

THE LEADING RUSSIAN
FOOTWEAR RETAILER
in the mid-price sector



2014



 **WESTFALIKA**

PESHEKHOD
FABRIKA OBUVI

EMILIA ESTRA



THE LEADING RUSSIAN
FOOTWEAR RETAILER
in the mid-price sector

Novosibirsk, April 2014

The Obuv Rossii Group of Companies is a member of the following business and industry associations:



THE ASSOCIATION OF RETAIL COMPANIES (AKORT)

is the largest industry association of participants in the Russian retail market and was established in 2001. Today the largest retail companies, such as ADAMAS, Azbuka Vkusa, AUCHAN, DIXY, Enter, Euroset, Lenta and others are all members of AKORT.

THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS —

an all-Russian organization promoting the interests of business both in Russia and at an international level. It unites thousands of the largest Russian companies representing industrial, scientific, financial and commercial organizations in all regions of Russia.



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DIRECTOR'S MESSAGE



Ladies and Gentlemen!

The Obuv Rossii Group of Companies is a Federal shoe company and one of the biggest shoe retailers in Russia.

We are developing over 300 stores in more than 90 cities all over the country - from Moscow and St. Petersburg to Kamchatka and Sakhalin. 2013 was a very fruitful year for us - we became a leader in the mid-price sector of the shoe market, opened 90 stores - the highest figure over the whole period of the Company's operation and showed a considerable growth in net profit and profit margins. In 2013 the turnover of the Company was 4.97 bln rubles, an increase of 49% on the 2012 turnover. The net profit increased by 48% to 506 mln rubles with EBITDA profitability at 18.4%. Sales growth in Like-for-like stores was 18%.

This as a result of our intelligent marketing strategy which means that we invest in the development of brands, improvement of stock variety and the introduction of new services for customers, and also because of the unique situation in the shoe market. The Russian shoe market is one of the most rapidly developing markets in the world and the third largest consumer market in the country in terms of value. According to data produced by the Discovery Research Group, its volume in 2013 accounts to 31,5 bln dollars (in physical term — more than 500 mln pairs).

Unlike more developed retail markets, such as the cellular phone and food-retail markets, consolidation in the shoe market has only just begun. The mid-price sector has the greatest prospects from the



point of view of shoe retail development. According to estimations from the Discovery Research Group, the mid-price sector's volume in 2013 was 12,29 bln dollars, making it 39% of the total shoe market and it will continue to grow. The strategic goal of Obuv Rossii is to strengthen its leading position in the mid-price sector and to achieve at least a 4% share in monetary terms to become one of the three biggest players in the shoe market.

« Russian the shoe market is the third largest consumer market in the country in terms of value. The most promising sector for shoe retail development is the mid-price sector. The strategic aim of Obuv Rossii is to take at least 4 % of the mid-price sector in value terms and to become one of the top three retailers in the overall shoe market».

Developing several brands, we want our stores to offer Products for different groups of consumers and at the same time follow a fundamental principle — excellent quality goods and high levels of customer service. Because we have our own production and well-established relations with suppliers of both component parts and ready-made shoes and related products in

Russia and abroad, makes it's possible to offer a wide range of women's, men's and children's shoes and accessories and every season we launch new collections corresponding with the latest fashion trends.

The strategic aim of Obuv Rossii is to strengthen its leadership position in the mid-price sector, to achieve a share of at least 4 % of the market in value terms and to become one of the top three players in the whole shoe market.

Following a strategy of innovation and using the many opportunities that the growing shoe market offers, Obuv Rossii is becoming a pioneer of new technologies and marketing strategies. We have improved stock variety, engaged foreign designers, developed unique shoe collections, raised the level of service, introduced new groups of goods, launched large-scale promotion campaigns with the participation of celebrities and developed unique services.

These activities have allowed us to develop a wide and loyal customer base and obtain popularity and fame for our brands.

*Sincerely yours, Anton Titov,
Director of Obuv Rossii Group of Companies.*



COMPANY

- Brief Facts
- Results of 2013
- Plans for 2014
- Main Business Directions
- Geography of Sales
- Management Team
- Company History
- Main Corporate Events of 2013



COMPANY

Brief Facts

Over

300

Obuv Rossii stores

Over

90

cities have company stores

40

%

Yearly growth in turnover

18,4

%

EBITDA profitability in 2013

18,1

%

forecast for 2013

More than

2,5

thousands

employees worldwide in the company

A leading Russian shoes retailer in the mid-price sector, one of the top five shoe retailers in Russia.

Producing 3 brands in cities all over Russia from Moscow and St Petersburg to Kamchanka and Sakhalin.

A dynamically growing retail company with an ambitious development strategy.

A highly profitable company that uses innovative methods to increase its operating efficiency.

Number one in terms of profitability amongst shoe retail chains in the list of Should this be list of Retailers Index 500*

A professional and experienced shoe retailer

* The Retailer Index 500 is a list of 500 retail companies in Russia made by Retailer Publishing House in 2013. The list was created using 5 criteria for companies —market attractiveness, debt burden level, coefficient of return on invested capital (ROIC), return on sales, net retail turnover dynamics. The companies were evaluated in three categories: turnover from 10 billion rubles, from 10 to 30 billion rubles, more than 30 billion rubles. Company data for 2010-2012 was taken for analysis.



The Obuv Rossii Group of Companies is a federal shoe retail company founded in 2003 with its head office in Novosibirsk



The Obuv Rossii Group of Companies won the 2010 Company of the Year prize in the nomination for Contribution to the Development of the Retail Market. The prize was awarded by the RBK group of companies.

In October 2013 the Expert RA rating agency raised the credit rating of Obuv Rossii Group of Companies to A+, the highest level of credit rating.



2013 Record*

EBITDA Profitability was **18,4%**.
The growth of sales on comparable stores (the like-for-like indicator) was **18%**, which is several times higher than the growth of the whole shoe market in Russia (the 2012 2013 indicator was **2,6 %**).**

Sales of related products were **2,7 times higher** — **865 mln rubles** making their share of the company turnover **17%**.

Instalment sales were **2,2 billion rubles**, the an increase of **47%** on sales in 2012.

* Hereinafter the financial results are represented in accordance with RAS

** As reported by DISCOVERY Research Group, March 2014



COMPANY Results 2013



Turnover in 2013 was **4,97 billion rubles**, a **49%** improvement on 2012s figures.



Net profit showed **48%** growth to **506 mln rubles**



EBITDA grew from 16 to 18,4%.



EBITDA was **912 mln rubles**, an increase of **72%** on 2012

COMPANY

Development of the chain in 2014



1. Amur Region;

2. Arkhangelsk Region;

3. Republic of Buryatia;

4. Irkutsk Region;

5. Kamchatka Krai;

6. Republic of Karelia;

7. Kemerovo Region;

8. Krasnoyarsk Krai;

9. Murmansk Region;

10. Nizhni Novgorod Region;

11. Novosibirsk Region;

12. Perm Krai;

13. Sverdlovsk Region;

14. Tomsk Region;

15. Khanty-Mansi Autonomous Okrug;
16. Chelyabinsk Region;

17. Chita Region;

18. Khabarovsk Krai;

19. Primorski Krai;

20. Kursk Region;

21. Republic of Bashkortostan

22. Republic of Tatarstan ;

23. Volgograd Region;

24. Vologda Region;

25. Samara Region;

26. Ulyanovsk Region;

27. Sakhalin Region;

28. Republic of Sahka (Yakutia)

29. Yaroslavl Region.

COMPANY

Plan for 2014



Obuv Rossii will expand to new regions in the central part of Russia, Eastern Siberia and the Far East such as: Volgograd, Vologda, Samara, Ulyanovsk, Sakhalin Regions and the Republic of Sakha (Yakutia). The Group intends to strengthen its positions in those regions which it entered in 2013, and to launch stores in the satellites of the large regional cities. These are the regions where Obuv Rossii is planning

considerable growth — Khabarovsk and Primorski Krai, Kursk Region and the Republics of Bashkortostan and Tatarstan. Obuv Rossii is going to open 120 stores in 2014, the investments in the chain development will exceed 1,5 bln rubles which is 50% higher than in 2013. The Obuv Rossii retail chain will have 400 stores by the end of 2014.

FORECAST FOR 2014

Turnover, mln rubles	7 300
EBITDA, mln rubles	1 320
Net profit, mln rubles	730
Net profit MARGIN	10%
EBITDA profitability	18,08%



COMPANY

Main Business Areas

OBUV ROSSII IS DEVELOPING SEVERAL BUSINESS AREAS:



RETAIL TRADE IN SHOES, ACCESSORIES AND RELATED PRODUCTS

The Obuv Rossii Group of Companies includes four retail brands in its portfolio:

- **Westfalika** — is the main retail chain of the monobrand stores in the mid-price sector;
- **Peshekhod** is the multibrand shoe supermarket chain playing the role of stock centers for Westfalika;
- **Emilia Estr** — is the brand selling bags and accessories in the economy sector and the same-name chain of specialized stores;
- **All.go** — is the casual brand, summer, beach and garden as well as sports shoes; it developed as a shop-within a shop format in Westfalika and Peshekhod stores.

In 2010 the company began producing related products under its own brand names. The 2013 results show that the share of non- shoe goods in the turnover of the company was 17 %, and this should increase 20 % in 2014.

WHOLESALE AND FRANCHISING

The company sells a wide range of shoes and related products to wholesale customers all over Russia — from Krasnodar Krai to Kamchatka and Sakhalin. In 2008 the company introduced a chain of partner stores under the Westfalika brand, which now includes 9 outlets.

COMPANY

Main Business Areas



CREDIT AND MICROFINANCE

In 2009 the company introduced instalment payments on the basis of its own automated system of customer credit scoring and support. In 2013 credit sales were 45 % of the turnover of the company. In summer 2012 the company started to give microloans to customers who had already bought shoes on an instalment plan and successfully fulfilled their obligations. In 2013 the interest income from this microloan project was 11,5% of the gross income.



PRODUCTION OF SHOES AND COMPONENT PARTS

The factory producing shoes and component parts in Novosibirsk is equipped with German and Italian state-of-the-art equipment. The production capacity for the factory is 350 thousand pairs of shoes per year. In addition to shoes, the factory produces several types of heels of ABS plastic, TEP soles and, insoles made of Italian cardboard.



INNOVATIVE ACTIVITY

In 2013 within the Obuv Rossii Group, Modified Polymers, a research and development centre was founded. The main goal of the centre is the development of innovative materials to improve the features of shoes (polymers, membrane materials) for the consumer.



COMPANY

Sales Geography



COMPANY

Management Team



Anton Titov,
Director of Obuv Rossii

Anton Titov was born in 1980. He started his career in the Westfalika shoe company: from 1997 he was engaged in foreign economic activity, and in 2001 became director of a sheepskin fur plant, which was a part of the Westfalika Group of Companies. In 2003 he became founder and director of the Obuv Rossii Group of Companies. Over the last 10 years, Obuv Rossii, which started as a small regional retail chain of 6 stores, has grown into a federal company which has developed several business areas. Obuv Rossii is one of the leading retailers in the Russian footwear market. Nowadays the Company manages more than 300 stores in more than 85 cities in Russia. Anton Titov won Entrepreneur of the Year in 2008, which was organized by Ernst & Young and he was nominated for Young Entrepreneur. He made the list of the top 10 most successful young owners and managers according to the journal of Finance (March 2009). The journal Delovoi Kvartal (Business Quarter) included him in the top ten most effective businessmen in the region (August 2010). In 2011 he also won the Russian "contest" The Best Young Entrepreneur and in 2013 he was the winner of the Man of the Year award in the Retail section. (the award was organized by Delovoy Kvartal Magazine).



Elena Ageyeva,
Financial Director of Obuv Rossii Group

Elena Ageyeva was born in 1977. In 1997 she graduated from the faculty of Economics at Novosibirsk State University (NSU) in the field of Mathematical methods in economics. She completed a master's program at the faculty of economics of NSU. She has experience in banking in the sphere of crediting legal entities, and also as a financial director in a number of Novosibirsk enterprises. She has worked for the Obuv Rossii Group of Companies since 2002. In 2006 she became Financial Director of Obuv Rossii GC. She is also a member of the Board of Directors of Obuv Rossii GC. Elena has a Higher Education Management Diploma from the MBA Strategy program at the Open University in the UK.



Yulia Donina,
Commercial Director

Yulia Donina was born in 1975. In 1998 she graduated from the Novosibirsk branch of the Moscow State Academy for the Consumer Goods Industry with a distinction. Right after graduation she joined Westfalika, where she started as a wholesale manager and is now the Commercial Director of Westfalika Group of Companies. In 2003 when Obuv Rossii was founded, she became Commercial Director of the Group. She is a member of the Board of Directors of Obuv Rossii GC. She completed an MBA course in the Novosibirsk Business School at the Open University (UK) LINK). The modules completed were "Manager and Personnel", "Manager and Company", "Finance and Information", "Marketing and Quality Management" education, training and master classes in marketing, merchandising and retail chain management.



Dmitry Karpenko,
IT Director of Obuv Rossii Group

Dmitry Karpenko was born in 1972. He has three higher education qualifications: he graduated from the faculty of information science and computers at Novosibirsk State Technical University, and also graduated from the business faculty at the same university; he also has a professional international diploma in the MBA program of Novosibirsk Business School at the Open University in the UK (LINK). Dmitry has worked in large companies, who were industry leaders. He is experienced in all management processes and the functioning of information structures in large territorially distributed companies, ranging from daily routine issues to developing a strategy for development of information technologies and introduction of turnkey integrated IT solutions. Dmitry joined Obuv Rossii Group of Companies in 2003.

COMPANY

Management Team



Svetlana Belova,
HR Director of Obuv Rossii Group

Svetlana Belova was born in 1973. In 1998 she graduated from Barnaul State Pedagogical University in the field of "Teacher of Pedagogics and Psychology". In 1998-1999 she completed a course in advanced professional training at the Faculty of Advanced Professional Training and Retraining of Educators in "Management and Psychology of Education". In 2011 she completed studies at the Novosibirsk Business School of the Open University of the UK (LINK) on the MBA course covering "Company and Personnel Management" and "Marketing and Finance Management". She's also got a business coach certificate. She is highly experienced in participating and organizing field-oriented training, business workshops and master classes. She has more than 11 years experience in HR management of large federal companies. In September 2008 she became HR Director of Obuv Rossii GC.



Natalia Zherebtsova,
Deputy Director for legal issues of Obuv Rossii Group

Natalia Zherebtsova was born in 1978. In 2000 she graduated from the Novosibirsk branch of the Moscow Academy for the Humanities in the field of jurisprudence. She has an international certificate recognising her legal education in 22 countries. She has worked at enterprises of strategic importance, in the large corporations including international ones. She has been a member of various boards of directors, was trained in management and has certificates of additional education namely, "Successful Manager", "Skills of Effective Delegation", "System of Balanced Indicators", "Tax Inspections and Disputes". She is highly experienced in supporting the activity of enterprises, corporate governance, litigation, conducting affairs of different degrees of complexity, approving and executing documents for real estate, as well as organization and control of legal work. In all she has more than 15 years of legal experience.



Natalya Pauli,
Deputy Director for Public Relations
of Obuv Rossii Group

Natalya Pauli was born in 1980. In 2002 she graduated from the faculty of journalism at Novosibirsk State University with a Masters degree in the field of Social Philosophy. She was also educated at the Center of European Education at Novosibirsk State University. She was trained in the Netherlands, Germany and the USA in the field of Mass Communication and PR. From 2004 to 2008 she worked in the PR agency Positive Relations as Deputy Director for Development, managing regional projects for companies such as Amway, Euroset, Bayer Schering Pharma and others. She was organizer of the regional PR conference from 2004 to 2007. In February 2008 Natalya became Head of the PR division of Obuv Rossii GC, and from 2011 she was Deputy Director for Public Relations. Natalya speaks English and German. She is the author of articles on marketing and PR for business and specialized publications. In 2010 she completed Effective Manager course at Novosibirsk Business School (the Open University in the UK).

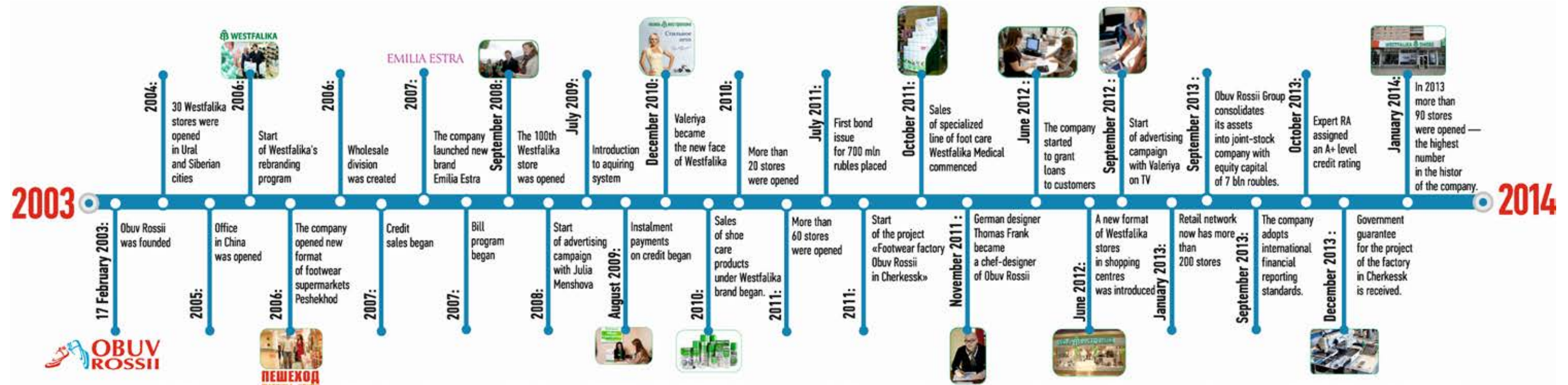


Thomas Frank,
Chief Designer of Obuv Rossii Group

Thomas Frank graduated from the Higher Professional School of Shoe Designers in the city of Pirmasens (Germany). Thomas has been a shoe designer for more than 20 years. He worked at the factories of well-known shoe brands such as Peter Kaiser, Ara and Dockers where he developed existing brands and created new design concepts. He has his own design studio in Pirmasens, the centre of the German shoe industry. There he creates his collections and produces new shoe models for each season. In November 2011 Thomas became Chief Designer at Obuv Rossii GC. He creates and perfects Westfalika collections, as well as produces the brand.

COMPANY

Company History



Obuv Rossii GC has been in the market for more than years

COMPANY

Main Corporate Events in 2013

In April Obuv Rossii announced that it entered the microfinance market. Management of the project is fully automated: a system integrated with the software of 1C Enterprise was created.

In September Obuv Rossii GC announced its switch to IFRS (the EY international company as Group's auditor), consolidation of assets and creation of an OR Open Joint Stock Company with authorized capital of 7 billion rubles.

In September the number of stores in the Obuv Rossii retail chain exceeded 250. In the summer of 2013 Obuv Rossii opened a record number of stores (more than 50). The most productive month was August, when the Group opened one store every day.

In December the Finance Ministry of Russia signed the contract for the government guarantee for the realization of the launch of the Obuv Rossii Factory in Cherkessk, Republic of Karachaevo-Cherkessiya.





MARKET AND STRATEGY

- Russian Shoe Market
- Company Strategy
- Investment Program
- Sources of Finance



MARKET AND STRATEGY

Russian Shoe Market

The Russian shoe market is the third largest consumer market in Russia according to volume after food products and the clothes market.

According to the DISCOVERY Research Group, the volume of the Russian shoe market in 2013 was 31.5 bln dollars, and the growth as compared to 2012 — 2.6%. The market volume in natural units is 550 mln pairs of shoes.

The huge potential of the market is connected with low levels of shoe consumption in Russia and the prospects for its growth determined by the growing income of the population and a changing consumption culture, where footwear no longer has just a utilitarian character, but becomes an instrument of self-expression as well. In 2013, the average shoe consumption per capita was 3-3.5 pairs per person. Where as the consumption in the USA is 6-8 pairs of shoes per year and in Europe – 4-6 pairs per year.



* Report "Shoe Market in Russia" from the DISCOVERY Research Group, March of 2014. Hereinafter, where the reference is to DISCOVERY Research Group data, it means this report on the shoe market.

Long-Term Factors Influencing the Development of the Russian Shoe Market:

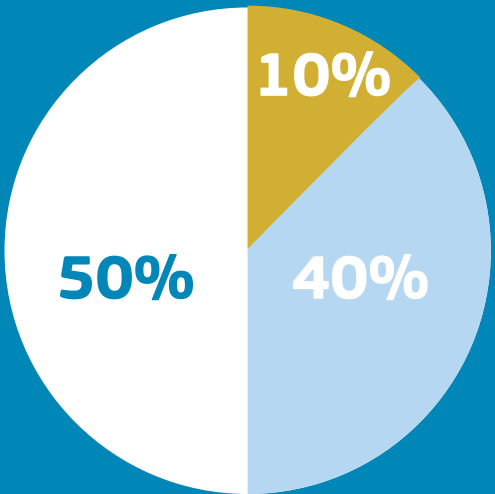
according to the Ministry of Economic Development of the Russian Federation**, household income grew 10.8% in 2013 compared with 2012) and as a result, people prefer products of higher quality;

changes in the consumption culture; have resulted in the growing popularity of brand stores and the decreasing share of merchandize markets (in 2007 it was 49%, in 2013 - 40%) and the development of a market of quality retail property (in 2013, 1.65 mln sq. m. of new shopping space was commissioned).

** Monitoring "On the Results of Social and Economic Development of the Russian Federation in 2013", 7 February 2014, , www.economy.gov.ru

THE ENORMOUS POTENTIAL OF THE MARKET IS CONNECTED WITH A LOW LEVEL OF SHOE CONSUMPTION IN RUSSIA AND STRONG PROSPECTS FOR ITS GROWTH.

Market consolidation is limited at present. According to estimations by the DISCOVERY Research Group, the top 25 biggest shoe chains in Russia control 10% of the shoe market.



Separate shops, small chains, internet-trade

Merchandize markets

Top-25 shoe chains

Market structure according to the consolidation level, % of the sales volume.

Source: DISCOVERY Research Group

Top 10 shoe chains according to the number of shops in Russia as of March 2014.

Nº	Chain name	Number of shops
1 (1*)	Centro / Tsentrobu	1050
2 (3)	Kari	456
3 (2)	Unichel	411
4 (5)	Obuv Rossii	291
5 (4)	Belwest	276
6 (9)	Chester	231
7 (6)	Respect	231
8 (8)	Monro	214
9 (7)	Francesco Donni	180
10 (10)	Carlo Pazolini	177

Source: DISCOVERY Research Group according to data provided by the company.

* Companies rated according to data from September 2013.

MARKET AND STRATEGY

Russian Shoe Market

The first three positions in the top 10 rating are still occupied by economy sector chains. But the following significant changes took place in ratings compared with indices from September of 2013. The Kari chain grew substantially (by 100 shops) and moved to second place after Tsentrobuv. Obuv Rossii improved its positions, having opened more than 90 shops in 2013. It's now rated 4th. The Chester Company also expanded its chain, having moved up three places in the rating.

Over the past few years, the share of unorganized retail has been decreasing; the number of small shoe chains is going down, whilst leading Russian shoe retail brands are growing their businesses significantly. The market will be aggressively consolidated in the next few years, as was the food and mobile communication retail markets. Companies like Obuv Rossii with lean business processes for entry into new cities and with knowledge of how to develop various brands and formats, stand a good chance of growing at rates that are considerably higher than average in the sector and significantly increasing their share of the market.

According to expert opinions, competition is getting stronger in the shoe market, which consists of the following:

- global and federal chains, who are ousting weak and small local players from the market (it is especially noticeable in small regional cities);
- big chains plan to emphasize not only the quantitative, but also qualitative growth (development of brands, unique services, providing better services);
- there are some cases of M&A transactions, at local level; in 2-3 years these tendencies will intensify; it is possible that big regional players may be swallowed up.

The market is becoming more and more attractive for investors. Investment funds and professionals who have managed or owned companies in the food and household appliances sector, both of which are highly consolidated, unlike the shoe market, are now likely to invest in shoe retailers and there is already some evidence to suggest this is happening. This reinforces the suggestion that the shoe market has very good prospects in the future.

Since 2008, there has been a gradual decrease in the market share of the high price sector, whilst the shares of the mid-price and low price sector have been increasing (by 4 and 3% respectively). In 2013, only the share of the mid-price sector grew – by 1%, the share of the low price sector remained at the previous level. The low price sector amounts to 52% of the market, a significant share belongs to the mid-price sector — 39%, the high price sector occupies only 9% of the market.

Top 5 shoe retail companies in Russia according to the margin on sales in the list of Retailers Index 500 produced by Publishing House Retailer, June 2013.

Company	Average annual EBITDA profitability
Obuv Rossii	15%
ECCO	14%
Mascotte	7%
Fabrika Obuvi	7%
Unichel	6%

MARKET AND STRATEGY

Russian Shoe Market

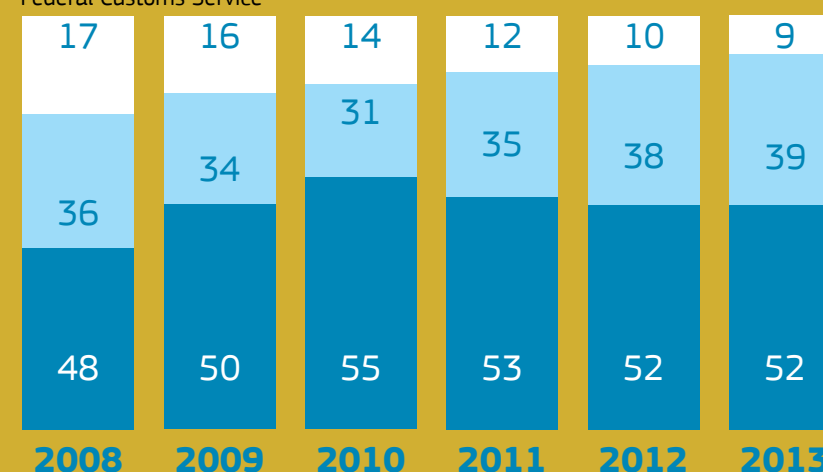
Based on analytical reviews of the shoe market and data from expert polls available to the public, three main price sectors can be identified in the shoe market:

Segmentation of the Russia shoe market according to price, per thousand rubles.

Price sectors	Boundaries, thousand rub. per pair
Low price	Up to 3 thousand rub. (100\$)
Mid-price	3-7.5 thousand rub. (100-250\$)
High price	More than 7.5 thousand rub. (250\$)

Market behaviour, according to price, in 2008-2013, % of the market expressed in monetary terms.

Source: Calculations by the DISCOVERY Research Group according to data from RF Federal Customs Service



High price Mid-price Low price



Price sector volume in the shoe market expressed in monetary terms in Russia in 2008-2013, \$ bln

	High price	Mid-price	Low price
2013	16,38	12,29	2,84
2012	15,96	11,67	3,07
2011	14,52	9,59	3,29
2010	11,88	6,70	3,02
2009	8,25	5,61	2,64
2008	8,88	6,66	3,15

Source: Calculations by the DISCOVERY Research Group according to data from RF Federal Customs Service

According to expert opinions, the mid-price sector has the best prospects in the shoe market. According to data produced by the DISCOVERY Research Group, its share in 2013 was 39%, in monetary value it was 12.29 bln dollars. The mid-price sector is represented by mainly Federal shoe retail chains.

MARKET AND STRATEGY

Russian Shoe Market



Growth rates for the mid-price sector are two times higher than growth rates in the rest of the shoe market. If the total market in 2013 increased by 2.6%, the mid-price sector would increase by 5.3%. Higher growth rates in the mid-price sector are explained by the growing wealth of the population and by changing customer preferences in favour of more expensive branded footwear.

Mid-price sector volume in 2008-2013, \$ bln, mln pairs

	2008	2009	2010	2011	2012	2013	2013 to 2012, %
Market share	0,36	0,34	0,31	0,35	0,38	0,39	
Volume, \$ bln.	6,66	5,61	6,70	9,59	11,67	12,29	5,3%

Source: calculations by DISCOVERY Research Group

The promising outlook for the mid-price sector is connected with changes in consumer culture, customers have become more particular about shoe quality, design, level of services in the shop and loyalty to brands is growing.

It is also important to note that the mid-price sector of the market is still not fully consolidated, when compared with other sector (according to the assessment of the Discovery Research Group, just 6% of total sales in the sector fall to the 8 biggest players).

The economy sector has been aggressively developing since 2008 and some big players appeared, as well - the TsentObuv Company which is developing a chain of more than 1000 shops.



There are no global shoe retail chains in the economy sector, only Federal shoe retailers compete with each other in this sector.

As noted by experts, competition is intensified in the economy sector amongst the key players in terms of the number of sales outlets. The top 10 players in this sector command 10% of the sales volume.

In the high price sector the share of total market volume is not large at 9%, but alongside this, the level of competition and consolidation is rather high (according to the Discovery Research Group, 32% falls to the top 10 biggest players in this sector). The biggest of the market players are Carlo Pazolini and Econika. Global retail chains are mainly represented in the upper price sector.

Share commanded by the big players in sales volume in each price sector in 2013, as a percentage:

Sector	Share in each sector
Low price (top 10)	10%
Mid-price (top 8)	6%
High price (top 10)	32%

Note: In the mid-price sector there are accounts not 10, but 8 not 10 players, as other companies have a rather small turnover in relation to the rest of the sector.

The mid-price sector includes some big players — Obuv Rossii, Respect, Tervolina, and Monarch but none of them have a significant share in this sector.

MARKET AND STRATEGY

Russian Shoe Market



The top 5 shoe chains in the key price sector of the shoe market according to the number of shops in Russia as of March 2014.

Low price sector (up to 3,000 rub. per pair)		Mid-price sector (3,000-7,500 rub. per pair)		High price sector (more than 7,500 rub.)	
Chain name	Number of shops	Chain name	Number of shops	Chain name	Number of shops
Centro/ TsentrObuv	1050	Obuv Rossii	291	Carlo Pazolini	177
Kari	456	Chester	231	Econika	164
Unichel	411	Respect	231	No one	79
Belwest	276	Francesco Donni	180	Baldinini	64
Monro	214	Ecco	176	Corso Como	57

Source: DISCOVERY Research Group based on company data.

Top 10 players in the mid-price sector according to retail revenue as of the end of 2013, mln rubles per year

Nº	Company	Total retail revenue
1	Obuv Rossii	3 805,40
2	Ecco	3 444,00
3	Respect	3 426,00
4	Chester	3 001,20
5	Francesco Donni	2 268,00
6	Mascotte	1 987,20
7	Tervolina	1 875,60
8	Paolo Conte	1 108,80

Source: Calculations by the DISCOVERY Research Group based on data obtained in expert polls.

Aggressive consolidation processes in the shoe market will be observed in the next few years starting with the mid-price sector. It is the most attractive, as it is represented by mono-brand shops emphasise unique collections and a wide and loyal customer base.

This shows why Obuv Rossii stands a chance of strengthening its leadership position in the mid-price sector and achieving a significant share in this sector of at least 4% in monetary terms.

The format with the best prospects in the shoe market is the mono-brand store that as yet is under-represented in the retail market. Previously, the multi-brand format was the most popular, selling various footwear for a wide range of customers. But, as the consumer culture changes and the demand for branded products grows, and as own brands have a higher margin, mono-brand shoe chains will play an increasingly bigger role.

Key Tendencies in the Shoe Market

- Footwear consumption will grow, Russia is still far behind developed countries according to this index.
- Consolidation processes will be aggressively developing over the next few years.
- The attractiveness of the shoe market as an investment is growing.
- Competition on the market is intensifying mainly due to the growing number of regions where big shoe chains are presented.
- Currently, the mid-price sector is the most dynamic in terms of development, which is connected with the changes in consumption culture and the growth of the share of the population with an average income level.
- The mono-brand store format has the best prospects.

MARKET AND STRATEGY

Company Strategy

COMPANY STRATEGY

Brands

The Strategic goals of Obuv Rossii GC are as follows:

1

To strengthen leadership positions in the mid-price sector and to take a share of at least 4 % in value terms.

2

To be in the top three Russian shoe companies in terms of store numbers and value of sales.

3

To increase the operational effectiveness of the business and to maintain EBITDA profitability at a level of at least 18 %.

Today the Russian shoe market is weak when it comes to branding. There are no more than two dozen national shoe brands. A multibrand store is the most common store format, which offers a wide variety of shoes for different categories of customers. However, the experience of the more developed European markets shows that the development of monobrand stores, offering an assortment of shoes under one trademark, aimed at a certain target audience with distinct positioning in the market, is a promising concept.

Obuv Rossii's main shoe chain is Westfalika which is a monobrand chain in the mid-price sector, in which shoes with the Westfalika trademark are the main retail products. Peshekhod is a multibrand supermarket, however the share of private labels offered within it is also not small - 60 %. There are plans to increase this share to make Peshekhod a monobrand store. Emilia Estra is a monobrand store for bags and accessories.

Obuv Rossii is also launching its own brands for related products. Today the main areas of related products are Westfalika shoe care products, Emilia Estra bags and accessories and Westfalika Medical foot care products.

Development of proprietary brands makes it possible to invest in the creation and perfection of the product, to implement quality control at all stages of production and to develop and realize promotional campaigns.



MARKET AND STRATEGY

Company Strategy



Multiformat Strategy

Obuv Rossii produces several formats and brands for different customers. This approach gives them the opportunity to cover the mass market in the mid-price sector to the maximum possible extent. The success rate of this strategy is confirmed by the experiences of large international retail chains such as Chinese Belle, which produces 10 proprietary brands and manages over 13,000 stores, its capitalization today is over 16.4 billion dollars, Deichmann with 12 % of the German shoe market, which produces over 10 brands, American Collective Brands, which manages 6 brands and Polish NG2, a leader in the shoe market in Poland with 4 brands of shoe stores.

Currently, Obuv Rossii produces three brands. This number will be increased to 5-6, due to Mergers and Aquisition. The multiformat strategy allows the company to implement these with a multiplicative effect. After buying a shoe retail chain, Obuv Rossii includes the new brand in its brand portfolio and replicates the newly acquired format geographically through the whole operation, i.e. all over Russia.

OBUV ROSSII PRODUCES SEVERAL FORMATS AND BRANDS AIMED AT DIFFERENT CUSTOMER BASES

Chain Growth

Obuv Rossii possesses great growth potential, which is obvious when you look at the potential for growth in the market (the low level of saturation and consolidation) and the performance and capabilities of the company (the ease with which the company can open outlets in new regions). Today there are 900 Westfalika stores in the Russian shoe market. In the future the company plans to be one of the top three market leaders and to strengthen its leadership position in the mid-price sector, to at least 4 % in value terms.

Operation in the Mid-Price Sector

Obuv Rossii operates in the mid-price sector, which is the most promising in terms of development potential over the next 5-7 years. The mid-price sector is ideal for the monobrand store format, which is the key format for Obuv Rossii, allowing the development of their own collections, and investment in perfecting the product to form a wide and loyal customer base.



OBUV ROSSII POSSESSES GREAT GROWTH POTENTIAL, WHICH IS CLEAR FROM THE GROWTH IN THE MARKET ITSELF AND THE PERFORMANCE OF THE COMPANY.



MARKET AND STRATEGY

Company Strategy

Emphasis on Unique Design and Collections

Obuv Rossii operates in the fashion market, a market of non-standard goods, where the key competitive advantage is unique collections and design. A peculiarity of shoe shops is that they not only distribute the goods, but also are responsible for the development of the product and the brand at all stages — from production to sale to the end consumer.

Thomas Frank, a German designer with more the 20 years experience has been Chief Designer at Obuv Rossii since 2011. He has co-operated with such well-known brands as Peter Kaiser, Ara and Dockers. Thomas creates, produces and perfects Westfalika collections, as well as produces the brand.

A GERMAN DESIGNER THOMAS FRANK HAS BEEN THE CHIEF DESIGNER AT OBUV ROSSII SINCE 2011



Unique Services for Customers

In order to expand opportunities for our customers and attract new clients, Obuv Rossii has developed and launched services that are innovative and non-standard for the shoe market. Thus, Obuv Rossii's stores not only sell shoes, but also provide customers with unique services, such as credit sales and loans. The 2013 results show that credit sales amounted to 2.2 billion rubles, 45 % of the turnover of the company. Up to this point more than 400 thousand customers have already paid for their shoes by instalments on credit. The company has been using microloans since 2012 on the basis of sales by instalments. In 2013 the company issued 1.2 bln rubles in money loans, and the income from the interest was 571 mln rubles. This year it is forecast that total of 1.4 billion rubles worth of loans will be issued.

2013 RESULTS SHOW THAT CREDIT SALES WERE 2.2 BILLION RUBLES

UP UNTIL NOW MORE THAN 400 THOUSAND CUSTOMERS HAVE PAID FOR THEIR SHOES BY INSTALMENTS.



MARKET AND STRATEGY

Investment Program

In 2014-2018 The Obuv Rossii group of companies plans to aggressively expand its retail chain. They plan to open on average of 130 shops every year and to increase the chain to over 910 sales outlets by the end of 2018 and the revenue to 31 bln rubles. The program will be financed from own and borrowed funds.

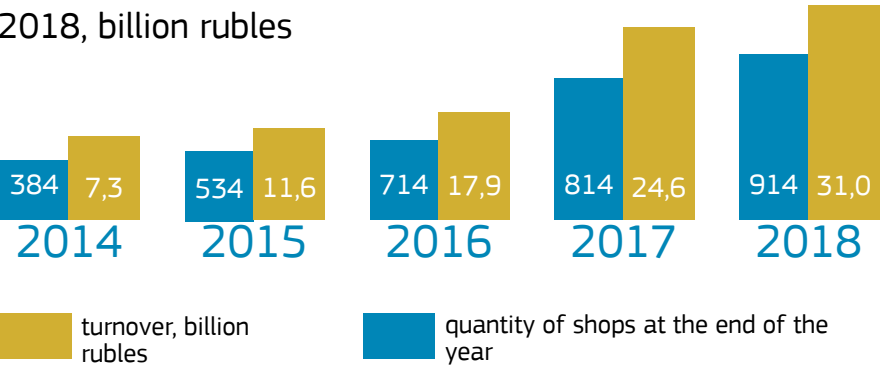
Both bank credits and instruments of the open financial market including corporate bonds will be the source of financing for the investment program in the next five years, Obuv Rossii will primarily expand its chain in the regions, where its retail outlets have not been represented well enough, in particular in the Central Federal District, the Volga Federal District, the Northwest Federal District and the Far East Federal District.

Financial goals for 2014 – 2018:

- to maintain an operating margin (EBITDA profitability) of at least 18%,
- to expand the instruments for the development and financing of the business,
- to increase the volume of unsecured credits,
- to continue its work on the open capital market,
- to decrease the cost of debt financing,
- to increase company capitalization,
- to increase business transparency.



Forecast for turnover and net development in 2014-2018, billion rubles



New regions for chain development, 2014-2018



- | | |
|-----------------------|---------------------------------|
| 1. Belgorod Region | 11. Penza Region |
| 2. Vladimir Region | 12. Pskov Region |
| 3. Volgograd Region | 13. Republic of Tyva |
| 4. Vologda Region | 14. Republic of Sakha (Yakutia) |
| 5. Voronezh Region | 15. Ryazan Region |
| 6. Ivanovo Region | 16. Samara Region. |
| 7. Kaliningrad Region | 17. Saratov Region |
| 8. Kaluga Region | 18. Sakhalin Region. |
| 9. Kostroma Region | 19. Ulyanovsk Region. |
| 10. Orenburg Region | 20. Yaroslavl Region |

MARKET AND STRATEGY

Sources of Finance

Credit

Obuv Rossii actively uses bank credit as the main source of financing. VTB, Alfa Bank, NOMOS Bank, Inteza Bank, MFK Bank, MDM Bank, OTP Bank, Raiffaisenbank, Sberbank, GLOBEX Bank, UBRiR (Ural Bank of reconstruction and Development) are key partners of the company today.

The company uses secured and unsecured (blank) credit, leasing and letters of credit. Obuv Rossii has a reputation as a reliable borrower with a positive credit history, that's why the company has managed to substantially increase its share of mid-term and long-term resources in the credit portfolio and to decrease the average weighted credit rate during the years of cooperation with the banks. Today the share of mid-term resources (1-3 years) in terms of funds attracted by the company from the banks is 80 %, the share of long-term funds is 20 %.



Signing of the agreement with VTB, October 2013

**IN DECEMBER
2012 OBUV ROSSII
SUCCESSFULLY PLACED
A BOND TENDER OFFER,
REDEEMING BONDS
VALUED AT 4.5 MLN
RUBLES, WHICH WAS
0.6% OF THE ISSUE**

Bond Program

Obuv Rossii Group of Companies has successfully operated on the open financial market. On 1 July 2011 Obuvrus LLC (a member of Obuv Rossii GC) successfully completed the placement of the debut bonded loan.

In April 2012 the company's bonds were included in the quotation list B of the MICEX Stock Exchange.

This was confirmation of the high quality of the company's securities, as well as an important indicator of the reliability of Obuv Rossii as an issuer.

In October 2013 the Expert RA rating agency rated the reliability of the bond issue of Obuv Rossii series 01 at level A+ (the very highest level of credit solvency).

Bonded loan parameters

- Bonds of series 1 with nominal value of 1,000 rubles
- Amount value of the bonds is 700 mln rubles.
- Circulation period is 3 years since the placement date.
- Loan placement agent is Raiffaisenbank.
- Trade placement is Moscow Exchange.



BUISINESS AREAS OF OBUV ROSSII GC

- Retail
- Wholesale and Franchising
- Instalment Sales
and Micro-finance
- Shoe Production
- Innovative Activity



BUSINESS AREAS

Retail. Westfalika



Westfalika is the main retail chain in the Obuv Rossii Group of Companies.



Today Westfalika has over 270 stores in over 90 cities in Russia.

In order to promote the trademark and increase the brand awareness of Westfalika, the company has embarked on marketing strategies with Russian celebrities. Since December 2010 the singer Valeriya has been the face of the Westfalika brand and participates not only in advertising campaigns but also in the development and design of new shoe models. In spring 2013 Westfalika together with Valeriya issued a line of fashionable shoes under the trademark «Valeriya» which amounts to 30 % of the Westfalika collection.

Westfalika has monobrand stores working in the mid-price sector.

Westfalika produces shoes of European style, which are elegant beautiful and comfortable. The shoes are only made of genuine leather and natural fur. Every season Westfalika offers collections that correspond with the main fashion trends. Westfalika produces and sells casual urban shoes.

Since November 2011 a German designer Thomas Frank has been the Chief Designer of the Westfalika chain. He has more than 20 years experience working with famous European brands such as Peter Kaiser, Ara and Dockers. Fruitful cooperation with this designer allowed the company to make Westfalika shoes more stylish, elegant and bright.



THE LINE OF EXCLUSIVE SHOES VALERIYA BY WESTFALIKA HAS BEEN DEVELOPED WITH THE SINGER VALERIYA AND MAKES UP 30% OF WESTFALIKA COLLECTIONS.



Westfalika is a format suitable for replication. These are stores with competent positioning and unique stock varieties. They offer non- standard services, such as sales of shoes on credit, i.e. payment by instalment, and gift certificates. These certificates have gained a base of regular customers in many regions within a short period of time.

Westfalika stores are equipped with uniform modular retail equipment that can be easily adapted for any space, which is important in developing a retail chain.

In summer 2012 Obuv Rossii presented a new format for the Westfalika stores adapted for shopping centres. They are different from the street stores as follows: they offer greater stock variety, the collection includes more expensive fashionable shoes, they have different displays of goods and retail equipment and they use modern retail equipment instead of slat walls.

The sales area of the new Westfalika stores in shopping centres is 100-120 sq m. Investment in the opening of one store is 12-13 mln rubles taking into account stock. The new format of Westfalika stores will allow Obuv Rossii to attract a younger and more solvent customer who visits shopping centres. In the subsequent 5-7 years, Obuv Rossii will open these stores throughout the country. The share of turnover from shopping centres is forecast to reach 50 % (It is currently 15-20 %). Obuv Rossii intends to increase the share of turnover from shopping centres to 50 % in the future.

Obuv Rossii intends to increase the share of turnover from shopping centres to 50 % in the future.

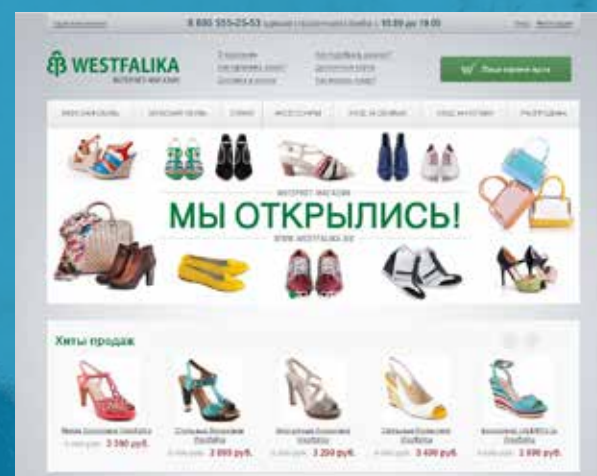
BUSINESS AREAS

Westfalika Online store

In the spring of 2014 Obuv Rossii opened its own online store **westfalika.ru** selling footwear and accessories.

Entering the online market will make it possible for the Westfalika retail network to expand its sales territory and attract younger financially reliable customers, for which online purchasing offers time savings and convenience. In the first year Obuv Rossii plans to achieve 10 thousand orders per month online.

The Westfalika online store has a competitive advantage in that the company has a branch retail network throughout Russia, so the infrastructure for delivery to any region is in place. It will make it possible to reduce the expense of logistics, to offer the customers delivery from sales outlets and, in general, to more efficiently solve the tasks of fluid product delivery.



The stock variety in the Westfalika online store will be greater than offered in traditional stores although prices in the retail outlet and online will be the same. Products will be delivered by courier services and automated parcel terminals. Cash payments will be supplemented by additional payment methods such as bank cards and electronic payment systems. Also, the site can be used to order payments by instalments or microloans with financial services offered by Obuv Rossii's retail networks.

www.westfalika.ru

10 thousands
orders per month
Westfalika plans
to process
in the first year.

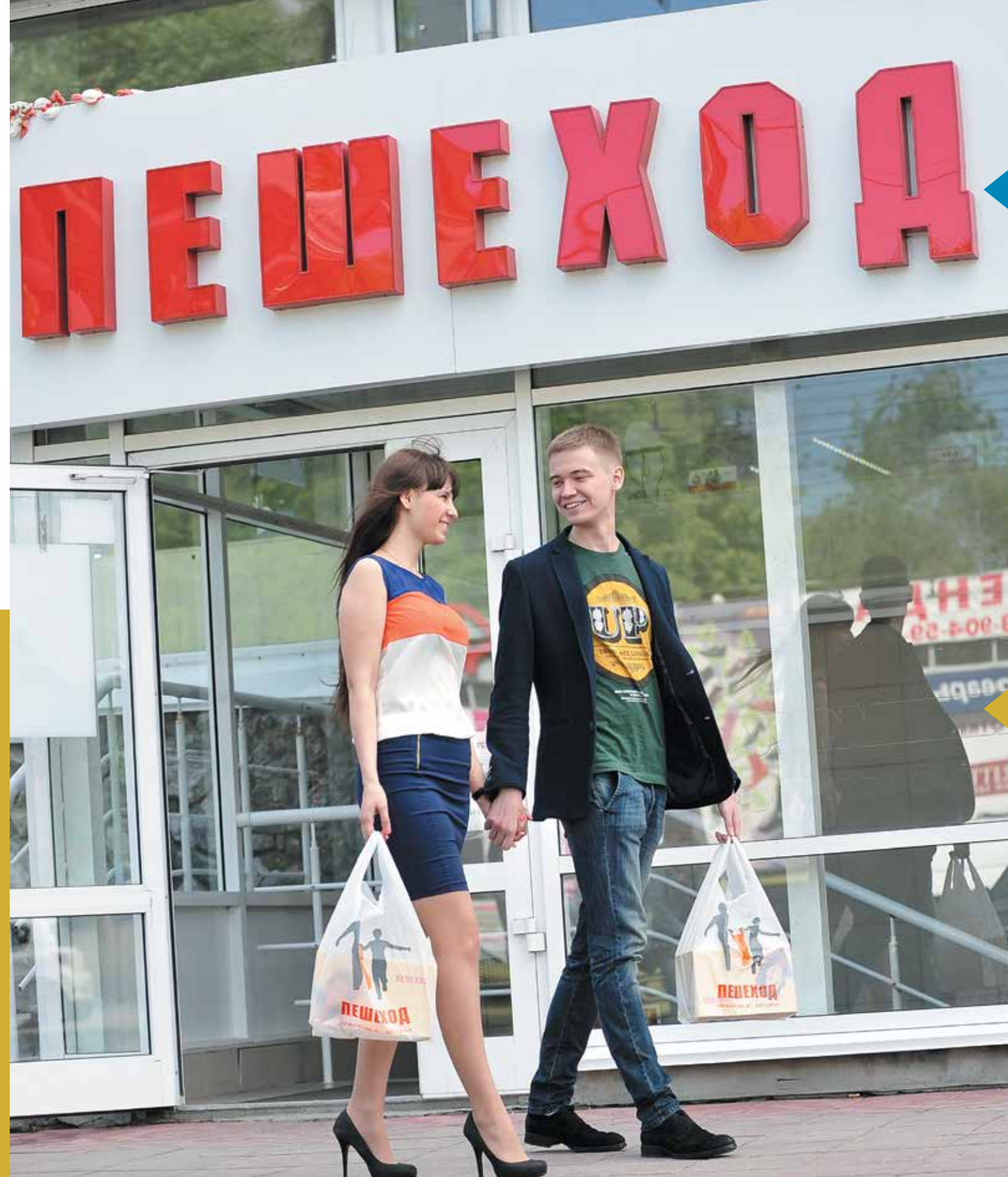
Internet sales took the lead within the fashion sector of the Russian retail market in recent years according to RBK research. In 2013 this sector grew by 42.4%. The regions are growth drivers for this market: almost 40% of the sales came from regional towns with a population of less than 1 mln people.

BUSINESS AREAS

Retail. Peshekhod

The Peshekhod chain appeared on the market in 2006. This is a multibrand chain of shoe supermarkets that offers a wide assortment of shoes for different types of customers. At present there are over 20 stores in the chain and these are mainly in the large cities of Siberia and the Urals.

Peshekhod stores play the role of stock centres, helping to increase the profitability of Westfalika. The area of Peshekhod stores is generally 200-300 sq m, free display of goods is used in the salesroom. This store format is perfect for sales.



PESHEKHOD INCREASES THE EFFECTIVENESS OF THE WESTFALIKA CHAIN, PLAYING THE ROLE OF ITS STOCK CENTRE

Each store offers about 2,000 models of women's, men's and children's shoes for all seasons and a variety of uses. Now 40-50 % of the stock of the Peshekhod chain is made up «what's left» of Westfalika collections from the previous season, and 50 % are shoes produced under the Peshekhod trademark and by other Russian suppliers. The target audience of the new Peshekhod chain is 20-60 year old people, who move actively and at the same time want to look fashionable and colourful. The chain's stock includes not only stylish, fashionable shoes, but also classic models for everyday use.

www.peshekhod.ru

Peshekhod stores offer more than 2000 models of footwear



All.go

All.go is a new casual brand. Collections of All.go consist of designs of summer, beach and garden shoes made of a superlight material, EVA. Pilot sales of shoes under the new brand started in the spring-summer season of 2014. The Company plans to sell 60 thousand pairs of shoes during this year for 30 mln rubles. In the next year the production will be increased almost 7 times — up to 400 thousand pairs, the sales will amount to more than 200 mln rubles. The All.go brand has been developed according to the shop-in-shop system and is sold in stores of Westfalika and Peshekhod networks.

BUSINESS AREAS

Retail. Emilia Estra

Emilia Estra is a young-adult fashion trademark that operates in the economy sector.

Emilia Estra collections include bags and accessories that reflect the main fashion trends of each season. Fashionable colors, combined materials and different shoe accessories are typical features of the Emilia Estra trademark.

In 2012 the company launched a specialized pilot chain selling bags. The main stock of the new stores is bags, accessories and related products under the Emilia Estra trademark.

www.emilia-estra.ru

Footwear under the All.go brand is produced at the manufacturing facilities of Obuv Rossii GC in Novosibirsk. In the future, in addition to summer, beach and garden shoes, the All.go collection will include demi-season and winter sports and walking shoes. These types of shoes are particularly popular with the youth market, which means that development of the new brand will help Obuv Rossii to expand its customer base.



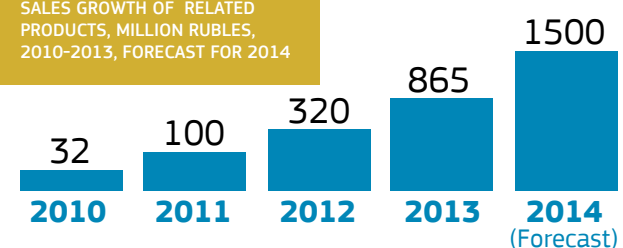
BUSINESS AREAS

Related Products

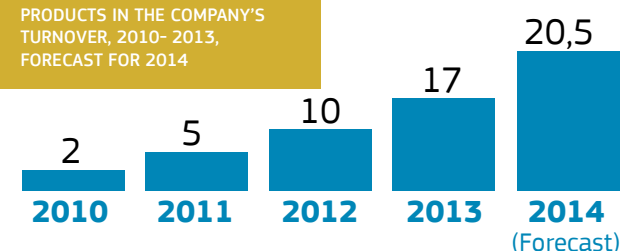
Since 2010 Obuv Rossii has paid special attention to the development of related products and has set up a special subdivision in the structure of the company. Today non-shoe goods in the stores of Obuv Rossii are the following types of products: bags, leather haberdashery, shoe care products, etc., which amounts to more than 1000 SKU.

Obuv Rossii produces all these related products under its own brand names: Westfalika, Westfalika Medical and Emilia Estra. In 2010-2013 the share of sales of related products in Obuv Rossii's turnover doubled annually. In 2013 sales of related products were 865 mln rubles, which is 2,7 times higher than the 2012 indicators. In 2014 sales of related products are forecast to increase by 70% - up to 1,5 bln rubles which will increase the share in turnover from 17% to 20 %.

SALES GROWTH OF RELATED PRODUCTS, MILLION RUBLES, 2010-2013, FORECAST FOR 2014



ACTUAL SALES OF RELATED PRODUCTS IN THE COMPANY'S TURNOVER, 2010- 2013, FORECAST FOR 2014



In 2012, Obuv Rossii began to create specialized zones of related products with an area of 30-40 sq m within the Westfalika stores with a total sales area of at least 120 sq m. These are branded zones equipped with special retail equipment for related goods.

Related goods are a dynamically developing range of goods for shoe stores. Being a high margin product, they provide not only general sales growth, but also a profit increase. The margin on related goods is on average two times higher than the margin for shoes. In addition, sales of non-shoe products under own brands contributes to the growth of customer loyalty and brand awareness.

IN 2010-2013 THE SHARE OF SALES OF RELATED PRODUCTS DOUBLED ANNUALLY

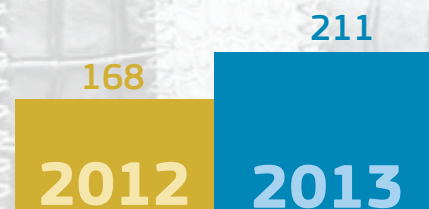
IN 2014 OBUV ROSSII FORECASTS SALES OF RELATED GOODS OF 1.5 BLN ROUBLES



BUSINESS AREAS

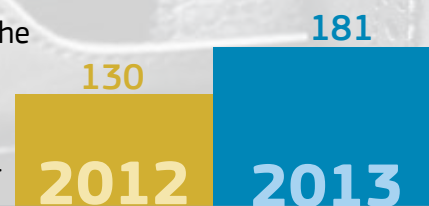
Wholesale and Franchising

Client base
(number of
companies),
2012-2013



The company **began** cooperating with more than **40 new** companies in **2013**.

Number
of cities in the
wholesale
supply
network,
2012-2013.



More than **50 new cities** were included into Obuv Rossii's wholesale supply network in **2013**.

The Obuv Rossii Group of Companies includes the wholesale division that now sells shoes all over Russia including the Sakhalin Region. The company has a base of regular customers who have already bought shoes under the Westfalika brand for many years. The customer base is growing annually. The company has consistently improved the way the wholesale division operates. The logistics department

thinks up more profitable ways to transport cargo to the regions and how to make it faster. Obuv Rossii offers its clients different payment options, including a flexible prepaid discount system.

Obuv Rossii has developed (within the wholesale division), a chain of partner stores under the Westfalika trademark, which now has 9 outlets.

In 2010-2013 the wholesale division was able to expand the variety of products offered to wholesale clients to include related products under the brands of Westfalika, Westfalika Medical and Emilia Estra. These included bags, leather haberdashery, shoe care products, hosiery and foot care products.

The Obuv Rossii Group of Companies regularly participates in international shoe shows. In 2013 the company presented its collection in shows in Novosibirsk, Khabarovsk, Ekaterinburg, Moscow and Astana (Kazakhstan). By presenting its collections in the different regions, the company covers the wholesale market to a greater extent, builds mutually beneficial relations with new large clients and promotes its own trademarks not only in Russia, but also in Russia's neighboring countries.

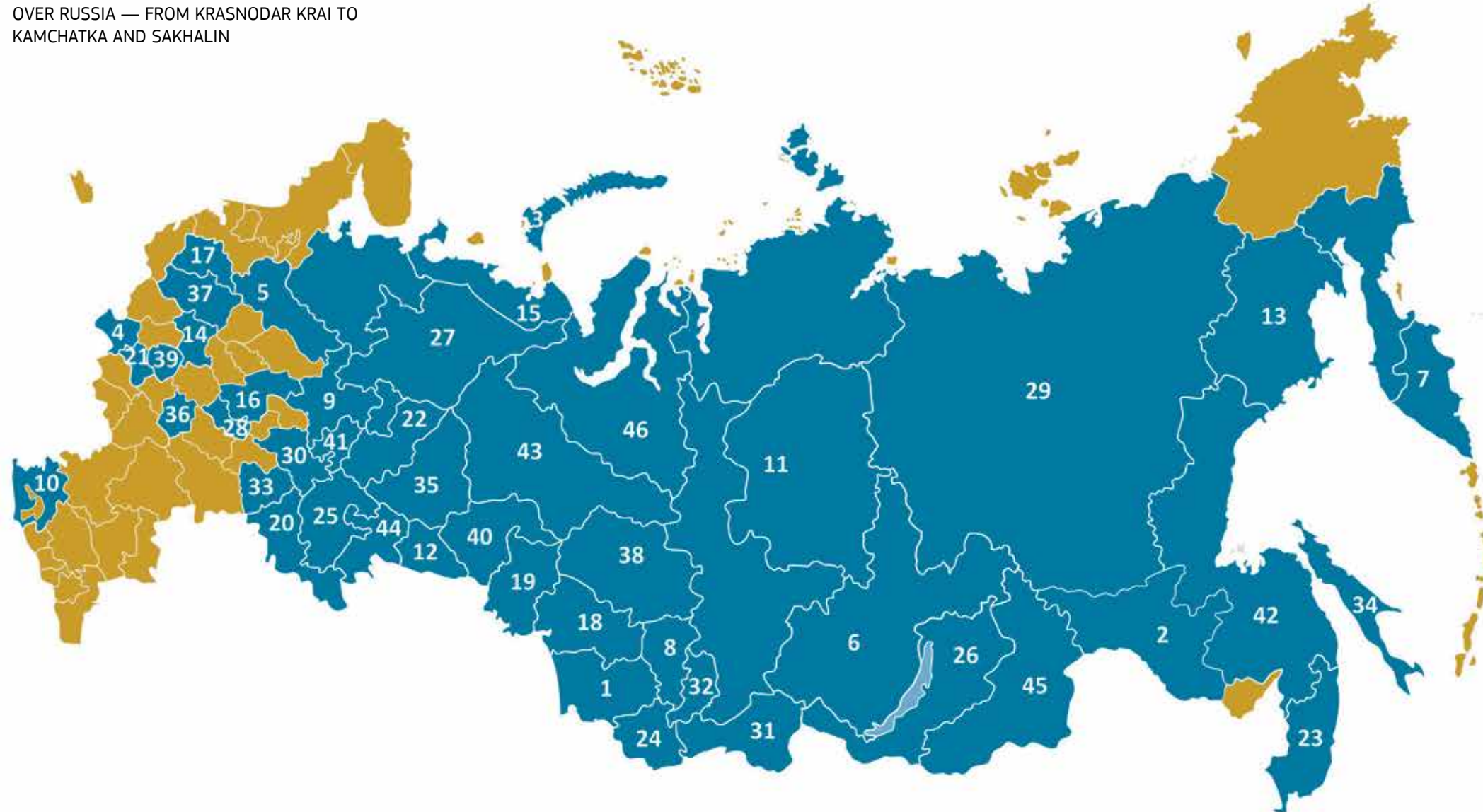
Obuv Rossii has developed new sales channels such as cosmetics and toiletries networks and chains of hypermarkets and supermarkets. In May 2013 the Company signed a contract with Parfume Leader, the biggest drug store network in Siberia (counting over 90 stores) to supply Emilia Estra panty-hose in these stores. They are also cooperating with the Novosibirsk chain of stores Begom k Nam which sell cosmetics and household chemicals and they will stock Westfalika's line of shoe care products.

Considerable achievements were made in the sale of bags under the Emilia Estra brand. In 2013 contracts were concluded to cooperate with a large number of retail stores in Novosibirsk, Barnaul, Kemerovo and other cities in the Siberian region. Obuv Rossii's partners also include Alyans Sumok (Alliance of Bags), the biggest chain of specialized stores in Novosibirsk.

BUSINESS AREAS

Wholesale and Franchising

OBUV ROSSII WHOLESALERS SHOES ALL
OVER RUSSIA — FROM KRASNODAR KRAI TO
KAMCHATKA AND SAKHALIN



1. Altai Territory
2. Amur Region
3. Arkhangelsk Region
4. Bryansk Region
5. Vologda Region
6. Irkutsk Region
7. Kamchatka Territory
8. Kemerovo Region
9. Kirov Region
10. Krasnodar Territory
11. Krasnoyarsk Territory
12. Kurgan Region
13. Magadan Region
14. Moscow Region
15. Nenets Autonomous Area
16. Nizhny Novgorod Region
17. Novgorod Region
18. Novosibirsk Region
19. Omsk Region
20. Orenburg Region
21. Orel Region
22. Perm Territory
23. Primorye Territory
24. Republic of Altai
25. Republic of Bashkortostan
26. Republic of Buryatia
27. Komi Republic
28. Republic of Mordovia
29. Republic of Sakha (Yakutia)
30. Republic of Tatarstan
31. Republic of Tuva
32. Republic of Khakassia
33. Samara Region
34. Sakhalin Region
35. Sverdlovsk Region
36. Tambov Region
37. Tver Region
38. Tomsk Region
39. Tula Region
40. Tyumen Region
41. Udmurtian Republic
42. Khabarovsk Territory
43. Khanty-Mansi Autonomous Area - Yugra
44. Chelyabinsk Region
45. Chita region
46. Yamal-Nenets Autonomous Area

BUSINESS AREAS

Payment by Instalments and Microfinance

In 2009 at a time when the banks decreased the volume of lending to consumers and the customer demand for credit increased, Obuv Rossii introduced a new service - selling products on instalment payments. Over the period that this service has operated, more than 400 thousand customers have used it, 70% used it more than once. Instalments sales, as a share of the Company's gross retail sales, have increased over the last four years from 20 to 50 %. Contracts for instalment payments in 2013 amounted to 2.2 billion rubles, and the forecast for 2014 is 4 billion rubles.

PAYMENT ON INSTALMENTS IS A MODERN HIGH TECHNOLOGY SERVICE THAT ALLOWS THE CUSTOMER TO PURCHASE SHOES FOR THE WHOLE FAMILY AND PLAN THE FAMILY BUDGET FOR SEVERAL MONTHS AND ALSO MAKE IMPULSE PURCHASES.

In the summer of 2012 based on payments by customers who had already purchased shoes by instalments and successfully fulfilled their obligations

to the Company. Obuv Rossii extends loans of up to 20,000 rubles for a period of up to 1 year. Most customers take pay-day loans or working capital loans and return the funds within one month.

Working with a reliable group of store customers and using its own unique scoring system, it is possible for the Company to keep to a low probability of default, currently 6-7 %.

The microfinance line contributed significantly to the Company's finances in 2013, with the value of extended cash loans being 1,2 bln rubles and the interest income of the Company was 571 mln rubles, which amounts to 11,5 % of the company's turnover. The forecast for extending loans for 2013 is 1.47 billion rubles.

A team of over 100 managers possessing some experience working in banks is involved in project management. The Financial Services section consists of the following: a retail credit group; an analytic support group; and a financial security group. The Company developed its own IT system, which makes it possible to execute and support instalment payment contracts and microloans online. The scoring system is regularly improved.

Financial services development is common in the retail sector, where stores do not just sell products but become providers of universal services.

This can be seen in more developed retail sectors such as the food sector and the mobile communication sector. Development of new services allows retail companies to expand and increase profitability.



IN 2009 OBUV ROSSII INTRODUCED A SERVICE THAT ENABLED CUSTOMERS TO BUY SHOES AND PAY BY INSTALMENTS

2,2
billion rubles
were the sales for shoes bought on instalment payments in 2013

571
mln rubles,
or 11,5 % of the gross was the income of the microloans in 2013

45%
of Company's sales were shoes sold on instalment payments in 2013

More than 100 managers are involved in the project management of instalment payments and microloans

DYNAMICS OF INSTALMENT SALES IN, 2009-2013, PLAN FOR 2014, MILLION RUBLES



BUSINESS AREAS

Shoe Production

OBUV ROSSII HAS DEVELOPED AND INTRODUCED ITS OWN MANUFACTURING TECHNIQUES

The actual Shoe production of the Obuv Rossii Group of Companies is based in Novosibirsk. The company has the capacity to produce 350 thousand pairs of shoes per year. During the production, equipment from German and Italian brands such as Main Group, Schön, Plastak, Pfaff, Molina Bianchi, Sigma, Elettrotecnica etc. is used. The manufacturing line includes three enterprises:

- **A factory for the production of shoes from natural leather.** This enterprise carries out production of shoes - from the preparation of the upper to fixing of the sole and the finishing treatment. The assembly production is fully automated

- **A factory for the production of components and shoe sole components.** This includes production areas to manufacture soles, heels, insoles and lasts. The component factory not only meets the requirements of the company itself, but supplies outside customers.

- **An automated manufacturing complex for the production of shoes using the injection moulded shoe construction method.**

In the spring of 2014 Ovub Rossii launched a new production — line to make shoes of EVA under the All.go brand. Investment in the purchase of new equipment was 1.7 mln euros. The equipment was supplied by the German company Bohmer Techni GmbH. The manufacturing complex allows a complete production cycle including moulding, settling on the last, etc. The capacity of the manufacturing complex is 500 thousand pairs of shoes per year.

Obuv Rossii has developed and introduced its own manufacturing techniques that make it possible to produce shoes adapted to the Russian climate. The technologies used include the production of cold resistant soles of thermoelastoplast and improved heelfixing with the help of 5 screwed nails and one central elongated screw, etc.

The Company has a team of professional technologists who organize stage-by-stage and final quality control at the production level. This makes it possible to achieve a quality final product with a low level of rejections the retail chain at 0.6-0.8 % (for comparison: in Europe, the norm is 3-4 %).

Expansion of Production in Novosibirsk

In 2014 Obuv Rossii will start construction of a new industrial logistics centre in the town of Ob, Novosibirsk Region. The floor area of the centre in the 25 thousand sq.m. It will make it possible to increase production in Novosibirsk to 500 thousand pairs of shoes per year, and in the future - to 1 mln pairs. The construction will mainly be financed by the company itself. Investments in the project will equal 1 billion rubles.

The new complex for manufacturing shoes by injection moulding will have a capacity of 500 thousand pairs of shoes per year

BUSINESS AREAS

Opening of Obuv Rossii Shoe Factory
in Cherkessk City, Karachay-Cherkess
Republic

THE CAPACITY OF
THE FACTORY IN
CHERKESSK WILL BE
1 mln pairs of shoes
PER YEAR

INVESTMENTS IN
THE FACTORY
PROJECT - 1.4 billion
rubles



Anton Titov, director of Obuv Rossii GC, shows the prime-minister of the Russian Federation Dmitry Medvedev details of the footwear factory project in Cherkessk at the International investment forum in Sochi, September 2013.



The aim of the project is to create an up-to-date full cycle shoe factory in Cherkessk City. The shoe factory will produce about 1 mln pairs of shoes per year. The shoe production will include: cutting and sewing shops, an assembly factory and a workshop for the production of the shoe components i.e. soles. State-of-the-art equipment from Germany and Italy will be installed at the factory. The project includes purchasing, repair and equipping of a building with an 8 thousand sq.m area and the stage- by-stage launch of the production from zero to fullproduction within a period of 4 years.

In December 2013 the Finance Ministry of Russia signed the contract giving a government guarantee for the investment in the factory project in Cherkessk.

Investments in the project will reach 1.4 billion rubles (including capital investments of 411 mln rubles and circulating capital investments. The project will be financed with the help of own fundsand borrowed funds at with a 30 : 70 ratio. The International Financial Club Joint Stock Commercial Bank and OJSC (MFK Bank) will be the project's creditors. The Republic of Karachay-

Cherkessk is a good site for the location of a shoe factory, as it is close to the sources of production for the required raw materials for shoes, currently located in the Krasnodarsky Krai, Rostov-on-Don, and Ryazan areas. In addition, the republic has a professional base for the creation of a shoe factory. This region was an historic base for shoe workshops and during the Soviet Union there was a footwear factory in Cherkessk.In

September 2013 the director of Obuv Rossii GC Anton Titov showed the shoe factory project in Cherkessk

to Dmitry Medvedev at the Sochi-2013 International Investment Forum.

BUSINESS AREAS

Innovation Activity

In November 2013 Obuv Rossii Group of Companies launched a new business, – which develops innovative materials for shoe production. As a result, a company was established within the group, known as – The Modified Polymers Research Centre, which is located in the Technopark of Novosibirsk's Academic Town.

The key line of the centre's operation is development and testing of innovative materials to be used in shoe production (polymers and membrane materials). The centre will develop superlight, superstrong and frost-proof materials that improve the features available to consumers. In 2014 Obuv Rossii plans to invest 30 mln rubles in research.

The team of the Modified Polymers Research Centre was formed from scientists that have significant experience in the sphere of polymer material development. Vadim Khlestkin is the Chief Technology Officer of the centre. He started his career in one of the institutes, and the Siberian Branch of the Russian Academy. He then worked for many years for an international company



Modified Polymers
research centre



involved in developments in the sphere of bio-degradable materials.

Designer promoted polymers are a good prospect as a new line, as such materials are widely used in different branches of industry and have virtually unlimited possibilities in terms of the adjustment of their composition, structure and properties.

Obuv Rossii plans to use development results both in its own manufacturing process and when outsourcing to its partner's plants. Also, the Company does not exclude the possibility of research to develop new materials for other enterprises from allied sectors.





ORGANIZATIONAL PROCESSES

- Information Technologies
- HR Management



ORGANIZATIONAL PROCESSES

Information Technologies



The main task of the IT department is to provide trouble-free operation, scaling and proportional enhancement of the efficiency of all IT-systems in the course of company growth.

The Company uses the 1S 8: Manufacturing Enterprise Management program and ERP-system. Introduction of this system in Obuv Rossii started 6 years ago. In 2007 a fully-featured ERP-system already operated on the basis of 1S 8: the main areas of the accounting and management cycle such as bookkeeping and reporting, financial management and budgeting, management of human resources, logistics, and financial accounting were all automated.

The IT department is implementing unique projects for retailing - selling shoes by Instalments and microloans. To maintain these financial services the IT-system which has no equal in the footwear market and in Russian retail in general, was developed. The system was developed based on the 1S 8.2 platform and integrated into the ERP-system within the company. It makes it possible to carry out client scoring in any store of the chain on a real-time basis, and to execute contracts for instalment payment and loans, and to manage contract follow-up including collecting.

In 2013 as the number of microloans and sales by instalments grew considerably, the IT-service redesigned the system of instalment sales management to increase its flexibility and processing speed including launching different instalment offers.

A UNIQUE IT SYSTEM FOR THE RUSSIAN RETAIL MARKET WAS CREATED TO MANAGE “SELLING SHOES BY INSTALMENT AND MICROLOANS” ORGANIZATIONAL

This IT-system is easy to adapt and could be used by any other company.

In Spring 2013 Obuv Rossii put this IT system for instalment sales into 40 stores of the clothing retail chain Limon. The IT-service department installed the software for managing this project in the partner chain, trained their employees how to use the system together with the finance department, and the IT Service department is now providing IT support and consulting with users at the Limon company on how to use the system.

The launch of new projects and the active expansion of the store chain in 2011-2013 required upgrading of software in the regions. Large-scale work was done in all regional subdivisions to transfer to 1S 8 as well as to switch them to online mode so that they are connected with the IT system at headquarters. By launching this project, overlapping of employee functions was eradicated in regional subdivisions in the central office, which has significantly increased the quality of information in the management system.

Also electronic document flow based on 1S 8: document flow has been implemented internally, which increases the speed of management decision-making and optimizes routes of document flow and approval in the company. The electronic document flow system is used as storage for the regulatory framework of the company, making search of documents easier and eliminating losses of documents.

In 2013 Obuv Rossii implemented a large-scale project introducing the IFRS software unit based on 1S 8.2. All the main processes used for IFRS records were computerized and the software was customized. It has enabled the company to make accounts preparation 2-4 time shorter.

A special department within the IT-service department — a technical support team — was established to provide better quality support for company employees from other towns. Group specialists provide support and prompt solutions to all issues that Company employees from other cities may have (first of all – maintenance and operation of IT-systems that keep the company store operational).

In 2014 the IT department of the company will switch all the stores to the online mode and launch a size-to-size records to increase the efficiency of stock management in the retail chain. Entering the e-commerce market and opening its own online-stores is another important project for the company. It enables the company to offer the customers additional high-technology services and attract new clients to the stores.

THE INTRODUCTION
OF ELECTRONIC DOCUMENT
CIRCULATION ENHANCED THE
SPEED OF DECISION-MAKING

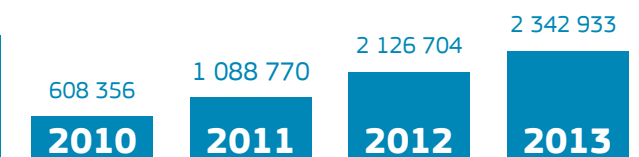
29 726
documents in
the electronic document flow
system in 2013.

Results of the IT-service in 2013 in numbers

The number of orders processed by the IT-service via the company's help-desk



The number of documents in the e-document flow system (2011-2013).



ORGANIZATIONAL PROCESSES

HR Management



Obuv Rossii's HR mission conveys the essence of the Company's business: Attract, develop and keep the best managers and specialists to implement the company's strategic plan to become one of the top three companies in the Russian shoe market.

50%

In 2013 the number of Obuv Rossii's employees increased by over 50%

2500

Now the company's staff number over 2000

100

The company hires more than 100 new employees every month

As a result, the function of personnel management in the Obuv Rossii company passes to a fundamentally new qualitative level - from the solution of operational tasks to the development of an integral independent ordered system contributing to the achievement of the long-term goals and tasks of the company. As the company plans active development for the next 5 years and an increase in its market share, the main strategic emphasis has been laid on the creation of quick and efficient technology, attracting and selecting personnel, its fast induction, standardization of the procedures of working with people, and on corporate communications development. Dozens of jobs are created every month within the Company, new unique subdivisions appear, and the organization structure is improved.

induction of New Employees

The HR department introduced a project of induction for the company's new employees. The main goal of the project is reduction of the period of professional and social adaptation of a new employee in the Company. Adaptation programs are developed individually for each employee with the consideration of his/her professional level and tasks and functions of the position he/she occupies.

Personnel Training System

The development of a multi-stage system of regular training, assessment and routine monitoring of personnel's work quality plus developing an innovative environment are important tasks for the HR department. The company has a training centre, the main goal of this centre is to enhance the work of personnel and to develop a corporate culture. The training centre has systematized experience accumulated in regions, has developed programs for basic training of the retail specialists, and has implemented standards of customer services, has developed the Mystery Shoppertechnique and, has implemented Best Store and Best Teacher motivating programs, etc.

**THE HR MISSION
IS TO ATTRACT,
DEVELOP AND KEEP
THE BEST MANAGERS
AND SPECIALISTS**



Training programs, projects and work with retail personnel are regularly improved.

The company pays a great deal of attention to the professional development of mid-level, top managers and regional team managers. Top managers and heads of departments and lines, study at the Open University of Great Britain Business School on the MBA program. Special training programs were created for directors of separate subdivisions in the regions and regular training is held in the online conference format.

ORGANIZATIONAL PROCESSES

HR Management

The programs include:

- **a theoretical block** – introduction to the Company history, its traditions, norms, characteristics of in-house communication; forming an understanding of the role of an employee within the company.

- **practical training** experienced specialists, where the knowledge gained is used in real working situations.

At present an induction program has been introduced in head office and in all separate subdivisions of the company. Experience has shown that the program helps staff to get into gear quicker.

Based on the results obtained and the accumulated experience, the project will be developed and improved with regards to regulation, utilization of new multimedia instruments and printed matters.

Meeting of the regional directors, December 2013



Corporate Culture

Because Obuv Rossii has branches throughout the regions, the question of communications and teambuilding is important and annual forums of regional directors in the head office have become a strong tradition. The forum program is ambitious and includes work, training, sharing of experience and team building.

Regional subdivisions organize regular meetings also for recreation and building team spirit. company employees actively participate in sports activities in the city of Novosibirsk and throughout the country in general. In 2012 a team of 200 athletes from Obuv Rossii's employees participated in the World Corporate Games that were held in Novosibirsk.

Obuv Rossii's team at Siberian running festival, 2013



The team came first in its group. In 2013 Obuv Rossii's corporate team took part in a 3600m race as part of the Siberian Running Festival.



COMPANY MEMBERS
TAKE AN ACTIVE PART
IN SPORTING ACTIVITY
IN THE CITY OF
NOVOSIBIRSK AND THE
COUNTRY IN GENERAL

Key strategical tasks in the area of personnel management for the next years:

- to form and maintain functional and efficient teams in the regions that can achieve the goals and tasks of the Company;
- to build a system of management, training and assessment of personnel based on competence;
- to create high quality development programs based on the results of the assessment, taking into account the individual development level of each employee;
- to develop unique programs for corporate culture development, and to create an internal communication system based on up-to-date models and techniques.



INTERNATIONAL COOPERATION

INTERNATIONAL COOPERATION



OBUV ROSSII HAS INTEGRATED INTO THE INTERNATIONAL PROCESS OF SHOE DEVELOPMENT AND MANUFACTURE, COOPERATING WITH THE LEADING RUSSIAN AND INTERNATIONAL FOOTWEAR PRODUCERS



To maintain regular cooperation with partners in China, Obuv Rossii opened an office in here in 2005. The company's Chinese office is located in the city of Guangzhou, the shoe capital of the Celestial Empire.

Since 2005 the company has actively worked to expand their suppliers network, which amounts to 50 factories at present.

Obuv Rossii's geographical presence in China is wide: the company cooperates with enterprises from the following provinces: Sichuan, Guangdong, and Zhejiang. The company's partners include big factories producing footwear for famous European and American brands

Big manufacturers offer:

- a wide range and the latest fashion design for shoe models;
- state-of-the-art high-technology equipment;
- new technologies for material manufacturing and processing.

Obuv Rossii is the largest customer of some shoe factories, making it possible for the company to get more advantageous cooperation terms.

As a result, Obuv Rossii gets unlimited opportunities for the extension and qualitative improvement of its range of products: Company shops represent topical collections that reflect modern trends in the area of design and technology.

The Company has a team of technology experts that professionally control the manufacturing process at partner factories. Obuv Rossii controls the shoe manufacturing process at all stages, from the choice of components to the production of ready products.

They have succeeded in achieving the same high level of quality products produced through outsourcing as those made in their own factory. The Obuv Rossii group of companies monitors trends in the world shoe industry and fashion world. Our technology experts,

marketing experts and merchandise specialists attend the largest international all shoe exhibitions held in Germany, Italy, and China.

Logistics plays a growing role as a result of chain growth and an increase in the amount of product supply. In 2012 Obuv Rossii optimized their product supply from China, having reduced the delivery terms two times and logistics expenses by 20%.



CORPORATE SOCIAL RESPONSIBILITY

- Organization and Support of Cultural and Sport Events
- Investors, Business Community and Mass Media

CORPORATE SOCIAL RESPONSIBILITY

Organization and Support of Cultural and Sport Events



Obuv Rossii is actively involved in corporate social responsibility and is a partner and organizer of various cultural and sporting events.

Westfalika Cup Capital of Siberia International Dance Competition

The Westfalika shoe store chain has been co-organizer of the Westfalika Cup Capital of Siberia dance competitions for several years.

In 2013 the tournament achieved international competition status and gathered a record number of dance couples in Novosibirsk – over 850. Dancers from 90 dance clubs came from 25 towns in Russia.

The panel of judges at the 2013 competitions included

not only judges from Russian regions and the capital, but also some international judges (WDSF) from other countries namely Spain, Bulgaria, Serbia, Latvia, etc.



Siberian Running Festival

Since 2012 Obuv Rossii has been involved in one of the largest regional sport events — The Siberian Running Festival. The company delegates a corporate team to take part in a 3600 m race and organizes the training for the sportmen. In 2013 the company was also a sponsor for the event and provided funding.



Open Equestrian Championship and Competition in Krasnoyarsk – Siberian Federal District

The Westfalika shoe store chain has been the general partner in the annual Open Equestrian Championship and Competition which has taken place in Krasnoyarsk in the Siberian Federal District since 2011. A competition called Fancy-Dress Freestyle was held during the tournament, where the riders showed not only their horse riding skills, but also their horses precise movements to chosen music. Westfalika forms a prize fund for the winners and holds a draw of gift certificates amongst the tournament participants. In 2013 this event was attended by over 4,000 people.



Young Designers Competition

The Westfalika shoe store chain is a regular sponsor of a competition for young designers which is organized by a Novosibirsk Technological Institute of Moscow State University of Design and Technology (Branch). Westfalika provides organizational support and forms the prize fund for the winners.

Exhibitions of Novosibirsk Artist Igor Sobi

Obuv Rossii has cooperated for many years with Novosibirsk artist Igor Sobi who makes unique pictures from leather. Obuv Rossii provides materials for the artists's pictures and extends organizational assistance to Igor Sobi's exhibitions. In 2011 the exhibition "Should it be Russia and China devoted to the 50th anniversary of the first human spaceflight" was held in the City Center of Visual Arts. During the first six months of 2013 exhibitions of Igor Sobi's new works from the Obuv Rossii collection were organized at the Administration of Plenipotentiary Representative of the RF President in the Siberian Federal District and at the Ministry of Culture for the Novosibirsk Region.

CORPORATE SOCIAL RESPONSIBILITY

Investors, Business Community and Mass Media



Obuv Rossii regularly participates in big business and market sector forums organized by Retailer Publishing House, the Adam Smith Institute and the National Trade Association, etc. Not only the company's top managers but also line managers speak at the forums. In addition, Obuv Rossii's top managers are the authors of articles devoted to the shoe market, development trends and new technologies in shoe retailing for mass media and information portals such as Slon.ru, Forbes.ru, RBC- daily.ru, Retailer.ru, company, etc. This helps create enhanced awareness of the footwear retail sector within the business community, and amongst investors and journalists, which is traditionally closed off to them and such information can attract investors.

In the summer of 2013 Obuv Rossii became a member of the Retail Companies Association (AKORT) and the Russian Union of Industrialists and Entrepreneurs. It is important for Obuv Rossii to be a member of professional unions and associations that contribute to the development of a civilized retail market in Russia and defend the interests of the market operators.

The Company is ready and willing to get involved in solving common problems in the sector and helping to form the favourable conditions required for the development of Russian retail sales.



Congress for the economic function of the Novosibirsk region in the WTO: threats and possibilities. Novosibirsk, 2012



IT in Retail conference: new opportunities for the successful business, Moscow, 2013

BOARD OF DIRECTORS



The joint board is in charge of strategic planning, financial and economic control and risk management, as well as the work of the company's top managers. It also deals with the information policy of the company.

In September 2013 Obuv Rossii Group consolidated its assets into a joint stock company with charter capital of 7 bln rubles. The board of directors with two independent members was created.

The following members of the Board of Directors were approved:

- Anton Titov, member of the Board of Directors, Director of Obuv Rossii Group;
- Elena Ageyeva, member of the Board of Directors, Financial Director of Obuv Rossii Group;
- Yulia Donina, member of the Board of Directors, Marketing Director of Obuv Rossii Group;
- Svetlana Belova, member of the Board of Directors, HR Director of Obuv Rossii Group;
- Thomas Frank, member of the Board of Directors, Chief Designer of Obuv Rossii Group;
- Marianna Kadaeva, Independent member of the Board of Directors of Obuv Rossii Group, CEO of Lemon Company;

- Petr Karabanov, Independent member of the Board of Directors of Obuv Rossii Group, director of Novosibirsk technology institute.

Information about Credit Rating

Since 2008 Obuv Rossii GC has been rated (contract with the Expert RA, CJSC rating agency).

The rating (credit rating) is assigned to companies from all sectors of the economy and expresses the subjective opinion of the Expert RA rating agency concerning the ability of the company to fulfill its financial obligations in due time and volume.

The technique of rating was adapted to the specific characteristics of the Russian market and does not take into account the sovereign risk in Russia, i.e. the credit rating is assigned by the agency only according to the national scale. Credit rating includes a forecast of possible changes in the economic environment and assessment of mid-term company development prospects.

In October 2013 the «Expert RA» rating agency raised the credit rating of Obuv Rossii GC to level A+ (a very high level of credit solvency). The forecast is «stable». The stable forecast means there is a high probability that the rating will remain at the same level in the medium term. Previously the company had an A rating (a high level of credit solvency), the rating forecast was a «positive».

Positive influence on the level of the company's ratings was exerted by high liquidity indices (as of 30 June 2013 the absolute liquidity ratio was 0.61, the current liquidity ratio is 1.84), the growth and the high level of capital adequacy (as of 30 June 2013 the adequacy ratio was 0.58) and the high quality of insurance coverage (all main types of Group risk are insured within the company at a rating of A++ from «Expert RA»).

Obuv Rossii GC's financial indicators have been steadily improving for several years. The group has actively entered new regions and increased its share of the shoe market, which is still weakly consolidated.

The company plans to substantially increase the number of chain stores every year in order to meet the high demand from the population, and to commission a new shoe factory in Cherkessk, which will serve the centre and south of Russia. "These factors exerted a positive influence on the rating," said Head of the Unit of Corporate and Investment Ratings at «Expert RA» Pavel Mitrofanov. Agency experts also point out the high diversification of the turnover throughout the regions, the low level of currency risks and high indicators of business activity.

The Expert RA rating agency assigned the bond issue, series 01 (ISIN RU000A0JRKQ4, registration number 4-01-16005-R) of Obuvrus (LLC) (is a part of the Obuv Rossii GC) level A+ (a very high credit level). The grade of the bonds coincides with the credit rating of the issuer (A+, a very high credit rating). In the opinion of agency

analysts, the credit quality of the bonds and of the issuer will coincide in the future also, which is why, if the issuer's credit rating changes, the grade of the bonds is subject to revision also.

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Information About Auditor

Company name: Ernst and Young Limited Liability Company.

Legal address: 77 Sadovnicheskaya emb., bldg. 1, Moscow, 115035, Russia.

Membership in the self-regulatory organization of auditors: a Member of the non-profit organization "Audit Chamber of Russia".

Principal Number of Registration Entry in the National Registry of Auditors — 10201017420.





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