
Intraware Investments Public Ltd

CONSOLIDATED FINANCIAL STATEMENTS

*prepared in accordance with
International Financial Reporting Standards (IFRS)
for the year ended 31 December, 2016*

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BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors:	Myrianthi Petrou Andreas Christofi Andreas Konialis
Company Secretary:	Virna Secretarial Services Ltd
Independent Auditors:	Euroglobal S.E.E. Audit Ltd Certified Public Accountants and Registered Auditors 5 Chytron Str. Cypress Centre 1075 Nicosia Cyprus
Registered office:	Aphrodites 25 Floor 2, Flat 207 1060 Nicosia Cyprus
Banker:	Eurobank Cyprus Ltd
Registration number:	HE292020

DECLARATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Article 9 sections (3c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 2007 (N 190 (Ε)/2007) ("the Law") and with Article 140(1) of the Laws and Regulations of the Cyprus Stock Exchange we, the members of the Board of Directors and the other responsible persons are solely responsible for the consolidated financial statements of Intraware Investments Public Ltd (the "Company") for the year ended 31 December 2016 and on the basis of our knowledge, declare that:

(a) The annual consolidated financial statements which are presented on pages 13 to 58:

(i) have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of Article 9, section (4) of the Law, and

(ii) provide a true and fair view of the particulars of assets and liabilities, the financial position and profit or loss of the Group and the entities included in the consolidated financial statements as a whole and

b) The Management report provides a fair view of the developments and the performance as well as the financial position of the Group as a whole, together with a description of the main risks and uncertainties which they face.

Members of the Board of Directors:


.....
Myrianthi Petrou
.....
Andreas Christofi
.....
Andreas Konialis

Nicosia, 27 April 2017

MANAGEMENT REPORT

The Board of Directors presents its report and audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal activities

The principal activities of Intraware Investments Public Limited (the Company) are the holding of investments (the Group) and trademarks. The principal activities of the Group, which remain unchanged from last year, are those of wellness and fitness services.

Results

The Group's results for the year are set out in the consolidated financial statements. The net profit attributable to shareholders of the Company amount to RUB 46 439 thousand (2015: RUB 54 733 thousand).

During 2015 the Company had acquired 98% of the shares in fitness businesses operating under the "X-fit" brand represented by 18 companies in Russia and additionally obtained control over another company in Russia engaged in the same business.

During 2016 the Company obtained control over 2 more companies in Russia that commenced business under the "X-fit" brand.

All the above acquisitions and details of control over other companies, are described in note 25 of the consolidated financial statements.

Review of current position, future developments and significant risks

The Company's development to date, financial results and position as presented in the financial statements are considered satisfactory. The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in note 28 of the consolidated financial statements.

Commitments

The Company had no other commitments as at 31 December 2016.

Dividends

During 2016 the Board of Directors approved the payment of an interim dividend of RUB 77 201 thousand out of the profits of 2016 and a final dividend of RUB 45 479 thousand out of the profits of 2015 (2015: RUB NIL).

Share capital

There were no changes in the share capital of the Company during the year under review.

Listing to the Emerging Companies Market of the Cyprus Stock Exchange

On 15 June 2015 the Board of Directors proposed and on 16 June 2015 the shareholders approved the listing of the Company's already issued shares to the non-regulated market (Emerging

Companies Market (E.C.M)) of the Cyprus Stock Exchange ("CSE"). On 15 January 2016, the Cyprus Stock Exchange announced the listing on the CSE Emerging Companies Market of 40 000 ordinary nominal shares of the Company, of a nominal value of €1, at a listing price of €3 104, 00, pursuant to Article 58(1) of the CSE Law.

The trading of the shares started on 18 January 2016. The Cyprus Stock Exchange undertook to keep the registry of the Company at the CSE Central Depository / Registry.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2016 and at the date of this report are presented on page 5. All of them were members of the Board of Directors throughout the year ended 31 December 2016.

In accordance with the Company's Articles of Association all Directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the reporting period

There were no material events after the reporting period other than those described in note 31 of the consolidated financial statements.

Independent Auditors

The Independent Auditors, Euroglobal S.E.E. Audit Ltd, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Responsibilities of Directors

The Directors are responsible for the accuracy and completeness of the consolidated financial statements prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Company Law, Cap. 113, that fairly present the financial position of the Group as at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended.

In the preparation of these consolidated financial statements, the Directors of the Group are responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- IFRS compliance and disclosure of all significant deviations from IFRS in the consolidated financial statements;
- preparing the financial statements based on the going concern assumption, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The Directors of the Group are also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control throughout the Group;

- maintaining proper accounting records that disclose the financial position of the Group with reasonable accuracy and at any time, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- taking steps that are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these consolidated financial statements for issue.

By order of the Board of Directors,



Myrianthi Petrou
Director

Nicosia, 27 April 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of Intraware Investments Public Ltd

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the parent company Intraware Investments Public Ltd (the "Company") and its subsidiaries (together with the Company, the "Group"), which are presented in pages 13 to 58 which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Other information

The Board of Directors is responsible for other information. Other information comprises the information included in the Management report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

OFFICES IN:

Greece: 12th Theophanous Str, 6th and 7th floor, 11523 Athens, Greece
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Romania: 9-13, ap.10, Fagaras Street, District 1,Bucharest, Romania
Serbia: 31/4, Beogradska Street, 11000 Belgrade
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Independent Auditor's Report (continued)

To the Members of Intraware Investments Public Ltd

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

Independent Auditor's Report (continued)

To the Members of Intraware Investments Public Ltd

related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated financial statements.

Independent Auditor's Report (continued)

To the Members of Intraware Investments Public Ltd

- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Angelos Theodorou.



Angelos Theodorou
Certified Public Accountant and Registered Auditor
for and on behalf of

Euroglobal S.E.E. Audit Ltd
Certified Public Accountants and Registered
Auditors

Nicosia, 27 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
OF INTRAWARE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousand RUB)

	Note	2016	2015
Revenue	1	2 767 889	1 080 261
Cost of sales	2	(2 099 182)	(773 538)
Gross profit		668 707	306 723
Selling and marketing expenses	3	(141 352)	(51 873)
Administrative expenses	4	(377 517)	(142 610)
Other income	5	35 801	35 696
Other losses	6	(93 290)	(27 336)
Operating income		92 349	120 600
Financial income	7	418	5 692
Financial expenses	7	(40 639)	(59 198)
Profit before tax		52 128	67 094
Income tax expense	20	(5 689)	(12 361)
Profit for the year from continuing operations		46 439	54 733
Net profit for the year		46 439	54 733

Net profit for the year attributable to:

Owners of the Group	23	51 507	54 817
Non-controlling interests		(5 068)	(84)
Total profit for the year		46 439	54 733

Other comprehensive income for the year

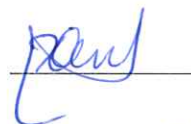
Comprehensive income attributable to:

Owners of the Group	23	51 507	54 817
Non-controlling interests		(5 068)	(84)
Total comprehensive income for the year		46 439	54 733

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OF INTRAWARE GROUP AS AT 31 DECEMBER 2016
(in thousand RUB)

	Note	2016	2015
Non-current assets			
Property, plant and equipment	8	666 133	613 143
Goodwill	9	350 675	350 669
Other intangible assets	10	308 275	446 724
Other non-current assets		25 578	19 542
Deferred tax assets	20	112 669	107 267
Total non-current assets		1 463 330	1 537 345
Current assets			
Inventories	11	23 442	44 086
Trade receivables		150 626	157 730
Other receivables	12	131 126	123 221
Prepayments for services and inventories		1 127 362	735 308
Other current assets		9 706	4 848
Income tax overpayment		2 214	8 745
Cash and cash equivalents	13	179 516	185 045
Total current assets		1 623 992	1 258 983
TOTAL ASSETS		3 087 322	2 796 328

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi

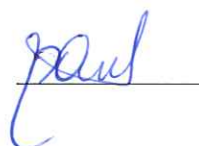
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
OF INTRAWARE GROUP AS AT 31 DECEMBER 2016
(in thousand RUB)

	Note	2016	2015
Owners' equity			
Share capital	14	2 287	2 287
Share premium	14	12 614	12 614
Accumulated profit (loss)		(67 688)	174
Current year profit		51 507	54 817
Equity attributable to owners of the Group		(1 280)	69 892
Non-controlling interest	26	(9 078)	(4 010)
TOTAL EQUITY		(10 358)	65 882
Non-current liabilities			
Long-term loans and borrowings	15	132 860	734 672
Deferred tax liabilities	20	15 778	31 710
Total non-current liabilities		148 638	766 382
Current liabilities			
Short-term loans and borrowings	15	1 464 935	749 759
Short-term payables	16	201 067	109 060
Other liabilities	18	44 721	21 629
Deferred revenue	17	1 238 319	1 083 616
Total current liabilities		2 949 042	1 964 064
TOTAL EQUITY AND LIABILITIES		3 087 322	2 796 328

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
OF INTRAWARE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousand RUB)

	Note	Share capital	Additional capital	Accumulated profit (loss)	Non-controlling interest	Total
For the year ended 31.12.2014		420		174		594
Issue of additional shares	14	1 867	-	-	-	1 867
Share premium	14	-	12 614	-	-	12 614
Dividends		-	-	-	(171)	(171)
Acquisitions	25, 26	-	-	-	(3 755)	(3 755)
Current year profit		-	-	54 817	(84)	54 733
For the year ended 31.12.2015		2 287	12 614	54 991	(4 010)	65 882
Dividends		-	-	(122 680)	-	(122 680)
Current year profit		-	-	51 507	(5 068)	46 439
For the year ended 31.12.2016		2 287	12 614	(16 182)	(9 078)	(10 359)

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi

CONSOLIDATED STATEMENT OF CASH FLOWS
OF INTRAWARE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousand RUB)

	Note	2 016	2 015
Cash flows from operating activities			
Profit before tax		52 128	67 094
Amortization and impairment of intangible assets	10	136 397	89 307
Depreciation and impairment of property, plant and equipment	8	103 883	50 034
Interest expense	7	36 285	56 442
Interest income	7	(105)	(2 331)
Foreign exchange differences (net)		(4 862)	7 851
Impairment of goodwill	6	-	5 356
Gain from acquisition of subsidiary	5	(5)	(28 033)
Other non-cash expenses net		(3 109)	10 362
Operating cash flows before working capital changes		320 612	256 082
(Increase)/decrease in trade and other receivables		(398 451)	(1 016 260)
(Increase)/decrease in inventories	11	20 644	(44 086)
Increase in other assets			(20 568)
Decrease/(increase) in trade and other payables		83 121	122 688
Increase in deferred revenue	17	154 703	1 083 616
Increase in vacation provisions	18	8 402	2 045
Decrease in working capital as a result of acquisition		-	(225 092)
Cash generated from operating activities		189 031	158 426
Income tax paid		(18 359)	(9 951)
Net cash from operating activities		170 672	148 475
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(135 429)	(61 246)
Loans issued	15	(11 636)	-
Loans and interest received		3 237	-
Purchase of intangible assets	10	-	(1 705)
Payment for acquisition of subsidiaries, net of cash acquired		13	(48 381)
Net cash used in investing activities		(143 815)	(111 332)

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
OF INTRAWARE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousand RUB)

	Note	2 016	2 015
Cash flows from financing activities			
Proceeds of loans and borrowings	15	85 267	129 600
Proceeds from issue of share capital	14	-	14 481
Repayment of loans and borrowings	15	(400)	(2 500)
Dividends paid to company's shareholders		(122 680)	(171)
Net cash from financing activities		(37 813)	141 410
Cash and cash equivalents at the beginning of the year		185 045	-
Increase of cash and cash equivalents		(10 955)	178 553
Effect of exchange rate fluctuations on cash held		5 427	6 492
Cash and cash equivalents at the end of the year	13	179 516	185 045

The notes on pages 19 to 58 are an integral part of these consolidated financial statements.

On 27 April 2017 the Board of Directors of Intraware Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. GENERAL INFORMATION ABOUT THE GROUP

Intraware Investments Public Ltd (the "Company") and its subsidiaries (together with the Company, the "Group") is one of the largest chains of fitness clubs in Russian market of fitness services. Key activities of the Group are fitness clubs services to population, services of management of fitness clubs and additional activities (catering, retail of sport goods).

The subsidiaries are as follows:

Name of the subsidiary	Russian City
FOK "Monarh"	Moscow
FOK "Senator"	Moscow
FOK "Fusion"	Moscow
FOK "Planeta"	Moscow
FOK "Nagatinskaia"	Moscow
FOK "Marino"	Moscow
FOK "Rost Fitnes"	Rostov-on-Don
FOK "Chistye Prudy"	Moscow
FOK "Terra"	Kazan
FOK "AK-Bars"	Kazan
FOK "Volga-Fitnes"	Volgograd
FOK "Olimp"	Voronezh
FOK "Zchemchuzhina"	Perm
FOK "Sam-Fitnes"	Samara
FOK "Sun-City"	Novosibirsk
FOK "Platinum"	Voronezh
FOK "Park Pobedy"	Moscow
LLC "Altufevo-Sport"	Moscow

The parent company holds 98% in each of the above subsidiaries (2015: 98%). In addition, the Group has control over "XFIT Service" LLC, FOK "Mosfilmovski" LLC and LLC "RTI-Finance" were the Group has control according to agreement with its share of 98, 98 and 49% respectively (according to agreement with current shareholders the Group will has control over LLC "RTI-Finance" without having majority in a share capital).

Since January 2016 the Company is listed on the Cyprus Stock Exchange.

II. ECONOMIC ENVIRONMENT IN WHICH THE GROUP OPERATES

The major part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government.

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The political and economic instability, continuing conflict in Ukraine, the current impact and ongoing situation with sanctions has resulted in increased economic uncertainty including more volatile equity markets, depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows

and a significant tightening in the availability of credit. These events have increased the perceived risks of doing business in the Russian Federation.

According to the Federal Statistics Service, the Russian economy absorbed the dual shocks of lower oil prices and the ongoing sanctions and contracted just 0.2% in 2016. A sharp contraction in both household demand (4.7 per cent) and corporate investments (7.1 per cent) continued in 2016. Net exports contributed positively to the growth in the first half of 2016 as the drop in exports on lower commodity prices was more than offset by imports contraction. In 2016, inflation was still cutting into real incomes, unemployment has remained low at around 5 to 6 per cent as corporations generally prefer to cut wages first instead of shedding labour. The current economic situation indicates that the Russian Federation is recovering from its recession.

Currently the financial markets are in a state of uncertainty and volatility, therefore these and other events can have a significant impact on the Group's operations and its financial position, the results of which are difficult to predict. Management believes that they undertake all necessary measures to support the sustainability and the development of the Group's business in the circumstances.

III. BASIS OF PREPARATION

General provisions

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter - IFRS).

The companies of the Group maintain their accounting records in Russian Rubles in accordance with the Russian regulations on accounting and reporting. Russian accounting principles are significantly different from IFRS. In this regard, the financial statements that have been prepared in accordance with the Russian accounting standards have been adjusted to ensure that the consolidated financial statements comply with IFRS.

The consolidated financial statements have been prepared on a historical cost basis except when IFRS require the application of other basis of valuation, in particular, financial instruments that have been measured initially at fair value and then at amortized cost, and identifiable assets and liabilities acquired in the course of a business combination.

Principles of consolidation

The consolidated financial statements comprise the financial statements of Intraware Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost is recognized immediately in profit or loss for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Inter-group transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the cost of the corresponding asset cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Going concern

The Group has prepared these consolidated financial statements based on the going concern assumption.

Currency

The Group's presentation currency is the national currency of the Russian Federation, Russian rubles ("RUB"). All amounts in these financial statements are presented in thousands of Russian Rubles, unless otherwise stated.

The functional currency is the currency of the primary economic environment in which a company operates. The Group's functional currency is the national currency of the Russian Federation, the Russian rubles.

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the official exchange rate of the Central Bank of Russia at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into RUB at the Central Bank's official year-end

exchange rates are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Exchange rate at the end of the year	2016	2015
RUB to 1 US dollar	60,6569	72,8827
RUB to 1 Euro	63,8111	79,6972

Impact of effective changes in International Financial Reporting Standards

The following amended standards became effective for the Company from 1 January 2016, but did not have any material impact on the Company:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Application of new and revised International Financial Reporting Standards

Below is a list of standards/interpretations that have been issued and are not effective for periods starting on 1 January 2017, but will be effective for later periods:

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value through other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

This standard may have a material impact on the financial performance and the financial position of the Group: the management is currently assessing the possible consequences of adopting this standard. Early adoption is not anticipated.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to

recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

This standard may have a material impact on financial performance and financial position of the Group: the management is currently assessing the possible consequences of adopting this standard. Early adoption is not anticipated.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

Significant accounting estimates and professional judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- (1) *Fair value of identifiable assets and liabilities acquired at business combination.* As a result of the business combinations in 2015 (see note 25) the Group has acquired a pool of assets and liabilities. The measurement of fair value of identifiable assets and liabilities acquired, in particular in respect of Property, plant and equipment (see note 8), Intangible assets (see note 10) and Deferred revenue (see note 17) required a significant use of judgment and assumptions, see relevant notes.

- (2) *Amortization of intangible assets.* The intangible assets of the Group are represented mainly by customer related assets acquired in a business combinations in 2015 (see notes 25 and 10) and recognized at fair value as at acquisition dates. These assets are amortized over the period when the Group expects to derive economic benefits from them - normally over the residual expected lease terms for respective fitness club premises. At the same time amortization is not calculated on a straight-line method as this would contradict the matching principle that requires that revenues and any related expenses be recognized in the same period. Instead the biggest part of the intangible assets amortization shall be recognized within the first 3-5 years after the acquisition. Such an accounting treatment aligns the amortization expenses with corresponding income that is expected from these intangible assets, i.e. an income from customers that prolong their subscriptions or purchase services of the Group based on loyalty gained before the acquisition date.
- (3) *Impairment of intangible assets.* Intangible assets with indefinite useful life (see note 10) are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset.
- (4) *Valuation of deferred income according to loyalty programs with clients.* In the normal course of the Group's business constructive obligations arise in connection with granting cumulative discounts to the clients who purchased club cards earlier. The size of discounts depends on the term of membership in club and time of reacquisition of cards and may differ from time to time and in different clubs. To estimate the deferred income the Group management evaluates the probability of reacquisition of cards (on basis of statistics of renewed and ended cards ratio for the period) and the estimated discount for reacquired cards. The resulting liability is disclosed in note 17).
- (5) *Transactions with related parties.* In the normal course of business, the Group enters into transactions with related parties. Judgment is applied in determining whether the transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The conditions and terms of such operations are disclosed in note 22.
- (6) *Useful lives of property, plant and equipment.* Management assesses the remaining useful lives of property, plant and equipment (see note 8) at least once per year as at the financial year end. The useful lives are assessed in accordance with the assets' current technical conditions and the estimated period when these assets will bring economic benefit to the Group. Useful lives of the leasehold improvements are calculated based on residual lease terms according to the lease contracts (as at 31.12.2016 the average residual lease term was 7 years) increased by one lease prolongation that the management is certain of, and decreased by adverse possibilities: probability of the lessor to terminate the lease in case of the default of the Group (1% per year), probability that the renegotiation of the lease will not be successful (5-20%), probability that the Group will decide to discontinue the lease (2% per year) etc. As a result, the average effective prolongation term as at reporting date amounts to 5 years and the average residual useful lives used in calculation of the depreciation of leasehold improvements amount to 12 years. The changes from the previous year's assessments, if any, are accounted for prospectively without restating comparatives.
- (7) *Contingent liabilities valuation.* The value of contingent liabilities is determined based on management's estimates, its interpretation of the relevant legislation and subsequent events. In particular, the Group recognizes provision for contingent liabilities if it is probable that its positions may be successfully challenged by tax authorities. As at 31.12.2016 the Group estimates that its tax position is stable and no provisions have to be recognized (see further note 30).

(8) *Goodwill impairment.* The goodwill impairment test has been conducted by the Group based on future cash flow forecast in respect of all the cash generating units. Relevant assumptions and estimates are disclosed in the note 9.

Accounting policies

(a) Subsidiaries

Subsidiaries are those entities, including special purpose entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Property, plant and equipment

Property, plant and equipment are assets that comply with the requirements of IAS 16 "Property, Plant and Equipment". Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Historical cost of property, plant and equipment includes all expenditures that are directly attributable to its creation or acquisition including payments and payroll to sellers, contractors, other material and direct labor costs. Historical cost may also include purchase price, import duties and other taxes (except subsequently recoverable from the tax authorities) and also cost of transportation, handling and other costs directly attributable to the acquisition of the asset. Interests on borrowings are included in the cost of property, plant and equipment in cases when the requirements of IAS 23 "Borrowing Costs" are met.

The residual value of an asset corresponds to the expected value of the receipts, which the Group expects to receive from its disposal in the state and the age it will be at the end of its useful life, less the estimated costs of disposal of the asset. The residual value of the asset is nil if the Group expects to use the asset until the end of its useful life.

Depreciation is calculated using the straight-line method based on their estimated useful lives. Depreciation commences in the month following the month of the recognition of the property, plant and equipment in accounting.

The groups and the estimated useful lives of property, plant and equipment are as follows:

Property, Plant & Equipment group	Useful life
1 Leasehold improvements	Residual lease terms according to the lease contracts increased by one lease prolongation that the management is certain of and decreased by adverse possibilities. In practice 16 years at an average
2 Sport equipment	1-15 years, in practice 5 years at an average
3 Office equipment	1-10 years, in practice 3 years at an average
4 Other property, plant & equipment	2-25 years, in practice 6 years at an average

If a major component of an item of property, plant and equipment consists of several components with significantly different useful lives, they are recognized as separate items of property, plant and equipment.

Depreciation of an asset ceases at the earlier of two dates: the date of classification of assets as held for sale (or its inclusion in a disposal group classified as held for sale) in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and the date of derecognition. Depreciation does not cease when the asset becomes idle or is retired from active use.

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period and if current expectations differ from previous estimates, these changes shall be applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the impairment loss is recognized in the statement of comprehensive income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Repair and maintenance costs of property, plant and equipment are recognized in profit or loss as incurred. Subsequent costs are capitalized, if the recognition criteria are satisfied (usually - if it can be clearly demonstrated that they extend the useful life of the asset, substantially increase the efficiency compared to their original capacity, or otherwise increase the economic benefits of the asset).

Assets under construction and other property, plant and equipment not yet available for use are assessed likewise the historical cost of property, plant and equipment.

(c) Investment property

Investment property is property held by the Group and used to earn rentals or for capital appreciation with the course of time and that is not occupied by the Group. Investment property comprises properties (buildings, premises and land) that are leased by the Group to third parties under an operating lease.

In the statement of financial position, investment property is recognized at initial cost less accumulated depreciation and impairment losses. Depreciation of the investment property is calculated using the same useful life as for property, plant and equipment.

(d) Finance lease

Lease that transfers substantially all the risks and rewards incidental to ownership of an asset is classified as a finance lease. Assets that are classified by the Group as the assets under finance leases usually satisfy one of the following requirements: a) the discounted minimum lease payments under the contract are not less than 80% of the fair value of the asset; b) the lease term is not less than 80% of the asset's useful life. Also other circumstances of transactions are considered in order to determine whether substantially all the risks and rewards incidental to ownership of the asset are transferred to the Group, and, respectively, for the correct classification of the lease contract.

Assets held by the Group under finance leases are capitalized in noncurrent assets at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations are recognized simultaneously. In the future, these assets are subject to the same rules as the property, plant and equipment, except if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term and then the property, plant and equipment acquired under finance leases is depreciated over the lease term or, if lower the asset's useful life.

Lease payments are apportioned between finance charges of the Group as a lessee so as to achieve a constant rate of interest on the remaining balance of the liability. This rate is determined by the initial recognition of finance lease obligations and remains unchanged throughout the term of the lease. Finance charges are recognized in finance costs in the statement of profit or loss and calculated as the effective interest rate multiplied by the balance of the finance lease liability at the beginning of the year.

(e) Operating lease

Leases are classified as operating leases when the terms of the lease do not transfer substantially all the risks and rewards of ownership to the Group. Property, plant and equipment received under operating lease agreements are not recognized in the Group's consolidated statement of financial position. Expenses for such leases when risks and rewards of ownership do not transfer to the Group are recognized in the statement of comprehensive income on a straight-line basis over the lease term.

Rent deposits (for example, advances for the last month) are initially recognized as an asset (in the non-current or current assets based on their lease term) at their present value and amortized so that in accordance with IAS 17 "Leases" costs rent are evenly recognized in the consolidated statement of profit or loss.

Rent deposits that are not included in the rental payments (security deposits that are repayable to the Group if they have not violated the contract) are initially recognized as an asset (in the non-current or current assets based on their lease term) at fair value of the future lease payments. The difference between carrying amount and the fair value of such deposits arising at the initial recognition is recognized as lease expenses in the consolidated statement of profit and loss. Further, these assets are amortized using the effective rate, so that accounts receivable are equal to the rental deposits by the time of the termination of the contract - these revenues are recognized as imputed interest income as part of the financial income in the consolidated statement of profit and loss.

(f) Goodwill

Goodwill is the excess of the purchase price over the fair value of the acquirer's share in the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the acquisition date. Goodwill is initially recognized at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least once a year or more frequently when there is an indication that the unit may be impaired. Goodwill is allocated to cash-generating units (groups of assets that generate cash flows) or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. As a rule, cash-generating units are the corresponding Group's clubs.

(g) Joint arrangements

Under IFRS 11 "Joint Arrangements" investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has only joint operations and recognizes its direct interest in the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses.

(h) Intangible assets

Separately acquired intangible assets are shown at historical cost. Intangible assets acquired in a business combination except for goodwill are recognized at fair value at the acquisition date. Group's intangible assets, except for goodwill and trademarks have finite useful lives and are subsequently carried at cost less accumulated amortization and impairment losses.

Amortization of intangible assets is calculated based on the period during which the assets' future economic benefits are expected to be consumed by the Group.

The useful life of customer relationships is the residual expected lease term for respective fitness club premises. The amortization is non-linear and the principal part of these assets is amortized within the first 3-5 years.

Rights under franchise agreements have useful lives of 4 and 5 years which are relevant to residual terms of corresponding franchise agreements. The amortization is calculated on a straight-line basis.

Trademarks have indefinite useful life and are tested for impairment annually.

(i) Inventories

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is determined on a weighted average cost basis.

The cost of inventories is written down below cost to net realisable value if those inventories are damaged, if they have become wholly or partially obsolete, if their selling prices have declined or if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. Net realisable value is the estimated selling price for inventories in the ordinary course of the business less selling costs. Write-down of inventories is recognized as a cost of sales in the current reporting period.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less.

Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

(k) Financial instruments – key measurement terms

Depending on their classification, financial instruments (financial assets and financial liabilities) are recognized at fair value or amortized cost, as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of the financial data of investees are used to estimate the fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash and cash equivalents or fair value of other remunerations paid to acquire the assets at the moment of acquisition of assets, which includes transaction costs. Valuation of assets at cost of purchase is applicable only to investments in equity shares which are not quoted at the active market and to derivatives that are linked to and must be settled by delivery of such unquoted equity shares.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties charged on title transfer. Transaction costs do not include debt premiums or discounts, financing costs, internal administrative costs or storage expenses.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets, less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any),

are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (in relation to principles of recognition of incomes and expenses).

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables and (b) available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. The Group classifies all its financial liabilities as other financial liabilities. Other financial liabilities are carried at amortized cost.

Initial recognition of financial instruments. All financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The loans are recognized initially at fair value of future payments, calculated using current market interest rates for the assets. The difference between the total amount of the loan by a lower than market, rates, and its fair value is recognized as a loss in the period of the loan. This difference reduces retained earnings/retained loss (in the case of the loan to the owner or his representative), increases the costs of personnel (in case of loan to employees) or financial costs (in case of granting a loan to third parties). The loans are measured at amortized cost using the effective interest method. Interest income is calculated by the effective interest rate is reflected on an accrual basis.

If the rate on financial liabilities is significantly below current market rates, the difference between actual income (net of transaction costs) and the fair value is reflected as imputed interest income in the period of loan. Imputed interest income increased additional paid in capital (in the case of a loan from the owner or his representatives), or is recorded in the consolidated statement of financial position as part of deferred income and then proportionately included in the consolidated statement of comprehensive income.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets are otherwise expired or (b) the Group has

transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale financial assets. The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in consolidated statement of comprehensive income. Dividends on equity instruments are recognized in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of equity instrument. Impairment losses on equity instruments are not reversed.

(I) Impairment of financial assets

Impairment losses are recognized in the statement of comprehensive income when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset that can be reliably estimated. The primary factor that the Group considers in determining whether a financial asset is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or installment is overdue and the late payment cannot be attributed to a delay caused by settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty is considering bankruptcy or a financial reorganization;
- there is an adverse change in the counterparty's payment status as a result of changes in the national or local economic conditions.

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of the counterparty's financial difficulties, impairment is measured using the original effective interest rate before the terms were modified.

Impairment losses are always recognized through a provision account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

(m) Impairment of other assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(n) Revenue recognition

Revenue from services rendering is recognized by the Group in the accounting period in which the services are rendered. Revenue which is recognized in these financial statements does not include VAT (regarding companies which pay VAT) and reduced by the amount of discounts and rebates given to the customers according to all marketing promotions of the Group.

Amounts received from the customers of the services as payments for future services (including cards for sport services) are initially recognized in item "Deferred revenue" and are amortized with recognition of revenue in proportion to rendering of services.

(o) Borrowing costs

Costs on borrowings to finance acquisition, construction or production of qualifying assets (which are assets that take a substantial period of time to get ready for their intended use or sale), are recognized according to IAS 23 "Borrowing costs" at initial cost till such assets are ready for their intended use or sale. All other borrowing costs are expensed.

(p) Transactions with owners

In all cases when the Group receives assets from the owners of the Group, the assets received are initially recognized in the statements prepared according to IFRS at fair value. The contributions are not recognized in the statement of comprehensive income but increase the Group's additional paid-in capital as benefits from the owner.

The companies of the Group may incur expenses that are not caused by economic necessity but are advised by the owners of the Group. Such expenses are not recognized in the statement of comprehensive income but increase the Group's additional paid-in capital as expenses on behalf of the owner.

In the same way, the differences between fair value of loans given to (received from) the owners of the Group and their notional value are recognized as retained earnings (additional capital).

(q) Provisions

According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

Provisions are revised once a year and are recognized in the financial statements at expected net present value, calculated using rates reflecting risks specific to the liability.

(r) Income tax

The income tax charge according IAS 12 "Income Tax" comprises current tax and deferred tax. Current tax is the amount expected to be paid to state budget in respect to taxable profits or losses for the current and prior periods, using tax rates enacted or substantially enacted at the reporting date.

Deferred income tax is provided using the statement of financial position liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction when initially recorded affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized.

Deferred tax liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized. Amount of deferred tax assets is revised at every balance sheet date and is deducted to the extent that the probability of making profit from the tax liability realization does not exist anymore.

(s) Earnings per share

Basic earnings per share. Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(t) Transactions eliminated on consolidation

Intra-group balances and any unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(u) Share capital and premium

Share capital represents the issued number of shares outstanding at their par value. Any excess amount of capital raised is included in share premium. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in share premium from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(v) Finance income and costs

Finance income comprises interest income on loans and accounts receivable, and exchange differences arising on financial activities. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Interest expense is recognized in profit or loss using the effective interest method.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment results that are reported to the Group's chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(x) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred, plus the recognized amount of any non-controlling interests in the acquiree, plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

(y) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(z) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

IV. RELEVANT DISCLOSURES

1. Revenue

<i>in thousand RUB</i>	2016	2015
Revenue from club cards sales	1 721 345	593 801
Revenue from related sport services rendering	879 135	366 475
Revenue from retailing and food services	100 667	60 734
Revenue from leasing	11 811	25 008
Revenue from franchising	54 932	34 242
Total	2 767 889	1 080 261

2. Cost of Sales

<i>in thousand RUB</i>	2016	2015
Outstaffing services	1 059 487	227 989
Leasing	510 464	247 824
Royalties	123 070	58 791
Amortization	136 397	89 307
Depreciation	102 071	48 935
Utilities expenses	55 228	28 464
Material costs	47 360	42 162
Cost of goods sold	19 469	7 477
Repairs and maintenance	18 577	9 291
Salary and social tax	13 756	9 749
Disinfection and cleansing	1 722	996
Cleaning services	14	1 617
Other expenses	11 567	936
Total	2 099 182	773 538

3. Selling and marketing expenses

<i>in thousand RUB</i>	2016	2015
Advertising and marketing services	138 361	40 797
Holiday organization services	2 619	1 377
Material costs	278	845
Other expenses	94	8 856
Total	141 352	51 873

4. General administrative expenses		
<i>in thousand RUB</i>	2016	2015
Salary and social tax	113 614	27 510
Material costs	74 780	15 922
Leasing	43 269	21 161
Bank services	39 382	19 424
Consulting services	27 899	15 783
Utilities expenses	16 731	2 483
Communication services	9 608	3 957
Travelling expenses	9 439	5 936
Security services	7 739	3 199
Asset repairs and maintenance	6 667	7 881
Auditors' remuneration	3 040	2 918
Cleaning services	1 893	1 555
Depreciation	1 812	1 100
Transport expenses	1 114	581
Insurance	770	791
Other expenses	19 760	12 410
Total	377 517	142 610

5. Other income		
<i>in thousand RUB</i>	2016	2015
Write-off of accounts payable	13 517	-
Exchange differences (profit)	13 051	-
Other income	9 229	7 662
Income from acquisition (see note 25)	5	28 033
Total	35 801	35 696

6. Other losses		
<i>in thousand RUB</i>	2016	2 015
Exchange differences (losses)	34 878	11 125
Write-down of accounts receivable	22 049	-
Interest and penalties under contracts	18 321	-
Loss from assets disposal	1 502	-
Shortage discovery as a result of inventory count	529	384
Sanctions, fines and penalties - losses	267	619
Loss from other disposal	41	203
Other losses and expenses	15 703	9 648
Loss from goodwill impairment	-	5 356
Total	93 290	27 336

7. Financial income and financial expenses

Financial income		
<i>in thousand RUB</i>	2016	2015
Imputed interest income on accounts receivable and payable	314	87
Loan interest receivable	91	20
Other interest receivable	13	-
Exchange differences (income) on financial activities	-	3 274
Imputed loan interest income	-	2 312
Total	418	5 692

Financial expenses		
<i>in thousand RUB</i>	2016	2015
Imputed interests on interest-free loans	28 636	52 021
Loan interest payable	7 630	4 422
Imputed interest expenses on accounts receivable and payable	3 790	2 756
Exchange differences (expenses) on financial activities	565	-
Other interest payable	19	-
Total	40 639	59 198

8. Property, plant and equipment

The major part of property, plant and equipment is acquired through business combination (see note 25) and recognized initially at fair value estimated by the Group based in reference to recent market transactions.

Improvements of leasehold property relate to initial reconstruction of the leased property to achieve fitness club standards of the Group. The fair value estimate was based on cost of recently performed improvements for determined analogues with further adjustment for property space and remained useful life as at the acquisition date.

Expenses for depreciation of property, plant and equipment are recorded in the consolidated statement of comprehensive income within the lines "Cost of sales" and "General administrative expenses" (see notes 2 and 4).

<i>in thousand RUB</i>	Improvements of leased property	Sport equipment	Office equipment	Other	TOTAL
Initial value as at 01.01.2015					
Acquisition of subsidiaries (see note 25)	498 279	97 478	6 131	44	601 932
Additions in 2015	13 725	38 485	4 740	4 295	61 246
Initial value as at 31.12.2015	512 004	135 963	10 872	4 339	663 178
Additions in 2016	1 568	32 232	30 839	92 233	156 873
Initial value as at 31.12.2016	513 572	168 196	41 711	96 572	820 051

<i>in thousand RUB</i>	Improvements of leased property	Sport equipment	Office equipment	Other	TOTAL
Accumulated depreciation as at 01.01.2015					
Depreciation accrued in 2015	(21 778)	(26 558)	(1 699)	-	(50 035)
Accumulated depreciation as at 31.12.2015	(21 778)	(26 558)	(1 699)	-	(50 035)
Depreciation accrued in 2016	(40 993)	(51 131)	(11 759)	-	(103 883)
Accumulated depreciation as at 31.12.2016	(62 771)	(77 689)	(13 458)	-	(153 918)
Carrying amount as at 31.12.2014	-	-	-	-	-
Carrying amount as at 31.12.2015	490 226	109 405	4 156	5 017	613 143
Carrying amount as at 31.12.2016	450 801	90 507	28 253	96 572	666 133

9. Goodwill

Goodwill is monitored by management at the level of 18 operating cash generating units (CGU) which correspond to fitness clubs acquired in 2015 (see note 25). A summary of the goodwill allocation is presented below.

<i>In thousand RUB</i>	Initial value as at acquisition	Impairment in 2015	Net book value as at 31.12.2015	Impairment in 2016	Net book value as at 31.12.2016
Nagatinskaia	38 346	-	38 346		38 346
Chistye Prudy	35 202	-	35 202		35 202
Park Pobedy	31 812	-	31 812		31 812
Altufievo-Sport	30 784	-	30 784		30 784
Rost Fitnes	25 068	-	25 068		25 068
Volga-Fitnes	24 753	-	24 753		24 753
Planeta	23 291	-	23 291		23 291
Fusion	22 814	-	22 814		22 814
Zhemchuzhina	22 636	-	22 636		22 636
Sun-City	20 102	-	20 102		20 102
Monarh	19 977	-	19 977		19 977
Sam-Fitnes	17 962	(5 356)	17 962		17 962
Marino	15 358	-	15 358		15 358
Other clubs	22 569	-	22 563		22 569
Total	350 675	(5 356)	350 669	-	350 675

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budget for 2016 year approved by management.

Cash flows beyond 2016 year are extrapolated using the estimated growth rates stated below.

Year	2 018	2 019	2 020	2021 and further years
Growth rate	11,43%	10,77%	10,11%	0,66% decrease per year

Growth rates for 2016 test were assessed on the basis of planned increase in prices for 2017. Growth rates beyond 2017 are assessed as decreasing by 0,66% per year achieving a long-term growth rate of 3,5% by 2030. A forecast of consumer price index for 2016 from Ministry of Economic Development was used in 2015 test due to absence of corresponding statistical data of the Group. Growth rates beyond 2016 were assessed as decreasing by 0,19% per year achieving a long-term growth rate of 3,5% by 2030.

The period of value-in-use calculation is consistent with lease terms expected by the management for each fitness club. These terms correspond to useful lives of the main non-current assets of each club which are leasehold improvements and intangible assets. The terms range from 8 to 14 years (from 9 to 15 years for 2015 test) with an average of 11 years (12 years for 2015 test).

The cash flows are discounted at pre-tax rate of 22,05% (23,86% in 2015 test). The rate is derived from the Group's weighted average cost of capital (WACC).

As a result of 2016 test no impairment loss was recognized. According to results of 2015 test, the recoverable amount of CGU "Sam-Fit" (RUB 76 695 thousand) was under its book value. An impairment loss in the amount of RUB 5 356 thousand was recognized for this CGU in 2015 (see note 25). CGU "Sam-Fit" is included into "Other regions" segment.

10. Other intangible assets

<i>in thousand RUB</i>	Customer relationship (club cards)	Customer relationship (related services)	Rights under franchise agreements	Other non-material assets	Total
Initial value 01.01.2015					
Acquisition of subsidiaries (see note 25)	290 801	208 138	32 375	3 012	534 326
Additions in 2015	-	-	-	1 705	1 705
Initial value as at 31.12.2015	290 801	208 138	32 375	4 717	536 032
Additions in 2016	-	-	-	-	-
Initial value as at 31.12.2016	290 801	208 138	32 375	4 717	536 032
Accumulated amortization as at 01.01.2015					
Amortization accrued in 2015	(28 975)	(54 942)	(4 562)	(828)	(89 307)
Accumulated amortization as at 31.12.2015	(28 975)	(54 942)	(4 562)	(828)	(89 307)
Amortization accrued in 2016	(78 164)	(50 707)	(9 202)	(376)	(138 449)
Accumulated amortization as at 31.12.2016	(107 139)	(105 648)	(13 765)	(1 204)	(227 757)
Carrying amount as at 31.12.2014	-	-	-	-	-
Carrying amount as at 31.12.2015	261 827	153 196	27 813	3 889	446 724
Carrying amount as at 31.12.2016	183 662	102 489	18 610	3 513	308 275

The main intangible assets are acquired through business combination (see note 25) and recognized at fair value. The fair value is estimated by the discounted cash flow method.

Customer relationships represent future benefits from loyal customers in connection with expected purchases of cards, relating services and food. The expected prolongation of cards and purchases of relating services and food are projected on the basis of prolongation rates confirmed by business practice of each club. The projection period was determined similar to useful lives of leasehold improvements in the corresponding club. Profit from future purchases was derived from expected profitability of 15%. Cash flows were discounted at 23% which was the Group's weighted average cost of capital (WACC).

Rights under franchise agreements represent future benefits from concluded franchise agreements as at the acquisition date. The expected cash flows were projected in accordance with the terms of agreements and expected costs. Cash flows were discounted at 23% which was the Group's weighted average cost of capital (WACC).

Amortization of customer relationships is non-linear and is calculated in accordance with the recognition of corresponding profits by the Group. Amortization of other assets with definite useful lives is carried out on a straight-line basis. Amortization expense is presented in the consolidated statement of comprehensive income within the line "Cost of sales" (see note 2).

During 2015, the Group has acquired 8 trademarks amounting of RUB 2.830 thousand (€51.500) from X-Fit Group LLC. These trademarks have been registered in the Russian Federation and are used by companies of the Group in business activities.

The trademarks under the Civil Code of the Russian Federation have a useful life of 10 years, with an unlimited possibility of renewal for a 10-year cycle. The Group intends to use the trademarks for an infinite period of years and having the right for unlimited renewal of their life, the Group has assessed their useful life to be infinite. As a result, no provision for amortization has been made. A test for impairment conducted on 31.12.2016 has not revealed indicators of impairment.

11. Inventories

<i>in thousand RUB</i>	2016	2015
Goods	7 325	7 690
Construction materials	-	15 595
Equipment and maintenance accessories	-	9 425
Other inventory	16 117	11 376
Total	23 442	44 086

12. Other receivables

<i>in thousand RUB</i>	2016	2015
Financial assets		
Receivables on construction works	119 750	114 158
Other receivables	10 281	8 036
Total financial assets	130 030	122 194
Non-financial assets		
Other taxes overpayments	1 096	1 028
Total non-financial assets	1 096	1 028
Total	131 126	123 221

13. Cash and cash equivalents

<i>in thousand RUB</i>	2016	2015
Cash at bank	128 634	133 141
Cash on hand	27 768	38 537
Transfers in transit	23 050	13 367
Other	64	-
Total	179 516	185 045

14. Share capital and share premium

<i>in thousand RUB</i>	Number of shares	Share capital	Share premium	Total
Balance at 1 January 2014	10 000	420	-	420
Balance at 31 December 2014 (1 January 2015)	10 000	420	-	420
Issue of additional shares on 13 March 2015	20 000	1 299	-	1 299
Issue of additional shares on 06 May 2015	10 000	568	12 614	13 182
Balance at 31 December 2015	40 000	2287	12 614	14 901
Balance at 31 December 2016	40 000	2287	12 614	14 901

Authorized capital

Under its Memorandum the Company fixed its share capital at 40 000 ordinary shares of nominal value of €1 each.

Issued capital

Upon incorporation on 11 August 2011 the Company issued to the subscribers of its Memorandum of Association 10 000 ordinary shares of €1 each at par.

On 13 March 2015 the Board of Directors proposed and the shareholders approved the increase of the authorized share capital to 30 000 ordinary shares and the issue of additional 20 000 ordinary shares of €1 each at par. Furthermore, on 6 May 2015 the Board of Directors proposed and the shareholders approved the increase of authorized share capital to 40 000 ordinary shares and the issue of additional 10.000 ordinary shares of €1 each with a share premium of €22,20 per share. As at 31 December 2015 the Company had a total authorized and issued share capital of 40 000 ordinary shares.

During 2016 there were no changes in the share capital.

Dividends

During the year 2016 the Board of Directors approved the payment of an interim dividend of RUB 77 201 thousand out of the profits of 2016 and a final dividend of RUB 45 479 thousand out of the profits of 2015 (2015: RUB NIL).

Defense contribution

Companies in Cyprus which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

15. Loans and borrowings

The overall structure of the Group loans is as follows:

<i>in thousand RUB</i>	2016	2015
Interest-bearing short term loans <1>	7 642	7 282
Loans from related companies <2>	-	42 305
Financial liability on business combination <3>, <4>	1 457 293	700 172
Total short-term loans	1 464 935	749 759
Loans from related companies <2>	132 860	84 436
Long-term liability to previous owners of fitness clubs <4>	-	650 236
Total long-term loans	132 860	734 672
Total loans	1 597 795	1 484 431

<1> The short term loan was granted during the year by a third party. The loan bears interest 5,00% per annum, is unsecured and is repayable by 15 September 2017. The above balance includes interest accrued of RUB 442 thousand. (2015: RUB 82 thousand).

<2> A loan from related company was granted by Wortex Global Corp. in 2015 year. The loan bears interest 5,00% per annum, is unsecured and is repayable by 31 December 2020. The above balance includes interest accrued of RUB 10 460 thousand (2015: RUB 4.340 thousand).

<3> Short-term loans of the Group from other entities are interest-free short term loans due in rubles, the carrying amount of these loans equals their nominal amount. In 2015 these loans have been acquired as a part of "XFIT Service" LLC acquisition (see note 25). As at 31.12.2016 these liabilities are due to RDTEx Information Technologies Ltd according contracts of cession of rights.

<4> Long-term liability to previous owners of fitness clubs with a carrying amount of RUB 650 236 thousand represents payables for the acquisition of the customer relationships, lease rights and inventories of fitness clubs in 2015 (see note 25). The principal amount RUB 678 865 thousand is due in Russian Rubles on June - September 2018. The loans are interest-free from acquisition date till April 1, 2016 and starting from that date the interests are accrued at the rate of 20.15% p.a. and are payable quarterly. As at 31.12.2016 the liabilities were owned by RDTEx Information Technologies Ltd according contracts of cession of rights and were overdue.

The following rates were used to determine the fair value of these interest-free loans upon origination:

Weighted average market interest rates on the current year loans:

Year	RUB
2015	18,81 %
2016	Was not used

16. Short-term accounts payable

<i>in thousand RUB</i>	2016	2015
Financial liabilities		
Payables to suppliers (operating activity)	144 992	100 955
Accounts payable from short-term investments into non-current assets	21 444	-
Payables interest and penalties for contracts (see note 31)	18 321	-
Other current payables	5 710	8 105
Total financial liabilities	190 468	109 060
Non-financial liabilities		
Advances received	10 599	-
Total non-financial liabilities	10 599	-
Total	201 067	109 060

17. Deferred revenue

<i>in thousand RUB</i>	2016	2015
Club cards	1 182 799	1 013 199
Deferred income on discounts (IFRIC13)	55 519	70 417
Total	1 238 319	1 083 616

18. Other liabilities

<i>in thousand RUB</i>	2016	2015
VAT	14 732	9 565
Vacation provision	10 448	2 045
Income tax	8 087	5 955
Salaries payable	5 222	1 717
Social charges	3 323	1 580
Other taxes	1 734	766
Property tax	1 176	-
Total	44 721	21 629

19. Employee benefits

The Group and its employees contribute to the Government Social Insurance Fund based on employees' salaries. The Company's contributions are expensed as incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee services rendered in the current and prior periods.

20. Income tax

Income tax in the Statement of Comprehensive Income in profit and losses includes:

Components of income tax expense:

<i>In thousand RUB</i>	2 016	2 015
Current income tax (Russia)	25 576	7 163
Current income tax (Cyprus)	1 443	-
Deferred income tax	(21 330)	5 198
Total income tax expense	5 689	12 361

Tax rate is 12,5% for parent company in Cyprus and 20% for its subsidiaries in Russia. The deferred tax in Russian subsidiaries as at 31 December 2016 was calculated at the 20% rate.

Reconciliation between the expected and the actual tax charge is provided below:

<i>In thousand RUB</i>	2 016	2 015
Profit before tax	(45 851)	97 979
Tax rates	20,00%	12,50%
Tax income (expense) calculated at the applicable tax rates	9 170	(12 247)
Tax effect of expenses not deductible for tax purposes	(13 416)	(2 710)
Tax effect of allowances and income not subject to tax	13 634	5 624
Tax effect of tax losses brought forward	11	5
10% additional tax charge	(131)	
Tax income (expense)	(4 246)	(12 361)

The basis of temporary differences between the value of assets and liabilities in the Statement of financial position and their tax bases are the differences between IFRS and the legislation on taxes and duties of countries in which the Group companies are operating. The sources of temporary differences and the tax effect of the change in temporary differences are presented in the table below.

Deferred tax assets (liabilities) classified by types of assets and liabilities which formed differences (net):

<i>In thousand RUR</i>	As at 01 January 2016	Addition as a result of acquisition	Recognized in the Statement of Comprehensive Income in profit and losses	As at 31 December 2016
Property, plant and equipment and construction in progress	(39 555)	-	5 986	(33 568)
Intangible assets	39 005	-	26 686	65 691
Receivables	36 788	-	5 357	42 145
Deferred income (Sport offers prepaid)	38 823	-	(27 719)	11 104
Deferred tax losses for the future	3 373	4	(3 373)	4
Financial liabilities	(5 727)	-	5 727	(0)
Other	2 850	-	8 666	11 516
Net deferred tax asset (liability)	75 557	4	21 330	96 891
<i>Recognized in the Statement of Financial Position:</i>				
<i>Deferred tax asset</i>	<i>107 267</i>			<i>112 669</i>
<i>Deferred tax liability</i>	<i>(31 710)</i>			<i>(15 778)</i>

<i>In thousand RUB</i>	As at 01 January 2015	Addition as a result of acquisition	Recognized in the Statement of Comprehensive Income in profit and losses	As at 31 December 2015
Property, plant and equipment and construction in progress	-	(42 411)	2 856	(39 555)
Intangible assets	-	21 309	17 696	39 005
Receivables	-	7 188	29 600	36 788
Deferred income	-	98 227	(59 404)	38 823
Deferred tax losses for the future	-	9 788	(6 414)	3 373
Financial liabilities	-	(15 669)	9 942	(5 727)
Other	-	2 315	527	2 850
Net deferred tax asset (liability)		80 748	(5 198)	75 557
<i>Recognized in the Statement of Financial Position:</i>				
<i>Deferred tax asset</i>	<i>-</i>	<i>145 952</i>	<i>-</i>	<i>107 267</i>
<i>Deferred tax liability</i>	<i>-</i>	<i>(65 204)</i>	<i>-</i>	<i>(31 710)</i>

21. Operating lease payments

The Group has agreements, including non-cancellable operating lease agreements for premises, where the sports clubs are located. The cost of future minimum lease payments under such agreements is presented in the table below.

Minimum lease payments under non-cancellable operating leases payable in the following periods (nominal value, denominated in RUB or USD)

<i>in thousand RUB</i>	31.12.2016			31.12.2015		
	Total	Denominated in RUB	Denominated in USD	Total	Denominated in RUB	Denominated in USD
Short-term	410 876	409 425	1 451	446 978	397 184	49 794
1 -5 years	1 337 011	1 330 954	6 058	1 377 761	1 168 534	209 227
Over 5 years	1 188 221	636 476	551 745	1 290 438	821 303	469 135
Total	2 936 108	2 376 855	559 253	3 115 177	2 387 021	728 156

22. Related parties

Transaction balances and transactions with related parties

Term "related party" is defined in IAS 24 "Related Party Disclosures". Parties are usually considered related if they are under common control, one of them has control, significant influence or joint control over the other in financial or operating decision making. In relations of parties which can be related it is important to take into account substance of relations, but not their legal form.

Turnover and balance disclosures with related parties under transactions performed by the Group in the reporting period are presented in the following tables. Transactions refer to settlement of accounts with related parties in the category "Other related parties" which includes companies under common control of the Group's owner.

The members of the Board of Directors are as follows: Myrianthi Petrou, Andreas Christofi, Andreas Konialis.

Related party of the parent company is Worteck Global Corp is classified as "Other related party" in disclosures below.

Settlement of accounts with related parties:

<i>in thousand RUB</i>	Other related parties	
	2016	2015
Expenses incurred	-	5
Loans received during the period	-	126 740
Interest accrued on loans	10 460	4 340

Account balances with related parties:

<i>in thousand RUB</i>	Other related parties	
	2016	2015
Other receivable	-	1 470
Total assets	-	1 470
Loans payable	132 860	126 747
Other payables	-	16
Total liabilities	132 860	126 763

Key management personnel expenses (3 employees):

<i>in thousand RUB</i>	Benefits in 2016	Benefits in 2015
Short-term benefits paid to key management personnel	1 569	364
Social security contributions	471	109
Total	2 040	364

There are no settlements of account balances with key management personnel as at the reporting dates.

Ultimate controlling party

As at 31 December 2016, Intraware Investments Public Ltd does not have a single ultimate controlling party, however the major shareholders of the Company are as follows.

The major shareholders of Intraware Investments Public Ltd.:

Shareholders	The number of shares	Percentage of the total number of shares
Transpay Holdings Ltd.	16 000	40%
Brigidi Holdings Ltd.	7 100	17,75%
Farnon Management Ltd.	3 600	9%
TOTAL	26 700	66,75%

In addition, several members of the Board control some insignificant shares: Myrianthi Petrou is a Chairwoman of the Board who controls 0,0025% (1 share) and Andreas Christofi is a member of the Board who controls 0,0025% (1 share).

23. Earnings per share

<i>Rubles per share</i>	2016	2015
Basic earnings per share		
from continuing operations	1 288	1 677
Total basic earnings per share	1 288	1 677

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Group has no dilutive securities such as convertible securities, options and warrants on shares and other rights, as well as contractual obligations for shares issue in future.

The following table reflects the income and share data used in the basic EPS computations:

	2016	2015
Profit attributable to ordinary equity holders of the parent:		
Continuing operations	51 507	54 817
Profit attributable to ordinary equity holders of the parent	51 507	54 817

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

24. Operating segments

Management of the Group has chosen to operate each of the fitness clubs by separate legal entities that consolidate all the cash flows that are relevant for that component. Operating segments of the Group are the fitness clubs operated by the Group and correspond to 20 FOK entities in 2016 and 18 - in 2015 (see note 25). All these entities and segments are engaged in similar activities and are all located in Russian Federation.

All the operating segments (fitness clubs) of the Group exhibit similar long-term financial performance as they have similar economic characteristics. Therefore for the purposes of segment information disclosure the Group has aggregated all the operating segments being similar in each of the following respects:

- (a) the nature of the products and services;
- (b) the nature of the production processes;
- (c) the type or class of customer for their products and services;
- (d) the methods used to distribute their products or provide their services;
- (e) and the nature of the regulatory environment.

The Group has designated the aggregated operating segments in Moscow (11 legal entities or 11 fitness clubs aggregated to a segment 'Fitness clubs in Moscow') and other regions of Russia (9 legal entities or 9 fitness clubs aggregated to a segment 'Fitness clubs in other regions') as separate reporting segments given that, according to perception of the management, these regions demonstrate different stages of economic development and therefore their economic performance may be different in the future.

Transactions between reportable segments and with other operating segments of the Group (primarily lease) are normally conducted under arm's length basis.

Financial information in respect of operating segments for 12 months ending 31.12.2016

<i>in thousand RUB</i>	Fitness clubs in Moscow	Fitness clubs in other regions	Other minor segments	Total according to financial statements of the Group
Revenues from external customers, including:	1 764 458	918 443	84 989	2 767 889
<i>Revenue from club cards sales</i>	1 067 191	634 303	19 850	1 721 345
<i>Revenue from related services and retail</i>	695 704	284 097	-	979 802
<i>Other revenue (operating lease and franchising)</i>	1 562	43	65 138	66 743
Revenues from transactions with other operating segments of the Group	2 434	-	743 231	745 665
Costs from transactions with other operating segments of the Group	(408 745)	(208 660)	(128 260)	(745 665)
Cost of goods sold, selling and marketing and other administrative expenses	(1 346 123)	(644 849)	(627 080)	(2 618 052)
Depreciation and amortization	(140 620)	(79 278)	(20 382)	(240 280)
Financial income (expenses)	(18 772)	(10 434)	(11 014)	(40 220)
Income tax gains (expenses)	(1 879)	(15 602)	11 791	(5 689)
Profit or loss for the segment	(26 526)	35 900	37 065	46 439

Tangible fixed assets of the segment	336 323	226 842	102 968	666 133
Goodwill allocated to the segment	190 804	145 407	19 820	356 031
Other intangible assets recognized at fair value on acquisition of the entities	183 440	102 712	18 610	304 762
Cash of the segment	50 854	25 867	102 795	179 516
Total assets of the reportable segment	1 898 638	1 160 717	27 967	3 087 322
Total liabilities of the reportable segment	1 404 289	743 095	950 296	3 097 680

Financial information for operating segments for the period since acquisition till 31.12.2015

<i>in thousand RUB</i>	Fitness clubs in Moscow	Fitness clubs in other regions	Other minor segments	Total according to financial statements of the Group
Revenues from external customers, including:	673 823	335 753	70 685	1 080 261
Revenue from club cards sales	362 096	220 181	11 525	593 801
Revenue from related services and retail	311 697	115 513	-	427 209
Other revenue (operating lease and franchising)	31	60	59 160	59 250
Revenues from transactions with other operating segments of the Group	682	-	290 456	291 138
Costs from transactions with other operating segments of the Group	(162 653)	(79 326)	(49 159)	(291 138)
Cost of goods sold, selling and marketing and other administrative expenses	(451 048)	(216 050)	(300 924)	(968 022)
Depreciation and amortization	(79 983)	(49 776)	(9 582)	(139 341)
Financial income (expenses)	(32 714)	(16 994)	(3 797)	(53 506)
Income tax gains (expenses)	(11 765)	(8 268)	7 671	(12 361)
Profit or loss for the segment	12 164	13 391	29 178	54 733
 Tangible fixed assets of the segment	 325 472	 269 320	 18 351	 613 143
Goodwill allocated to the segment	190 804	145 407	19 815	356 025
Other intangible assets recognized at fair value on acquisition of the entities	268 434	146 589	27 813	442 836
Cash of the segment	55 000	44 226	85 819	185 045
Total assets of the reportable segment	1 468 302	960 325	367 702	2 796 328
Total liabilities of the reportable segment	1 130 594	675 351	924 500	2 730 446

25. Business combination

During the period from May 22, 2015 till December 8, 2015 the Group had acquired 98% of the shares in fitness businesses operating under the "X-fit" brand represented by the following 18 companies registered and located in Russia:

- FOK "Monarh" LLC
- FOK "Senator" LLC
- FOK "Fusion" LLC

- FOK "Planeta" LLC
- FOK "Nagatinskaia" LLC
- FOK "Marino" LLC
- FOK "Rost Fitness" LLC
- FOK "Chistye Prudy" LLC
- FOK "Terra" LLC
- FOK "Ak Bars" LLC
- FOK "Volga Fitness" LLC
- FOK "Olimp" LLC
- FOK "Zchemchuzhina" LLC
- FOK "Sam Fitness" LLC
- FOK "Sun City" LLC
- FOK "Platinum" LLC
- FOK "Park Pobedy" LLC
- "Altufeyvo Sport" LLC

The purchase consideration for these business acquisitions amounts to RUB 144 000 thousand which was contributed to the charter capitals of the acquired companies in cash.

In addition to the above subsidiaries, the Group obtained control over the company LLC "XFIT Service". On 1 June 2015, the Group expressed its intention to acquire 98% of the share capital of LLC "XFIT Service" to become the majority shareholder by contributing an amount of RUB 9 000 thousand. The shareholders of LLC "XFIT Service" accepted the letter of intent by resolution and notified the Group by a letter of acceptance. The Group has further appointed its own director to the Board of Directors of LLC "XFIT Service" in order to have an active and continuous role in the management of the Group and its day to day operations. The director was appointed as a fully authorized representative of the Group, having unlimited and full rights as to the activities of LLC "XFIT Service", its investments, its financing, any amendments to its corporate structure, any new business or activities introduced to LLC "XFIT Service", distribution of dividends, approval of financial transactions and any other actions relating to the acquisition and valuation of assets, on which the decisions are made by the Board of Directors of LLC "XFIT Service". In addition, the appointed director has the right of veto any vote of the Board of Directors of LLC "XFIT Service" relating to the aforementioned.

In January 2016, the Group obtained control over the activities of 2 additional fitness-clubs: FOK "Mosfilmovskaya" LLC (where the Group has undertaken to acquire 98% of voting stock) and "RTI-Finance" LLC (where the Group has undertaken to acquire only 49% of voting stock but all the economic decisions are going to be made by the Group). Control has been obtained on the terms identical to those described in respect of LLC "XFIT Service" above.

The assets and liabilities recognized as a result of the acquisition of the companies described above are as follows:

	2016	2015
Property, plant and equipment		601 932
Intangible assets		534 326
Deferred tax assets	4	145 952
Inventories		120 914
Accounts receivable		559 004
Other assets		123 834
Cash	13	95 619
Deferred tax liabilities		(65 204)

Loans and borrowings		(1 379 246)
Accounts payable	(13)	(92 347)
Deferred revenue		(832 530)
Net identifiable assets acquired	4	(187 746)
Less: non-controlling interests	(5)	3 755
Add: goodwill	6	356 025
Less: gain from acquisition	(5)	(28 033)
Purchase consideration	-	144 000

The goodwill is attributable to the high profitability of the acquired businesses. It will not be deductible for tax purposes. The gain from acquisition (in 2015) is attributable to obtaining control of LLC "XFIT Service".

The businesses acquired in 2016 contributed revenues of RUB 57 798 thousand and net loss of RUB 14 474 thousand (business acquisitions of 2015 contributed revenues of RUB 1 080 261 thousand and net profit of RUB 71 623 thousand) to the Group.

Business acquisitions in 2016 occurred in January. Business acquisitions in 2015 occurred throughout the year (mainly in the middle of the year). It is impracticable to reliably calculate the revenue and profit of the acquired entities for 2015 as though the acquisition date for all business combinations that occurred during 2015 had been as of the beginning of the reporting period for 2015.

26. Non-controlling interest

Non-controlling interest relate to 2% of equity in subsidiaries which are held by other parties. The Group recognizes non-controlling interests at their proportionate share of the acquired entity's net identifiable assets, see note 25.

27. Joint venture in the form of joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In accordance with IFRS 11 the club "Ak-Bars" in Kazan was classified by the Group as a joint operation. The club operates in a building and uses in their work equipment owned by the partner in joint venture. The Group has the full right to all assets and bears full responsibility for all liabilities presented in the financial statements. Under the agreement, the Group's share in the financial result of the club is 22%. Therefore, revenue and expenses are presented in the amount of 22% in the statement of comprehensive income.

28. Financial risks management

The operations of the Group are exposed to a number of financial risks. Major risks inherent to the Group's operations are credit risk, liquidity risk, foreign exchange risk, fair value interest rate risk, market risk, compliance risk, operational risk and cash flow interest rate risk.

The Group's financial risk management program is focused on the unpredictability of financial markets and is aimed at minimizing potential adverse effects on the Group's financial results. The

Group's finance department is responsible for risk management; it develops general risk management principles and policies for solving specific risk-related issues.

Description of the Group's management of the above risks is presented below.

(i) Foreign currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will change as a result of a change in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates is presented in the table below.

The foreign currency risk is minimized by concluding contracts with customers and suppliers in the relevant functional currency of the Group.

Foreign currency financial assets and liabilities (carrying value):

<i>in thousand RUB</i>	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Denominated in USD		Denominated in EUR	
Cash	-	-	67 809	53 586
Accounts receivable	-	-	1 307	-
Total financial assets	-	-	69 116	53 586
Accounts payable	(24 642)	(22 286)	(2 275)	(7 052)
Loans	-	-	-	-
Total financial liabilities	(24 642)	(22 286)	(2 275)	(7 052)
Total	(24 642)	(22 286)	66 841	46 534

Currency risk sensitivity analysis

The following table demonstrates the sensitivity of changes in profit or loss and retained earnings caused by increase of USD and Euro exchange rates. Currency deterioration will have the same effect but with a negative sign. These possible changes in exchange rates reflect the reasonable management assumption on the exchange rate volatility as at the reporting date. Since the net position of the Group in regard to financial instruments denominated in foreign currency is positive, the increase of the exchange rates will increase profits, and the decrease of the exchange rates will cause losses.

Sensitivity to increase of the exchange rates:

<i>in thousand RUB</i>	31.12.2016	31.12.2015
US dollar exchange rate – increase 10%	(2 464)	(446)
Euro exchange rate – increase 10%	6 684	11 168

(ii) Interest rate risk

Interest rate risk is related to the changes in fair value (financial instruments with floating interest rates) or future cash flows (financial instruments with fixed interest rates) because of changes in market interest rates. The structure of the Group's loans and borrowings by type of interest rate is presented in the table below.

Classification of loans and borrowings by type of interest rate:

<i>in thousand RUB</i>	31.12.2016	31.12.2015
Loans and borrowings (issued) with fixed interest rate	9 099	3 822
Loans and borrowings (received) with fixed interest rate	(1 597 795)	(1 484 430)
<i>Except for the loans received with a zero interest rate</i>	(1 457 293)	(1 350 409)
Total	(1 588 696)	(1 480 608)

(iii) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has significant concentration of credit risk relating to cash at bank and receivables from related and third parties. The Company has policies in place to ensure that it monitors on a continuous basis the ageing profile of its receivables.

The Group's maximum exposure to credit risk by class of assets equals to the carrying amounts of financial assets in the statement of financial position as follows:

Financial assets

<i>in thousand RUB</i>	31.12.2016	31.12.2015
Long-term loans issued	3 500	-
Short-term accounts receivable	280 656	279 923
Short-term loans issued	5 599	3 822
Cash	179 516	185 045
Total	469 271	468 790

The table below shows the balances of the Group's bank accounts as at the reporting date.

Cash

<i>in thousand RUB</i>	Moody's rate	31.12.2016	31.12.2015
OJSC "Sberbank of Russia"	Ba2/NP	71 295	80 011
Eurobank Cyprus Ltd	Caa3	67 637	53 091
OJSC "AK Bars" Bank	B2/NP	5 289	7 751
OJSC "Alpha Bank", Rostov branch	Ba2/NP	2 310	4 297
JSCB "Energobank"	-	1 274	1 359
Credit Europe Bank Ltd.	B1/NP	5	
JSC VTB Bank	Ba2/NP	3 938	
Total		151 749	146 508

Financial assets that are either past due or impaired

The management of the Group believes that there are no reasons to think that any of counterparties have indicators of failing to fulfill its obligations regarding financial instruments in the future. Analysis of the quality of financial assets is shown in the table below.

Analysis of short-term trade and other receivables by credit quality

<i>in thousand RUB</i>	2016		2015	
	Accounts receivable	Loans issued	Accounts receivable	Loans issued
Current, not past due and not impaired	280 656	5 599	278 425	3 822
Past due, but not impaired				
• past due 90-180 days	-	-	1 498	-
Total past due, but not impaired	-	-	1 498	-
Individually impaired (nominal amount)				
• past due more than 360 days	-	-	21	-
Total individually due	-	-	21	-
Provisions for impairment	-	-	(21)	-
Total	280 656	5 599	279 923	3 822

(iv) Defaults and violation of loans' repayment terms

As at 31.12.2016 the Group has overdue loans in the amount of RUB 1 140 351 thousand.

Previously the Group had liabilities to fitness clubs owners in the amount of RUB 678 376 thousand which were assigned by the previous fitness clubs owners to RDTEX Information Technologies Ltd. In accordance with the agreements the loans are interest-free, but in case the debtor fails to pay off the full amount before a certain date, the creditor has the right to:

- unilaterally increase the annual interest rate up to 20.15%;
- claim the penalties at the daily rate of 0.06%.

As at December 31, 2016 FOK "Fusion", one of the subsidiaries, did not settle the obligations, and RDTEX Information Technologies Ltd. commenced a lawsuit against it claiming the debt, additional interest and penalties for payment delay. The parties agreed to restructure obligations. An additional liability was recognized in the financial statements of the Group (see note 16, 31).

Apart from FOK "Fusion" other subsidiaries also failed to pay the debts due as of 31.12.2016 (see note 15). Theoretical impact of additional amounts that could be demanded by RDTEX Information Technologies Ltd. is approximately RUB 203 308 thousand.

However in March 2017 the Group received a Letter of Intent from RDTEX Information Technologies Ltd. management confirming their intentions not to claim its above-stated rights under the agreements in addition to the principal amounts of the loans.

On the ground of the Letter received and steady mutually beneficial partnership relations (as the parties also have other mutually beneficial relations), the management of the Group believes that RDTEX Information Technologies Ltd. will not demand interest and penalties payments. Therefore no provision for the interest and penalties has been recognized in these financial statements.

(v) Capital risk

Capital includes equity shares and share premium as well as short and long-term borrowings.

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

(vi) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments.

(vii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to repay its liabilities. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and access to funding through open credit facilities and the possibility of operational management in the event of a misbalance. The Group management exercises careful control over liquidity status. The Group developed a budgeting system that includes planning cash flows and controls in order to ensure the necessary funds to meet financial needs.

Management of the Group also monitors the amounts of financing, current investment expenditures and debt financing on a daily basis, monitors revenue and analyses expenditure structure, and monitors meeting the planned results for timely debt repayment.

The table below breaks down the Group's financial liabilities by maturity (liquidity) categories determined by contractual terms of payments. The data in the table below is undiscounted cash flows. Cash flows arising within 12 months after the balance sheet date are approximately equal to their carrying balances as the impact of discounting is not significant.

The line "Accounts payable" includes all accounts payable of the Group except for those that do not correspond the definition of the financial instrument, therefore, with the exception of advances received and tax liabilities.

Financial liabilities as at 31.12.2016

<i>in thousand RUB</i>	Less than 1 month (and past due)	1-6 months	6 months to 1 year	1-5 years	Total
Accounts payable	15 670	74 504	115 963	-	206 138
Loans and borrowings received	1 140 351	316 935	7 642	162 208	1 627 135
Total financial liabilities	1 156 021	391 439	123 605	162 208	1 833 273

Financial liabilities as at 31.12.2015

<i>in thousand RUB</i>	Less than 1 month (and past due)	1-6 months	6 months to 1 year	1-5 years	Total
Accounts payable	14 574	81 305	16 942	-	112 822
Loans and borrowings received	-	-	749 755	766 971	1 525 099
Total financial liabilities	14 574	81 305	755 748	766 971	1 618 600

(viii) Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due

to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Group.

(ix) Operational risk

Operational risk is the risk that derives from the deficiencies relating to the Group's information technology and control systems as well as the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously.

29. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes that the transaction to asset sell or liability transfer occurs:

- either on the main market for the asset or liability;
- or on the most advantageous market for the asset or liability in case of absence of the main market.

Financial assets and liabilities of the Group are not traded on active markets. Therefore the fair value of financial assets and liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices that are used in existing transactions on the current market.

Assets and liabilities whose fair value is estimated or disclosed in the financial statements are classified as described below under the fair value hierarchy based on the data of the lowest level input that is significant to the fair value measurement in general:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (without any adjustment);
- Level 2 - measurement models, which are essential for data fair value assessment of the lowest level of the hierarchy, are directly or indirectly observable on the market;
- Level 3 - measurement models, which are essential for data fair value assessment of the lowest level of the hierarchy, are not observable on the market.

Classifying financial instrument to any of the category of the fair value hierarchy, Group use an appropriate judgment. If observable data that require significant adjustment is used in fair value measurement, the financial instrument needs to be classified to Level 3. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The tables below shows the hierarchy of the data sources used for the recognition or disclosure of assets and liabilities fair value of the Group in 2016 year.

(i) Multiple and single estimates of fair value.

Multiple estimates of fair value are estimates required or permitted by IFRS in the statement of financial position at the end of each reporting period. Single estimates of fair value are estimates required or permitted by IFRS in the statement of financial position at the end of the period under certain conditions. As at the reporting date the Group had no financial assets and liabilities that require multiple and single estimates of fair value as at the reporting date.

(ii) Assets and liabilities that are not measured at fair value but disclosed at fair value.

At the Level 2 and Level 3 of the fair value hierarchy its estimation has been performed using method of discounted cash flows. Fair value of unquoted financial instruments with floating interest rate was assumed equal to the book value. The fair value of unquoted instruments with fixed interest rate is based on the method of discounted cash flows using current market interest rates for new instruments with similar credit risk and maturity.

Financial instruments carried at fair value. Cash and cash equivalents are carried at cost which approximates the current fair value.

Financial assets carried at amortized cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortized cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities was estimated based on expected cash flows discounted at current interest rates for instruments with similar credit risk and remaining maturity.

The Group has the following categories of financial instruments:

<i>in thousand RUB</i>	Carrying amount		Fair value		Level	Initial data	Valuation method
	31.12.2016	31.12.2015	31.12.2016	31.12.2015			
Financial assets, liabilities and accounts receivable							
Long-term loans advanced	3 500	-	3 500	-	Level 3	Market loan rates	Discounted Cash Flows
Short-term accounts receivable	280 656	279 923	280 656	279 923	Level 3	Market loan rates	Discounted Cash Flows
Short-term loans advanced	5 599	3 822	5 599	3 822	Level 3	Market loan rates	Discounted Cash Flows
Cash	179 516	185 045	179 516	185 045	Level 1	-	-
Total financial assets, liabilities and accounts receivable	469 271	468 790	469 271	468 790	-	-	-
Financial liabilities at amortized cost							
Long-term loans and borrowings received	(132 860)	(734 671)	(132 860)	(734 671)	Level 3	Market loan rates	Discounted Cash Flows
Short-term loans and borrowings received	(1 464 935)	(749 759)	(1 464 935)	(749 759)	Level 3	Market loan rates	Discounted Cash Flows
Short-term accounts payable	(206 138)	(112 822)	(206 138)	(112 822)	Level 3	Market loan rates	Discounted Cash Flows
Total financial liabilities at amortized cost	(1 803 932)	(1 597 253)	(1 803 932)	(1 597 253)	-	-	-

30. Contingencies and commitments

Guarantees. In 2016 the Group did not issue any guarantees.

Assets pledged as security. The Group does not have pledged assets.

Litigation. From time to time in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, it is management's opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the regional and federal authorities. Recent events in Russia suggest that the tax authorities may be taking a more assertive position in their interpretation of legislation and their assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect to taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. Management believes that the Group has no possible unaccounted tax obligations in 2016 that have not been provided for in these consolidated financial statements.

The Group had no other commitments as at 31 December 2016.

31. Subsequent events

As at 31 December, 2016, one of the subsidiaries, FOK "Fusion", had overdue accounts payable in the amount of RUB 66 495 thousand. The Creditor (RDTEX Information Technologies Ltd) sued the company for the principal amount of the loan in the amount of RUB 66 495 thousand and penalties in amount of RUB 21 697 thousand. After the balance sheet date, it was agreed that FOK "Fusion" will repay the principal amount of the loan in the amount of RUB 66 495 thousand and penalties on overdue repayment of the loan in the amount of RUB 18 321 thousand within the following 2 years. The additional liability has been recognized in these financial statements.

On 27 April 2017 the Board of Directors of IntraWare Investments Public Ltd authorized these financial statements for issue.

Director



Myrianthi Petrou

Director



Andreas Christofi