</b>
<b>Total assets</b>		<b>3,307,080</b>	<b>2,210,908</b>	<b>1,379,204</b>
<b>Equity</b>				
Share capital	17	74,348	61,080	61,070
Retained earnings		1,278,899	894,100	668,550
<b>Total equity</b>		<b>1,353,247</b>	<b>955,180</b>	<b>729,620</b>
<b>Long-term liabilities</b>				
Interest-bearing loans and borrowings	18	1,039,481	773,562	393,000
Finance lease liabilities		–	–	97
Deferred tax liabilities	10	4,844	392	235
<b>Total long-term liabilities</b>		<b>1,044,325</b>	<b>773,954</b>	<b>393,332</b>
<b>Short-term liabilities</b>				
Interest-bearing loans and borrowings	18	531,161	328,326	171,519
Finance lease liabilities		–	–	1,125
Trade and other payables	20	311,276	116,131	62,111
Advances received		33,676	11,404	11,178
Income tax payable		9,332	3,054	3,110
Deferred revenue	19	1,714	9,740	1,794
Other taxes payable		21,822	12,884	5,326
Provisions	21	527	235	89
<b>Total short-term liabilities</b>		<b>909,508</b>	<b>481,774</b>	<b>256,252</b>
<b>Total liabilities</b>		<b>1,953,833</b>	<b>1,255,728</b>	<b>649,584</b>
<b>Total equity and liabilities</b>		<b>3,307,080</b>	<b>2,210,908</b>	<b>1,379,204</b>

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

## Translation of the original Russian version

Obuv Rossii Group

Combined statement of changes in equity

for the years ended 31 December 2012, 2011 and 2010

(in thousands of Russian Rubles)

	Note	Share capital (Note 17)	Retained earnings	Total equity
<b>Balance at 1 January 2010</b>		<b>61,070</b>	<b>569,498</b>	<b>630,568</b>
Net profit for the year		-	99,052	<b>99,052</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>99,052</b>	<b>99,052</b>
<b>Balance at 31 December 2010</b>		<b>61,070</b>	<b>668,550</b>	<b>729,620</b>
Net profit for the year		-	237,044	<b>237,044</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>237,044</b>	<b>237,044</b>
Increase in share capital	17	10	-	<b>10</b>
Dividends paid	17	-	(11,494)	<b>(11,494)</b>
<b>Balance at 31 December 2011</b>		<b>61,080</b>	<b>894,100</b>	<b>955,180</b>
Net profit for the year		-	396,802	<b>396,802</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>396,802</b>	<b>396,802</b>
Contributions to share capital	17	13,268	-	<b>13,268</b>
Dividends paid	17	-	(12,003)	<b>(12,003)</b>
<b>Balance at 31 December 2012</b>		<b>74,348</b>	<b>1,278,899</b>	<b>1,353,247</b>

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

## Translation of the original Russian version

Obuv Rossii Group

### Combined statement of cash flows

for the years ended 31 December 2012, 2011 and 2010

(in thousands of Russian Rubles)

	Note	2012	2011	2010
<b>Profit before tax for the year</b>		<b>430,396</b>	<b>257,641</b>	<b>110,501</b>
<i>Adjustments:</i>				
Depreciation and amortization	11	29,762	18,621	9,180
Provision for impairment of accounts receivable and other financial assets	7	33,804	12,797	637
Change in accruals for unused vacations		2,594	5,719	309
Finance income		(76,714)	(46,521)	(19,116)
Finance costs		174,459	116,762	82,593
(Gain)/ loss on disposal of property, plant and equipment	8	199	(1,456)	(1,557)
<b>Operating profit before changes in working capital</b>		<b>594,500</b>	<b>363,563</b>	<b>182,547</b>
Changes in working capital				
(Increase)/decrease in trade and other receivables		171,230	(518,280)	(81,190)
Increase in inventories		(455,152)	(54,871)	(112,075)
(Increase)/decrease in advances paid		(4,460)	(7,139)	262,357
(Increase)/decrease in VAT recoverable		829	(4,347)	(362)
Increase/(decrease) in trade and other payables		192,626	47,229	(5,746)
Increase/(decrease) in other tax liabilities		10,878	10,627	(2,773)
Increase/(decrease) in payables to employees		(75)	1,068	(400)
Increase/(decrease) in deferred revenue		(8,026)	7,946	1,765
Increase in advances received		22,272	226	4,785
Increase in on micro loans receivable		(319,730)	(4,587)	(871)
<b>Net cash from/(used in) operating activities before income tax and interest paid</b>		<b>204,892</b>	<b>(158,565)</b>	<b>248,037</b>
Interest paid		(162,891)	(117,483)	(84,540)
Income tax paid		(19,858)	(19,230)	(11,437)
<b>Net cash from/(used in) operating activities</b>		<b>22,143</b>	<b>(295,278)</b>	<b>152,060</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment and intangible assets		(91,774)	(201,272)	(9,766)
Proceeds from sale of property, plant and equipment and intangible assets		1,271	1,790	9,395
Loans issued		(338,736)	(172,740)	(152,064)
Repayment of loans issued		220,623	88,362	71,545
Repayment of interest on loans issued		44,499	25,143	6,033
<b>Net cash used in investing activities</b>		<b>(164,117)</b>	<b>(258,717)</b>	<b>(74,857)</b>
<b>Financing activities</b>				
Payment of the share capital		13,268	10	-
Proceeds from loans and borrowings		893,091	1,701,221	687,497
Repayment of loans and borrowings		(436,401)	(1,161,632)	(716,317)
Dividends paid	17	(12,003)	(11,494)	-
Payments under finance lease		-	(1,222)	(2,342)
<b>Net cash flows from/(used in) financing activities</b>		<b>457,955</b>	<b>526,883</b>	<b>(31,162)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>315,981</b>	<b>(27,112)</b>	<b>46,041</b>
Cash and cash equivalents, beginning		25,682	52,794	6,753
<b>Cash and cash equivalents, ending</b>		<b>341,663</b>	<b>25,682</b>	<b>52,794</b>

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



## Translation of the original Russian version

### Obuv Rossii Group

#### Combined statement of financial position

as of 31 December 2012, 2011 and 2010

*(in thousands of Russian rubles)*

## 1. General information

### 1.1. Corporate information

Obuv Rossii Group of Companies ("the Group") is a federal retail shoe chain that makes the top five operators of the Russian shoe market. Obuv Rossii was established in 2003, its head office is located in Novosibirsk.

Obuv Rossii develops several business directions:

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

Retail trade is represented by three brands:

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

The Group comprises:

Company	Legal form	Principal activity
LLC Obuv Rossii	Limited liability company	Trade, financing activity
LLC Westfalika M	Limited liability company	Trade, production, financing activities
LLC Peshekhod	Limited liability company	Trade, financing activity
LLC Obuvrus	Limited liability company	Trade, financing activity
LLC MFO	Limited liability company	Trade, financing activity
LLC Obuv Rossii	Limited liability company	Production

As of 31 December 2010, 2011 and 2012, Anton Mikhailovich Titov is the ultimate controlling party, who owns 100% interest in all companies of the Group.

On 12 August 2013, JSC OR Holding Company was established. Anton Mikhailovich Titov owns 96,4% of shares in JSC OR, which were paid by shares in all companies of the Group contributed to its share capital.

As of 31 December 2012, the Group's headcount is 1,594 employees (31 December 2011: 1,321 employees, 31 December 2010: 828 employees).

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Obuv Rossii Group

Notes to the combined financial statements (continued)

### 1. General information (continued)

#### 1.2. Business environment in the Russian Federation

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

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

These combined financial statements of the Group were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). These combined 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.

#### 2.2. Basis of combination of the financial statements

These combined financial statements include financial statements of the companies listed in Note 1 under control of A.M. Titov who directly or indirectly owns 100% interest in all companies. These companies operate in shoe business of Mr. Titov. As stated in Note 1, the Group is still undergoing the formation period, therefore the Group has not prepared the consolidated financial statements. These combined financial statements comprise financial statements of all the companies related to shoe business of Mr. Titov A.M.

## **Translation of the original Russian version**

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### **2.2 Basis of combination of the financial statements (continued)**

The Group's share capital represents the share capital of the companies included in the Group. All inter-group balances, transactions, unrealized gains and losses resulting from operations within the Group and dividends are entirely eliminated.

Separate financial statements of the companies of the Group are prepared for the same reporting periods with the use of the same accounting policy.

#### **2.3. Going concern**

These combined financial statements have been prepared on a going concern basis that contemplates 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 combined 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 significant accounting policies**

##### **Foreign currency transactions**

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

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

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Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

##### Financial instruments

###### *Financial assets – initial recognition and valuation*

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

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

The Group determines the classification of its financial assets at initial recognition. Financial assets of the Group are represented by loans issued, trade and other receivables, and cash and cash equivalents. All the abovementioned 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 measured using the effective interest method.

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

###### *Financial assets - derecognition*

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

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

If 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. If the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the new asset is recognized to the extent of the Group's continuing involvement in the transferred asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

#### *Financial assets - impairment*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after 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 debtor or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, and there is the probability that they will enter bankruptcy or other financial reorganization. Such evidences also include the observable data which indicate that there is a measurable decrease in the estimated future cash flows of a financial instrument, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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 are reflected on the provision account against receivables.

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

#### ***Financial liabilities – initial recognition and valuation***

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

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

The Group classifies its financial liabilities at initial recognition.

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

#### *Other financial liabilities*

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

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

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

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

##### ***Financial liabilities - derecognition***

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires.

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

##### ***Offsetting of financial assets and liabilities***

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

##### ***Fair value of financial instruments***

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

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

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

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

##### **Cash and cash equivalents**

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

##### Equity instruments (equity)

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are carried at the amount of proceeds received, less any costs attributable to the issuance.

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

Dividends are recognized as liabilities in the period in which they are declared by the decision of the General Meeting of Participants and are payable in accordance with the legislation. Dividends are disclosed in the financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

##### Property, plant and equipment

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

Significant costs of 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 combined statement of comprehensive income as incurred.

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

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

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

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



## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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

A previously recognized item of property, plant and equipment or any significant part thereof is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing 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 combined statement of comprehensive income.

#### **Intangible assets**

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

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

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

#### ***Amortization of intangible assets***

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

Exclusive rights for software and developments	15 years
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The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

##### Leased assets

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

##### Inventories

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

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

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

##### Impairment of non-financial assets

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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

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

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss should be decreased or no longer recognized. An impairment loss is recovered if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is recovered only to the extent that the carrying amount of assets does not exceed the carrying amount in which they 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 such obligation.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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

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

#### Recognition of revenues from sale of goods

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

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

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

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

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

#### Lease payments

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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

#### Finance income and expenses

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

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

#### Income tax

Income tax expense comprises current and deferred tax.

##### *Current income tax*

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

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

##### *Deferred income tax*

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

Deferred tax liabilities are not recognized in respect of:

- deferred tax liabilities arising from the initial recognition of goodwill, an asset or a 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 reversal of temporary differences can be controlled and it is probable that temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that there is a high probability of deriving taxable profit against which the deductible temporary differences, unused tax credits and unused tax losses can be utilized, except:

- deferred tax asset relating to the deductible temporary difference arising from the initial recognition of an asset or a 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 income 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 assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 2.5. Summary of significant accounting policies (continued)

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

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

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

#### *Unified tax on imputed income*

Certain types of business of the Group companies are subject to the unified tax on imputed income (UTII). The rate of UTII is based on one square meter of trade areas used 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 combined 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 not repaid by the end of the reporting period.

#### **Pre-opening costs**

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 3. Significant accounting judgments, estimates and assumptions

Preparation of the Group's combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and 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 combined financial statements:

##### ***Group members***

The Group comprises all companies associated with shoe business controlled by the ultimate controlling party through direct ownership of controlling interest. The companies follow a common development strategy.

##### ***Operating leases – Group as a lessee***

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

#### 3.2. Estimates and assumptions

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

##### ***Useful lives of property, plant and equipment***

Retail equipment is depreciated over expected useful lives as disclosed in Note 2. If there are plans to fully upgrade stores in the nearest future, expected useful lives are adjusted respectively. In such circumstances, the carrying amount of respective retail equipment is depreciated by the date when the upgrade is complete.



## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 3.2. Estimates and assumptions (continued)

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

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

##### *Net realizable value of inventories*

Management analyzes trading balances to identify options to sell inventories at their carrying amounts or above plus costs of sale. 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 case carrying amount of inventories exceeds its net realizable value, management writes such inventories down to their net realizable value.

In case actual results differ from management estimates concerning selling inventories at least at their carrying amounts, management will have to adjust the carrying amount of inventories.

##### *Tax legislation*

Tax, currency and customs legislation of the Russian Federation are subject to varying interpretations and frequent changes. Tax authorities are able to claim for such transaction or accounting method for which there were no claims before. As of 31 December 2012, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

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

#### 3.2. Estimates and assumptions (continued)

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. In accordance with IAS 39, financial instruments are initially recognized at fair value. Where no active market exists, professional judgments are used to determine whether transactions were made at market rates. Judgments are based on prices in comparable related party transactions and analysis of effective interest rate.

### 4. Standards issued but not yet effective

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

#### ***Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income***

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendment affects presentation only and has no impact on the Group's financial position or performance.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 4. Standards issued but not yet effective (continued)

#### ***IAS 19 Employee Benefits (revised)***

The revised standard was issued in June 2011. It proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). The amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to service costs and finance costs or income. Expected returns on pension assets will be replaced by an income based on the corporate bond yield rate. Amendments to the standard are effective for annual periods beginning on or after 1 January 2013, with early application permitted. The adoption of this standard will have no impact on the Group's financial position or performance as the employee benefits are represented by the short-term benefits only.

#### ***IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)***

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amended standard is effective for annual reporting periods beginning on or after 1 January 2013 and will have no impact on the financial position or performance of the Group as the Group does not have investments in associates.

#### ***Amendment to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities***

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

#### ***Amendment to IAS 32 Financial Instruments: Presentation – Novation of Derivatives and Continuation of Hedge Accounting***

The amendment excludes the requirement for the discontinuation of hedge accounting in case the novation of derivative, acting as a hedging instrument, takes place under certain conditions. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This amendment will have no impact on the financial position or performance of the Group, as the Group does not employ hedge accounting.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

#### 4. Standards issued but not yet effective (continued)

##### ***Amendment to IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets***

The amendment refers to the disclosures with regard to the fair value less costs of disposal. When the amendments to IAS 36 were made as a result of issue of IFRS 13 *Fair Value Measurement*, the IASB's original intention was to require disclosures of the recoverable amount of impaired assets if it was based on fair value less costs of disposal. The unintended consequence of such decision was the fact that the companies had to disclose the recoverable amount for each cash-generating unit with the carrying amount of goodwill or intangible assets with indefinite useful lives, related to this cash-generating unit, was material in relation to comprehensive carrying amount of goodwill or intangible assets with the indefinite useful lives. Such requirement was eliminated by such amendment. The amendment becomes effective for annual periods beginning on or after 1 January 2014. The amendment affects presentation only and has no impact on the Group's financial position or performance.

##### ***Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards - Government Loans***

The amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initial accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment becomes effective for annual periods beginning on or after 1 January 2013. This amendment will have no impact on the Group's financial statements as the Group is not a first-time adopter.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

#### 4. Standards issued but not yet effective (continued)

##### ***Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities***

These amendments require the company to disclose information about rights to set off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of set off arrangements on a company's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master set off arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments become effective for annual periods beginning on or after 1 January 2013. The amendment affects presentation only and has no impact on the Group's financial position or performance.

##### ***IFRS 9 Financial Instruments: Classification and Measurement***

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

##### ***IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements***

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – *Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard will have no impact on the Group's financial position or performance as the Group does not present the consolidated financial statements.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 4. Standards issued but not yet effective (continued)

#### ***IFRS 11 Joint Arrangements***

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard will have no impact on the Group's financial position or performance as the Group does not have any interests in joint ventures.

#### ***IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosure requirements relate to a company's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosure requirements were introduced in relation to such entities. The standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard will have no impact on the Group's financial position or performance as the Group does not present the consolidated financial statements.

#### ***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance for all fair value measurements under IFRS. IFRS 13 does not change the way that a company is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on its financial position and performance, but based on the preliminary analysis, no material impact is expected.

#### ***IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine***

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The application of the interpretation will not affect the financial position or performance of the Group, as the Group does not perform stripping activities.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 4. Standards issued but not yet effective (continued)

#### ***IFRIC 21 Levies***

The interpretation addresses the accounting for liabilities to pay levies within the scope of IAS 37 and the accounting for liabilities to pay levies the timing and amount of which is uncertain. If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is only recognized when that minimum activity threshold is reached. If the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time), the liability to pay a levy is recognized progressively. The interpretation becomes effective for annual periods beginning on or after 1 January 2014. The adoption of this interpretation will have no impact on the financial position or financial performance of the Group.

#### ***Annual improvements to IFRS (May 2012)***

IASB employs the annual *IFRS Improvements* project to make non-urgent, but necessary, amendments to IFRSs. Below is the short summary of the 6 amendments to 5 standards issued by IASB under the annual *IFRS Improvements* project for years 2009-2011.

Amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed. The amendments are applied retrospectively in accordance with the requirements of IAS 8 in relation to changes in the accounting policies.

None of the amendments had any impact on the financial position or performance of the Group.

#### ***IFRS 1 First-time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1***

This improvement clarifies that a company that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has an option to re-apply IFRS 1. If IFRS 1 is not re-applied, the company must retrospectively restate its financial statements as if it had never stopped applying IFRS.

#### ***IFRS 1 First-time Adoption of International Financial Reporting Standards - Borrowing costs***

The amendment clarifies that, upon adoption of IFRS, a company that capitalized borrowing costs in accordance with the previous GAAP, may carry forward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Once a company adopts IFRS, borrowing costs are recognized in accordance with IAS 23 Borrowing Costs, including those incurred on qualifying assets under construction.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 4. Standards issued but not yet effective (continued)

#### *Annual improvements to IFRS (May 2012) (continued)*

##### *IAS 1 Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the information for the previous reporting period.

##### *IAS 16 Property, Plant and Equipment - Classification of Servicing Equipment*

This improvement clarifies that major spare parts and servicing equipment meeting the definition of property, plant and equipment are not inventory.

##### *IAS 32 Financial Instruments: Presentation - Tax effect of distributions to holders of equity instruments*

This improvement clarifies that the income tax arising from distributions to equity holders is accounted for in accordance with IAS 12 *Income Tax*.

##### *IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

### 5. Revenue

Revenue for the years ended 31 December 2012, 2011 and 2010 comprised the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Revenue from retail sale	2,812,312	1,931,319	1,240,146
Revenue from wholesale	522,094	277,028	348,561
Income from micro-financing activities	91,228	1,672	26
<b>Total</b>	<b>3,425,634</b>	<b>2,210,019</b>	<b>1,588,733</b>



## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 6. Selling expenses

Selling expenses for the years ended 31 December 2012, 2011 and 2010 comprised the following:

	2012	2011	2010
Leases	301,674	196,076	107,791
Payroll and payroll taxes	187,009	111,980	58,215
Advertising and marketing	134,222	155,201	133,483
Material costs	44,248	28,110	17,937
Warehouse expenses	22,355	15,978	39,333
Bank fees, cash collection in stores	28,764	23,762	11,678
Depreciation of property, plant and equipment and amortization of intangible assets	20,248	8,693	2,377
Insurance	407	1,317	853
Other	25,632	41,627	17,214
<b>Total</b>	<b>764,559</b>	<b>582,744</b>	<b>388,881</b>

#### 7. Administrative expenses

Administrative expenses for the years ended 31 December 2012, 2011 and 2010 comprised the following:

	2012	2011	2010
Payroll and payroll taxes	45,851	21,805	11,579
Allowance for doubtful receivables	24,509	12,612	637
Leases	17,910	13,786	4,151
Business travel expenses	17,488	14,767	9,132
Communication, post	13,288	8,540	5,221
Allowance for other financial assets	9,295	185	-
Depreciation of property, plant and equipment	8,679	9,303	5,675
Material costs	8,541	22,010	8,710
Utilities	7,802	4,428	2,744
Information, consulting, audit and legal fees	3,606	5,272	11,334
Taxes other than income tax	2,564	1,411	504
Other	12,848	5,268	2,267
<b>Total</b>	<b>172,381</b>	<b>119,387</b>	<b>61,954</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 8. Other operating income and expenses

Other operating income and expenses for the years ended 31 December 2012, 2011 and 2010 comprised the following:

<b>Other income</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Lease of office premises and motor vehicles	702	4,689	2,725
Foreign exchange differences	295	–	–
Penalties received	6,458	1,770	7,554
Gain from disposal of property, plant and equipment	–	1,456	1,557
Gain from disposal of other assets	5	25	49
Writing off accounts payable	28,460	4,635	2,397
Other	6,082	2,295	2,039
<b>Other operating income</b>	<b>42,002</b>	<b>14,870</b>	<b>16,321</b>

<b>Other expense</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Foreign exchange differences	–	7,975	1,052
Penalties paid	25	57	205
Loss on disposal of property, plant and equipment	199	–	–
Production closure costs	–	9,295	–
Agent fees	690	–	–
Writing off advances issued	6,000	–	–
Writing off goods for resale	8,188	3,938	1,088
Other expenses	23,951	18,287	5,598
<b>Other operating expenses</b>	<b>39,053</b>	<b>39,552</b>	<b>7,943</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 9. Finance income and costs

Finance income and expenses for the years ended 31 December 2012, 2011 and 2010 comprised the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Finance income</b>			
Interest on loans issued	42,464	23,695	12,965
Installment fee	34,250	22,826	6,151
<b>Total</b>	<b>76,714</b>	<b>46,521</b>	<b>19,116</b>
<b>Finance expense</b>			
Interest on loans	86,011	71,468	77,682
Interest on bonds	86,800	43,779	–
Loss from discounting of loans issued at the market interest rate	1,648	1,515	4,911
<b>Total</b>	<b>174,459</b>	<b>116,762</b>	<b>82,593</b>

#### 10. Income tax

The main components of the income tax expense for the years ended 31 December 2012, 2011 and 2010 comprised the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current income tax	(26,026)	(19,405)	(12,460)
Deferred income tax	(7,568)	(1,192)	1,011
<b>Total</b>	<b>(33,594)</b>	<b>(20,597)</b>	<b>(11,449)</b>

The taxation charge for the year is different from the amount that would be received when applying the statutory income tax rate to the net profit before tax. Reconciliation between the theoretical income tax calculated at the statutory rate of 20% applicable for 2012, 2011 and 2010, and the actual income tax expense recorded by the Group in the combined statement of comprehensive income is provided below:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Profit before tax	430,396	257,641	110,501
Theoretical income tax at the rate of 20%	(86,079)	(51,528)	(22,100)
Effect of UTII on income tax	50,569	19,927	11,998
Non-taxable income/ (non-deductible expenses)	1,916	11,004	(1,347)
<b>Total</b>	<b>(33,594)</b>	<b>(20,597)</b>	<b>(11,449)</b>

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

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 10. Income tax (continued)

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of 31 December 2012, 2011 and 2010 is as follows:

<i>(in thousands of Russian rubles)</i>	Recognized in the income statement		Recognized in the income statement		Recognized in the income statement	
	2009	2010	2011	2012		
<b>Deferred tax asset</b>						
Property, plant and equipment	877	(49)	828	(91)	737	(8)
Financial assets	620	(52)	568	(568)	-	-
Accounts receivable	2,202	(489)	1,713	346	2,059	(1,439)
Deferred revenue	-	300	300	1,473	1,773	(1,653)
Other	676	1,536	2,212	(2,195)	17	(16)
<b>Total deferred tax asset</b>	<b>4,375</b>	<b>1,246</b>	<b>5,621</b>	<b>(1,035)</b>	<b>4,586</b>	<b>(3,116)</b>
<b>Deferred tax liability</b>						
Financial assets	-	-	-	(214)	(214)	(4,134)
Intangible assets	-	(235)	(235)	235	-	-
Other	-	-	-	(178)	(178)	(318)
<b>Total deferred tax liability</b>	<b>-</b>	<b>(235)</b>	<b>(235)</b>	<b>(157)</b>	<b>(392)</b>	<b>(4,452)</b>
<b>Total net deferred tax asset (liability)</b>	<b>4,375</b>	<b>1,011</b>	<b>5,386</b>	<b>(1,192)</b>	<b>4,194</b>	<b>(3,374)</b>

#### 11. Property, plant and equipment

Property plant and equipment as of 31 December 2012, 2011 and 2010 comprised the following:

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Shop equipment	Other property, plant and equipment	Total
<b>Carrying value at 1 January 2010</b>	-	-	11,097	5,411	3,711	1,885	22,104
<b>Initial cost</b>							
At the beginning of the year	-	-	31,821	7,471	13,313	4,434	57,039
Proceeds	-	-	5,675	2,500	4,193	609	12,977
Disposals	-	-	(12,185)	(2,231)	(1,015)	(446)	(15,877)
<b>At the end of the year</b>	<b>-</b>	<b>-</b>	<b>25,311</b>	<b>7,740</b>	<b>16,491</b>	<b>4,597</b>	<b>54,139</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	-	-	(20,724)	(2,060)	(9,602)	(2,549)	(34,935)
Depreciation charge	-	-	(2,485)	(3,324)	(2,691)	(680)	(9,180)
Depreciation disposal	-	-	1,343	2,231	52	-	3,626
<b>At the end of the year</b>	<b>-</b>	<b>-</b>	<b>(21,866)</b>	<b>(3,153)</b>	<b>(12,241)</b>	<b>(3,229)</b>	<b>(40,489)</b>
<b>Carrying value at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>3,445</b>	<b>4,587</b>	<b>4,250</b>	<b>1,368</b>	<b>13,650</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 11. Property, plant and equipment (continued)

	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Shop equipment	Other property, plant and equipment	Total
<b>Carrying value at 1 January 2011</b>	-	-	3,445	4,587	4,250	1,368	13,650
<b>Initial cost</b>							
At the beginning of the year	-	-	25,311	7,740	16,491	4,597	54,139
Proceeds	8,484	84,785	5,086	5,800	95,239	3,472	202,866
Disposals	-	-	(18,010)	(2,564)	(9,508)	(2,545)	(32,627)
<b>At the end of the year</b>	<b>8,484</b>	<b>84,785</b>	<b>12,387</b>	<b>10,976</b>	<b>102,222</b>	<b>5,524</b>	<b>224,378</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	-	-	(21,866)	(3,153)	(12,241)	(3,229)	(40,489)
Depreciation charge	-	(4,241)	(1,378)	(2,278)	(9,940)	(784)	(18,621)
Depreciation disposal	-	-	14,197	1,339	9,331	2,454	27,321
<b>At the end of the year</b>	<b>-</b>	<b>(4,241)</b>	<b>(9,047)</b>	<b>(4,092)</b>	<b>(12,850)</b>	<b>(1,559)</b>	<b>(31,789)</b>
<b>Carrying value at 31 December 2011</b>	<b>8,484</b>	<b>80,544</b>	<b>3,340</b>	<b>6,884</b>	<b>89,372</b>	<b>3,965</b>	<b>192,589</b>
	Land	Buildings	Machinery and equipment, office equipment	Vehicles	Shop equipment	Other property, plant and equipment	Total
<b>Carrying value at 1 January 2012</b>	8,484	80,544	3,340	6,884	89,372	3,965	192,589
<b>Initial cost</b>							
At the beginning of the year	8,484	84,785	12,387	10,976	102,222	5,524	224,378
Proceeds	-	-	1,354	5,575	58,947	26,292	92,168
Disposals	-	-	(385)	(415)	(3,880)	(1,479)	(6,159)
<b>At the end of the year</b>	<b>8,484</b>	<b>84,785</b>	<b>13,356</b>	<b>16,136</b>	<b>157,289</b>	<b>30,337</b>	<b>310,387</b>
<b>Accumulated depreciation</b>							
At the beginning of the year	-	(4,241)	(9,047)	(4,092)	(12,850)	(1,559)	(31,789)
Depreciation charge	-	(4,566)	(1,235)	(2,334)	(20,735)	(680)	(29,550)
Depreciation disposal	-	-	207	325	3,279	612	4,423
<b>At the end of the year</b>	<b>-</b>	<b>(8,807)</b>	<b>(10,075)</b>	<b>(6,101)</b>	<b>(30,306)</b>	<b>(1,627)</b>	<b>(56,916)</b>
<b>Carrying value at 31 December 2012</b>	<b>8,484</b>	<b>75,978</b>	<b>3,281</b>	<b>10,035</b>	<b>126,983</b>	<b>28,710</b>	<b>253,471</b>

Depreciation of property, plant and equipment is included in the cost of sales, commercial and administrative expenses in the amount of 623, 20,248 and 8,679 thousand of Russian rubles, respectively (2011: 625, 8,693 and 9,303 thousand of Russian rubles; 2010: 1,168, 2,337 and 5,675 thousand of Russian rubles).

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 12. Inventories

Inventories as of 31 December 2012, 2011 and 2010 comprised the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Raw materials (at cost)	27,709	10,907	24,341
Finished goods and goods for resale (at the lower cost and net realizable value)	1,182,138	743,788	675,483
<b>Total</b>	<b>1,209,847</b>	<b>754,695</b>	<b>699,824</b>

Finished goods and goods for resale written down to net realizable value amounted to RUB 5,909 thousand (2011: RUB 7,298 thousand; 2010: 0)

#### 13. Trade and other receivables

Trade and other receivables as of 31 December 2012, 2011 and 2010 comprised the following:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Trade receivables of wholesale customers	34,064	193,664	26,052
Trade receivables of retail customers	452,074	255,409	55,544
Less: provision for doubtful receivables	(37,765)	(13,257)	(645)
Other allowance	34,435	83,877	22,804
Receivables from related parties	15,336	169,240	82,796
<b>Total</b>	<b>498,144</b>	<b>688,933</b>	<b>186,551</b>

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

Trade receivables of retail customers arise when the Group uses installment sales. Installment matures in 5 months. These receivables bear an interest from 0% to 7% of the purchase amount, depending on the current promotions.

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 13. Trade and other receivables (continued)

Movement of allowance for doubtful receivables:

	2012	2011	2010
<b>At 1 January</b>	<b>13,257</b>	<b>645</b>	<b>8</b>
Charge	24,508	12,612	637
Reversal	-	-	-
Utilized	-	-	-
<b>At 31 December</b>	<b>37,765</b>	<b>13,257</b>	<b>645</b>

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

#### 31 December 2012

	Neither past due nor impaired	Past due but not impaired (1 to 30 days)	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	34,064	-	-	-	-
Trade receivables of retail customers	393,176	14,691	3,482	2,960	-
Other receivables	34,435	-	-	-	-
Receivables from related parties	15,336	-	-	-	-
<b>Total</b>	<b>477,011</b>	<b>14,691</b>	<b>3,482</b>	<b>2,960</b>	<b>-</b>

#### 31 December 2011

	Neither past due nor impaired	Past due but not impaired (1 to 30 days)	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	193,664	-	-	-	-
Trade receivables of retail customers	237,678	2,825	1,031	618	-
Other receivables	83,877	-	-	-	-
Receivables from related parties	169,240	-	-	-	-
<b>Total</b>	<b>684,459</b>	<b>2,825</b>	<b>1,031</b>	<b>618</b>	<b>-</b>

#### 31 December 2010

	Neither past due nor impaired	Past due but not impaired (1 to 30 days)	31 to 91 days	92 to 540 days	Over 540 days
Trade receivables of wholesale customers	26,052	-	-	-	-
Trade receivables of retail customers	52,179	1,709	923	88	-
Other receivables	22,804	-	-	-	-
Receivables from related parties	82,796	-	-	-	-
<b>Total</b>	<b>183,831</b>	<b>1,709</b>	<b>923</b>	<b>88</b>	<b>-</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 14. Advances issued

Advances issued include advances issued to related parties in the amount of RUB 133,323 thousand (2011: RUB 2,259 thousand; 2010: 0)

#### 15. Other financial assets

Financial assets as of 31 December 2012, 2011 and 2010 comprised the following:

	2012	2011	2010
<b>Other non-current financial assets</b>			
Loans issued to third parties	–	19,025	3,179
Loans issued to related parties	6,594	182,099	146,925
<b>Total</b>	<b>6,594</b>	<b>201,124</b>	<b>150,104</b>
<b>Other current financial assets</b>			
Loans issued to third parties	53,686	43,058	–
Micro-loans issued to individuals	325,188	5,458	871
Less: Allowance for micro-loans	(9,480)	(185)	–
Borrowings issued to related parties	354,049	19,323	7,525
<b>Total</b>	<b>723,443</b>	<b>67,654</b>	<b>8,396</b>

Loans issued to third parties are denominated in Russian rubles, bear interest rate of 0% to 15% (2011: 12% to 15%; 2010: 0% to 8%) and mature in 6 months to 1 year. Borrowings issued to third parties are not secured.

Micro-loans issued to individuals comprise RUB-denominated unsecured loans of less than RUB 50, maturing not later than 1 year. Such receivables bear interest of 45% to 164.25% p.a. and mainly depend on the maturity period of the borrowing (2011: 14% to 45%; 2010: 14% to 45%).

Movements in provision for other financial assets:

	2012	2011	2010
<b>1 January</b>	<b>185</b>	–	–
Charge	9,480	185	–
Reversal	–	–	–
Utilized	–	–	–
<b>31 December</b>	<b>9,665</b>	<b>185</b>	–



## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 15. Other financial assets (continued)

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

31 December 2012	Neither past due nor impaired	Past due but not impaired (1 to 30 days)	31 - 91 days	92 - 540 days	More than 540 days
Loans issued to third parties	53,686	-	-	-	-
Micro-loans issued to individuals	288,880	3,030	1,475	534	-
Interest receivable on micro-loans	21,789	-	-	-	-
Loans issued to related parties	354,049	-	-	-	-
	718,404	3,030	1,475	534	-

At 31 December 2011 and 2010, the Group had no past due and impaired financial assets.

#### 16. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2012, 2011 and 2010 comprise the following:

	2012	2011	2010
Cash on hand	7,902	4,450	1,537
Cash at banks	83,761	21,232	21,257
Cash deposits at banks	250,000	-	30,000
<b>Total</b>	<b>341,663</b>	<b>25,682</b>	<b>52,794</b>

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

Cash deposits at banks were placed for the period up to three months at the interest rate of 4.5% p.a.

#### 17. Capital

At 31 December 2012, 2011 and 2010 share capital comprised the capitals of the following companies:

Company	2012	2011	2010
LLC Obuv Rossii	8,000	8,000	8,000
LLC Westfalika M	14,161	11,328	11,328
LLC Peshekhod	52,167	41,734	41,734
LLC Obuvrus	10	8	8
LLC MFO	10	10	-
<b>Total</b>	<b>74,348</b>	<b>61,080</b>	<b>61,070</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 17. Capital (continued)

In 2011, Mr. Titov Anton Mikhailovich founded LLC MFO, which is engaged in activities related to the Group's business. Contribution to the charter capital amounted to RUB 10 thousand.

In 2012, Mr. Titov Anton Mikhailovich acquired from LLL Obuv Rossii shares in LLC Peshekhod, LLC Westfalika M and LLC Obuvrus for RUB 10,433 thousand, RUB 2,833 thousand and RUB 2 thousand, respectively.

In 2012, the Group declared and paid dividends in the amount of RUB 12,003 thousand (2011: RUB 11,494 thousand; 2010: 0)

#### 18. Interest-bearing loans and borrowings

Interest bearing loans and borrowings as of 31 December 2012, 2011 and 2010 comprised the following:

<b>Long-term loans and borrowings</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Bank loans	345,591	76,000	393,000
Bonded loan	693,890	697,562	-
<b>Total</b>	<b>1,039,481</b>	<b>773,562</b>	<b>393,000</b>

<b>Short-term loans and borrowings</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Bank loans	509,602	328,324	152,520
Borrowings from organizations	21,557	-	-
Promissory notes	-	-	18,997
Borrowings from related parties (Note 22)	2	2	2
<b>Total</b>	<b>531,161</b>	<b>328,326</b>	<b>171,519</b>

Bank loans are denominated in Russian rubles. They bear interest rate of 10.6% - 12.25% p.a. (2011: 9.3% - 12.25% p.a.; 2010: 9.3% to 11.6%). Long-term bank loans mature in years 2014-2017.

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 18. Interest bearing loans and borrowings (continued)

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

For more details on maturity profile refer to Note 24.

#### Pledges

As of 31 December 2012, property, plant and equipment, as well as goods for resale, used as collateral for the loans received, amounted to RUB 93,108 thousand and RUB 484,199 thousand (2011: RUB 105,000 thousand and RUB 274,320 thousand; 2010: 0 and RUB 511,849 thousand), respectively.

#### 19. Deferred revenue

As of 31 December 2012, 2011 and 2010 deferred revenue is comprised by customer prepayments received for installment fees and gift certificates.

	2012	2011	2010
Prepaid installment fees	610	8,866	1,500
Unused gift certificates	1,104	874	294
<b>Total</b>	<b>1,714</b>	<b>9,740</b>	<b>1,794</b>

#### 20. Trade and other payables

Trade and other payables as of 31 December 2012, 2011 and 2010 comprised the following:

	2012	2011	2010
Trade payables	291,180	95,615	51,000
Payables to employees	17,308	14,789	8,002
Other payables	2,779	5,718	3,104
Payables from related parties	9	9	5
<b>Total</b>	<b>311,276</b>	<b>116,131</b>	<b>62,111</b>

#### 21. Provisions

The Group charges provision for the shoe warranty repairs. At 31 December 2012 the provision amounted to RUB 527 thousand (2011: RUB 235 thousand; 2010: RUB 89 thousand).

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 22. Related party transactions

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

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

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

2012

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

2011

	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Entities under common control	5,981	1,336	7,085	9
Ultimate owner	-	-	166,278	-
Close relatives	-	383	-	-
<b>Total</b>	<b>5,981</b>	<b>1,719</b>	<b>173,363</b>	<b>9</b>

2010

	Sales to related parties	Purchases from related parties	Receivables from related parties	Payables to related parties
Entities under common control	3,545	5	1,571	-
Ultimate owner	-	-	79,606	-
Close relatives	-	12	-	-
<b>Total</b>	<b>3,545</b>	<b>17</b>	<b>81,177</b>	<b>-</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 22. Related party transactions (continued)

##### *Terms and conditions of related party transactions*

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

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

Related parties may enter into transactions which unrelated parties might not. Such transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Balances with related parties outstanding as of the end of the year were unsecured; respective settlements were made in cash. No guarantees were provided or received for any related party receivables or payables. For the years ended 31 December 2012, 2011 and 2010 the Group has not recorded any impairment of receivables relating to amounts owed by related parties. The Group assesses whether there are any indicators of impairment in each financial year by analyzing the financial position of the respective related party and conditions existing on the market where such related party operates.

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

2012

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

2011

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

2010

	Loans issued to related parties	Borrowings from related parties	Interest income	Interest expenses
Companies under common control	147,611	–	10,606	–
Ultimate owner	6,054	–	–	–
Close relatives	785	2	204	–
<b>Total</b>	<b>154,450</b>	<b>2</b>	<b>10,810</b>	<b>–</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 22. Related party transactions (continued)

##### *Terms and conditions of related party transactions (continued)*

Borrowings issued to related parties in 2012 were issued at the interest rate ranging from 12.3% to 13% p.a. (2011: 8% to 13%; 2010: 0% to 13%). When the interest rate was lower than the market interest rate, the Group recognized respective loss on discounting included in finance costs (Note 9). Loans issued to related parties generally mature in October-December 2013.

##### *Compensation to key management personnel of the Group*

As of 31 December 2012, key management personnel comprises of four top-managers of the Group (2011: four; 2010: four). In 2012 compensation paid to the key management personnel amounted to RUB 3,787 thousand (2011: RUB 2,327 thousand, 2010: RUB 2,028 thousand). The amount of compensation included payroll, bonuses and paid vacations.

#### 23. Commitments and contingencies

##### *Operating Lease Commitments - Group as Lessee*

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

The Group's future minimum lease payments under the non-cancellable leases as of 31 December 2012, 2011 and 2010 are as follows:

	<b>2012</b>	<b>2011</b>
Less than 1 year	18,693	32,616
1 to 5 years	3,097	1,568
Over 5 years	344	147
<b>Total</b>	<b>22,134</b>	<b>34,331</b>

##### *Litigations*

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

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 23. Commitments and contingencies (continued)

#### *Contingent tax liabilities*

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

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

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

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

### 24. Financial risk management objectives and policies

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

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

#### *Market risk*

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

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### **24. Financial risk management objectives and policies (continued)**

The Group is not exposed to interest rate risk because the loans issued by the Group bear fixed interest rates. The Group does not have any other financial assets with variable interest rate.

The Group has no significant interest bearing assets so the risk of changes in the fair value is considered to be insignificant.

Generally the Group receives loans and borrowings on a fixed rate basis and that is why does not use any hedging instruments to manage its interest risk. None of the loan agreements contain provisions on interest rate changes throughout the agreement duration. The Group does not have any loans or borrowings with variable interest rate.

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

When the interest rates change the Group generally applies various instruments in order to minimize their adverse effects on the Group's financial performance. Such instruments include refinancing, renewal of existing positions and alternative financing.

#### ***Foreign exchange risk***

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

As of 31 December 2012, 2011 and 2010 the Group did not have any financial assets and liabilities denominated in foreign currencies.

#### ***Credit risk***

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

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



## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 24. Financial risk management objectives and policies (continued)

##### *Credit risk (continued)*

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

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

Management of credit risk of the installment sales assumes determining creditworthiness of retail customers including their financial position, history of relations and other factors.

Risk management under the micro-loans activities includes the assessment of the individual's creditworthiness as well as financial position, history of relations with the Group, contact details and other factors.

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

Other financial assets are represented by loans issued to third parties and related parties and are unsecured. The Group monitors the financial position of its debtors on a continuous basis. As of 31 December 2012, 2011 and 2010 there were no factors that would indicate the necessity of impairment of such assets.

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

	2012	2011	2010
Cash and cash equivalents	341,663	25,682	52,794
Short-term trade and other receivables	498,144	688,933	186,551
Other current financial assets	723,443	67,654	8,396
Long-term trade and other receivables	-	4,949	1,663
Other non-current financial assets	6,594	201,124	150,104
<b>Total</b>	<b>1,569,844</b>	<b>988,342</b>	<b>399,508</b>

#### 24. Financial risk management objectives and policies (continued)

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### ***Liquidity risk***

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

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

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

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

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

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

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

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

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 24. Financial risk management objectives and policies (continued)

##### *Liquidity risk (continued)*

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:

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

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

<b>At 31 December 2010</b>	<b>Carrying value</b>	<b>Contractual payments</b>	<b>Less than 1 year</b>	<b>2 years</b>	<b>3 years and more</b>
Bank loans (Note 18)	545,520	610,340	203,099	407,241	-
Promissory notes (Note 18)	18,997	22,116	22,116	-	-
Trade payables (Note 20)	51,000	50,999	50,999	-	-
Payables to employees (Note 20)	8,002	8,002	8,002	-	-
Other payables (Note 20)	3,104	3,104	3,104	-	-
Payables of related parties (Note 20)	5	5	5	-	-
<b>Total</b>	<b>626,628</b>	<b>694,566</b>	<b>287,325</b>	<b>407,241</b>	<b>-</b>

#### 24. Financial risk management objectives and policies (continued)

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### ***Liquidity risk (continued)***

The management believes that the carrying value of the financial assets and financial liabilities recorded in the Group's combined statement of financial position as of 31 December 2012, 2011 and 2010 approximates their fair value mainly due to the short-term maturities of these instruments.

### ***Capital risk management***

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

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

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

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

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 24. Financial risk management objectives and policies (continued)

##### *Capital risk management (continued)*

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

	2012	2011	2010
Interest-bearing loans and borrowings (Note 18)	1,570,642	1,101,888	564,519
Trade and other payables (Note 20)	311,276	116,131	62,111
Less cash and cash equivalents	(341,663)	(25,682)	(52,794)
<b>Net debt</b>	<b>1,540,255</b>	<b>1,192,337</b>	<b>573,836</b>
Share capital	74,348	61,080	61,070
Retained earnings	1,278,899	894,100	668,550
<b>Total capital</b>	<b>1,353,247</b>	<b>955,180</b>	<b>729,620</b>
<b>Capital and net debt</b>	<b>2,893,502</b>	<b>2,147,517</b>	<b>1,303,456</b>
Gearing ratio	53%	56%	44%

#### 25. Operating segments

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

The tables below show reconciliation of revenue and profit analyzed by the management of the Group with the same items of the combined financial statements for the years ended 31 December 2012, 2011 and 2010, respectively.

	2012	2011	2010
<b>Revenue</b>			
<b>Revenue for the reporting period according to the management reports</b>	<b>3,334,523</b>	<b>2,203,355</b>	<b>1,586,732</b>
<i>Adjustments:</i>			
Adjustment of interest accrued on micro-loans	91,228	1,672	26
Other	(117)	4,992	1,975
<b>Combined</b>	<b>3,425,634</b>	<b>2,210,019</b>	<b>1,588,733</b>

## Translation of the original Russian version

Obuv Rossii Group

Notes to the combined financial statements (continued)

### 25. Operating segments (continued)

<b>Profit for the period</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Comprehensive income according to the management reports</b>	<b>341,587</b>	<b>359,749</b>	<b>97,353</b>
<i>Adjustments:</i>			
Allowance for doubtful receivables	(33,803)	(12,798)	(637)
Adjustment of interest accrued on micro-loans	19,988	119	-
Capitalization of property, plant and equipment valued RUB 40 thousand or less, written off in the management reports	28,108	66,956	-
Revaluation of intangible assets	-	(196,917)	-
Amortization of intangible assets recorded in the management reports at the revalued amount	13,128	-	-
Adjustment of income and expenses recognized in improper period	9,820	22,285	(8,371)
Adjustment for deferred taxes	(7,568)	(1,192)	1,074
Adjustment for deferred revenue	8,256	(7,366)	(1,500)
Amortization of discount on interest-free borrowings	4,646	3,793	107
Other	12,640	2,415	11,026
<b>Combined</b>	<b>396,802</b>	<b>237,044</b>	<b>99,052</b>

The table below shows reconciliation of assets and liabilities of the Group's segment with the same items of the combined financial statements for the years ended 31 December 2012, 2011 and 2010:

<b>Assets</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>According to the management reports</b>	<b>4,139,958</b>	<b>2,353,856</b>	<b>1,419,712</b>
<i>Adjustments:</i>			
Difference in value of intangible assets	(909,223)	(196,917)	-
Allowance for doubtful receivables	(47,245)	(13,442)	(645)
Adjustments to property, plant and equipment	91,369	66,952	(4,008)
Gross presentation of assets and liabilities	10,921	29,798	4,328
Discounting of loans at market rates	(4,034)	(8,680)	(13,903)
The effect of accruals in different periods	10,729	841	(18,905)
Other	14,605	(21,500)	(7,375)
<b>Combined</b>	<b>3,307,080</b>	<b>2,210,908</b>	<b>1,379,204</b>

## Translation of the original Russian version

### Obuv Rossii Group

#### Notes to the combined financial statements (continued)

#### 25. Operating segments (continued)

Liabilities	2012	2011	2010
<b>According to the management reports</b>	<b>1,923,797</b>	<b>1,255,728</b>	<b>641,600</b>
<i>Adjustments:</i>			
Gross presentation of assets and liabilities	45,624	29,798	4,328
Other	(15,588)	12,766	3,656
<b>Combined</b>	<b>1,953,833</b>	<b>1,255,728</b>	<b>649,584</b>

#### 26. Events after the reporting date

On 15 April 2013, based on the results of its operation in 2012, the Group declared dividends of RUB 19,799 thousand.

On 16 July 2013 the management decided to reorganize the Group. On 12 August 2013, JSC OR Holding Company was established for these purposes. Shares in the Group companies were contributed to its share capital. Anton Mikhailovich Titov owns 96,4% of shares in JSC OR.

In 2013, the Russian Government issued Instruction for granting state guarantees of the Russian Federation on loans raised to implement investment projects in the North Caucasian Federal District. Projects covered by such guarantees among others include new shoe factory of Obuv Rossii in Tcherkessk (Karachai-Circassian Republic). The Group company (LLC Obuv Rossii) will act as an investor of this project. Investment in the factory construction is expected to be RUB 1,400,000, whereas RUB 980,000 of them will be raised through loan issued by OJSC JSCB International Financial Club (covered by state guarantee of RUB 686,000), the Group will raise remaining RUB 420,000 from its own funds.

After the reporting date, the Group reached certain agreements with commercial banks to raise long-term loans totaling RUB 650,000 and long-term credit facilities totaling RUB 900,000.