# DETSKY MIR GROUP

Interim Condensed Consolidated
Financial Information (Unaudited)
Half-Year Ended 30 June 2017

# DETSKY MIR GROUP

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**DETSKY MIR GROUP**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2017 (UNAUDITED)**

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of Public Joint Stock Company "Detsky Mir" (the "Company") and its subsidiaries (the "Group") as at 30 June 2017, and the consolidated results of its operations, cash flows and changes in equity for the half-year then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards of the jurisdictions the Group's subsidiaries are operating in;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the half-year ended 30 June 2017 was approved on 23 August 2017.

| | |
|---|---|
| **V.S. Chirakhov** | **A.S. Garmanova** |
| Chief Executive Officer | Chief Financial Officer |
| PJSC Detsky Mir | PJSC Detsky Mir |

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**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

To: Shareholders and Board of Directors of Public Joint Stock Company "Detsky Mir":

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company "Detsky Mir" (the "Company") and its subsidiaries (the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the half-year then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information does not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2017, and its consolidated financial performance and its consolidated cash flows for the half-year then ended in accordance with IAS 34 *Interim Financial Reporting*.

Vladimir Biryukov,
Engagement partner

DELOITTE & TOUCHE

23 August 2017

The Entity: PJSC "Detsky mir"

State Registration Certificate No. 7701233499 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 29 for Moscow on 13.09.1999.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 117415, Russia

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

## DETSKY MIR GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2017 (UNAUDITED)

***(in millions of Russian Rubles, except earnings per share)***

| | Notes | For the half-year ended 30 June 2017 | For the half-year ended 30 June 2016 |
|---|---|---|---|
| REVENUE | 3 | 42,096 | 33,736 |
| COST OF SALES | | (28,325) | (22,529) |
| GROSS PROFIT | | 13,771 | 11,207 |
| Selling, general and administrative expenses | 4 | (11,627) | (9,562) |
| Interest in earnings of associates, net of income tax | | - | 9 |
| Other operating expenses, net | | (31) | (14) |
| OPERATING PROFIT | | 2,113 | 1,640 |
| Finance income | | 22 | 117 |
| Finance expense | 5 | (960) | (965) |
| Foreign exchange (loss)/gain | | (120) | 44 |
| PROFIT BEFORE INCOME TAX EXPENSE | | 1,055 | 836 |
| Income tax expense | 6 | (350) | (209) |
| NET PROFIT FOR THE PERIOD | | 705 | 627 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Effect of translation to presentation currency | | 18 | 63 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **723** | **690** |
| **Earnings per share** | | | |
| Weighted average number of shares outstanding, basic and diluted | | 738,994,168 | 739,000,000 |
| Earnings per share, basic and diluted (in Russian Rubles per share) | | 0.95 | 0.85 |

The Notes on pages 7 to 16 form an integral part of this interim condensed consolidated financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 (UNAUDITED)

*(in millions of Russian Rubles)*

| | Notes | 30 June 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment | 7 | 6,656 | 6,943 |
| Intangible assets | 7 | 1,479 | 1,301 |
| Long-term loans receivable | 8 | - | 1,060 |
| Deferred tax assets | | 1,552 | 1,708 |
| Other non-current assets | | 258 | 263 |
| **Total non-current assets** | | **9,945** | **11,275** |
| **CURRENT ASSETS:** | | | |
| Inventories | 9 | 24,413 | 24,796 |
| Trade receivables | | 1,944 | 3,855 |
| Advances paid and other receivables | | 2,170 | 2,351 |
| Other taxes receivable | | 9 | 7 |
| Cash and cash equivalents | 10 | 545 | 2,445 |
| **Total current assets** | | **29,081** | **33,454** |
| **TOTAL ASSETS** | | **39,026** | **44,729** |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY DEFICIT:** | | | |
| Share capital | | 1 | 1 |
| Additional paid-in capital | | 5,793 | 5,793 |
| Treasury shares | 12 | (43) | - |
| Accumulated deficit | | (8,087) | (6,362) |
| Currency translation reserve | | 132 | 114 |
| **Total equity deficit** | | **(2,204)** | **(454)** |
| **NON-CURRENT LIABILITIES:** | | | |
| Long-term loans and borrowings | 13 | 6,708 | 6,514 |
| Deferred tax liabilities | | 76 | 69 |
| **Total non-current liabilities** | | **6,784** | **6,583** |
| **CURRENT LIABILITIES:** | | | |
| Trade accounts payable | | 18,597 | 25,215 |
| Short-term loans and borrowings and current portion of long-term loans and borrowings | 13 | 8,984 | 8,124 |
| Advances received, other payables and accrued expenses | 14 | 6,471 | 3,834 |
| Deferred revenue | | 327 | 816 |
| Income tax payable | | 67 | 611 |
| **Total current liabilities** | | **34,446** | **38,600** |
| **Total liabilities** | | **41,230** | **45,183** |
| **TOTAL EQUITY AND LIABILITIES** | | **39,026** | **44,729** |

The Notes on pages 7 to 16 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE HALF-YEAR ENDED 30 JUNE 2017 (UNAUDITED)**
***(in millions of Russian Rubles)***

| | Notes | Share capital | Additional paid-in capital | Treasury shares | Accumu-lated deficit | Currency translation reserve | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | | **1** | **5,793** | **-** | **(5,448)** | **49** | **395** |
| Profit for the year | | - | - | - | 627 | - | 627 |
| Effect of translation to presentational currency | | - | - | - | - | 70 | 70 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **627** | **70** | **697** |
| Exercise of share based payments | 15 | - | - | - | (307) | | (307) |
| Dividends declared | 11 | - | - | - | (1,308) | - | (1,308) |
| **Balance as at 30 June 2016** | | **1** | **5,793** | **-** | **(6,436)** | **119** | **(523)** |
| **Balance as at 1 January 2017** | | **1** | **5,793** | **-** | **(6,362)** | **114** | **(454)** |
| Profit for the year | | - | - | - | 705 | - | 705 |
| Effect of translation to presentational currency | | - | - | - | - | 18 | 18 |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **705** | **18** | **723** |
| Recognition of share-based payments | 15 | - | - | - | 142 | - | 142 |
| Purchase of treasury shares | 12 | - | - | (43) | - | - | (43) |
| Dividends declared | 11 | - | - | - | (2,572) | - | (2,572) |
| **Balance as at 30 June 2017** | | **1** | **5,793** | **(43)** | **(8,087)** | **132** | **(2,204)** |

The Notes on pages 7 to 16 form an integral part of this interim condensed consolidated financial information.

## DETSKY MIR GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE HALF-YEAR ENDED 30 JUNE 2017 (UNAUDITED)
***(in millions of Russian Rubles)***

| | For the half-year ended | |
|---|---|---|
| | **30 June 2017** | **30 June 2016** |
| **OPERATING ACTIVITIES:** | | |
| Net profit for the period | 705 | 627 |
| *Adjustments for:* | | |
| Income tax expense | 350 | 209 |
| Finance income | (22) | (117) |
| Finance expenses | 960 | 965 |
| Loss on disposal of fixed assets and intangible assets | 33 | 2 |
| Bad debts written-off and change in allowance for doubtful accounts | (11) | 12 |
| Shrinkage and merchandise inventories obsolescence expenses | 687 | 785 |
| Depreciation and amortization | 874 | 771 |
| Loss/(gain) on foreign exchange | 120 | (45) |
| Interest in earnings of associates, net of income tax | - | (9) |
| *Changes in working capital:* | | |
| Decrease/(increase) in trade receivables | 1,909 | 860 |
| Decrease/(increase) in other receivables and advances paid | 195 | (89) |
| Increase in inventories | (304) | (2,275) |
| Decrease in trade accounts payable | (6,719) | (908) |
| (Decrease)/increase in advances received, other accounts payable and accrued expenses | (77) | 220 |
| (Decrease)/increase in deferred revenue | (624) | 84 |
| **Cash (used in)/received from operations** | **(1,924)** | **1,092** |
| Interest paid | (828) | (977) |
| Interest received | 8 | 22 |
| Income taxes paid | (679) | (697) |
| **Net cash (used in)/received from operating activities** | **(3,423)** | **(560)** |
| **INVESTING ACTIVITIES:** | | |
| Purchase of property, plant and equipment | (506) | (431) |
| Purchase of intangible assets | (57) | (151) |
| Dividends received from associates | - | 9 |
| Proceeds from repayment of loans issued | 1,074 | 4,876 |
| **Net cash received from investing activities** | **511** | **4,303** |
| **FINANCING ACTIVITIES:** | | |
| Purchase of treasury shares | (43) | - |
| Proceeds from loans and borrowings | 24,113 | 8,686 |
| Repayment of loans and borrowings | (23,058) | (13,444) |
| Share-based payments | - | (307) |
| **Net cash received from/(used in) financing activities** | **1,012** | **(5,065)** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(1,900)** | **(1,322)** |
| **CASH AND CASH EQUIVALENTS, at the beginning of the period** | **2,445** | **1,934** |
| **CASH AND CASH EQUIVALENTS, at the end of the period** | **545** | **612** |

The Notes on pages 7 to 16 form an integral part of this interim condensed consolidated financial information.

***(in millions of Russian Rubles)***

## 1. GENERAL INFORMATION

PJSC Detsky Mir (the "Company") together with its subsidiaries (the "Group" or "Detsky Mir Group") is the largest retail chain in the children's products market in the Russian Federation ("RF"). The Company is registered in the Unified State Register of Legal Entities under the laws of the Russian Federation (State Registration Certificate No. 1027700047100).

The primary activity of the Group is the sale of children's clothing and products through retail stores and online store. During the six months ended 30 June 2017 and as at 30 June 2017 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia.

In February 2017, the Company completed an initial public offering and its ordinary shares were admitted to trading at PJSC "Moscow Stock exchange". During the share placement, the current shareholders of the Company sold part of their shares to outside investors, which led to changes in the structure of the Company's shareholders. After the completion of the initial public offering JSFC Sistema ("Sistema") remained the controlling shareholder of the Company. The ultimate controlling party of the Company is Mr. Vladimir Yevtushenkov.

The registered shareholders of the Company and their effective ownership were as follows, as at each period end:

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| PJSFC Sistema and its subsidiaries | 52.10% | 72.57% |
| Floette Holdings Limited [1] | 5.78% | 11.55% |
| Exarzo Holdings Limited [1] | 5.78% | 11.55% |
| Other shareholders | 36.34% | 4.33% |
| **Total** | **100%** | **100%** |

[1] Represent the interests of the "Russian-Chinese investment Fund".

The ownership interest of the Group and the proportion of its voting power in its major operating subsidiaries was as follows, as at each period end:

| | Ownership interest and proportion of voting power | |
|---|---|---|
| **Subsidiaries** | **30 June 2017** | **31 December 2016** |
| Detsky Mir Kazakhstan LLP, Kazakhstan | 100% | 100% |
| Kub-Market LLC, RF | 100% | 100% |
| Detsky Mir-Orel, JSC | 100% | 100% |

As at 30 June 2017 and 31 December 2016 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Preparation*

The annual consolidated financial statements of PJSC "Detsky Mir" and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"). This interim condensed consolidated financial information for the half-year ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

***Functional and presentation currency*** – The amounts in the interim condensed consolidated financial information are presented in Russian Rubles ("RUB"), which is functional currency of the Group's entities and presentation currency, with the exception of Detsky Mir Kazakhstan LLP, which functional currency is Kazakhstani Tenge.

***Seasonality of operations*** – Significant portion of the Group's sales, profit and operating cash flows have historically been realized in the fiscal fourth quarter. As a result, six months results of operations may fluctuate significantly based on many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and our promotional activity. The results of operations and cash flows for the six months ended 30 June are not necessarily indicative of the results that may be expected for the full year.

***Income tax –*** Income tax in the interim periods is accrued using the effective tax rate that would be applicable to expected total annual earnings.

**Significant accounting policies**

***Adoption of New Standards and Interpretations***

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2016, except for the adoption of the new standards and interpretations described below.

The Group has adopted the following new and amended standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB in the interim condensed consolidated financial information:

- Income tax (Amendments to IAS 12);
- Annual Improvements 2014-2016 Cycle.

The adoption of these standards and interpretations has not had a significant impact on interim condensed consolidated financial information of the Group for the half-year ended 30 June 2017.

***Treasury shares –*** If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in consolidated statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by the subsidiaries of the Company.

***Significant assumptions, used applying accounting policies and the sources of uncertainty in estimates.***

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS.

***(in millions of Russian Rubles)***

## 3. REVENUE

The Group's revenue for the six months ended 30 June 2017 and 2016 was as follows:

| | For the half-year ended | |
|---|---|---|
| | **30 June 2017** | **30 June 2016** |
| Retail | 40,578 | 32,951 |
| Online store | 1,034 | 732 |
| Other | 484 | 53 |
| **Total** | **42,096** | **33,736** |

Revenue for sales of goods ordered via the Internet and picked up at Group's retail stores is included in retail revenue.

Revenue from stores "ELC", reflected in retail sales, for the six months ended 30 June 2017, and 2016 was RUB 370 million and RUB 439 million, respectively.

## 4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the six months ended 30 June 2017 and 2016 were as follows:

| | For the half-year ended | |
|---|---|---|
| | **30 June 2017** | **30 June 2016** |
| Rent and utility | 4,609 | 3,963 |
| Payroll | 4,032 | 3,124 |
| Depreciation of fixed assets and amortization of intangible assets | 874 | 771 |
| Advertising and marketing expenses | 596 | 471 |
| Banking services | 369 | 317 |
| Repair and maintenance | 207 | 155 |
| Promotional materials | 171 | 102 |
| Security expenses | 161 | 115 |
| Support of software | 156 | 165 |
| Consulting services | 152 | 62 |
| Taxes (other than income tax) | 74 | 70 |
| Communication expenses | 52 | 54 |
| Travel expenses | 36 | 37 |
| Stationary and other materials | 15 | 15 |
| Other | 123 | 141 |
| **Total** | **11,627** | **9,562** |

## 5. FINANCE EXPENSES

| | For the half-year ended | |
|---|---|---|
| | **30 June 2017** | **30 June 2016** |
| Interest expense on bank loans | 894 | 965 |
| Interest expense on bonds | 66 | - |
| **Total** | **960** | **965** |

***(in millions of Russian Rubles)***

## 6. INCOME TAXES

Income tax recognized in profit or loss

| | For the half-year ended | |
|---|---|---|
| | **30 June 2017** | **30 June 2016** |
| Profit before tax | 1,055 | 836 |
| Income tax expense calculated at 20% | 211 | 167 |
| Non deductible inventory losses | 144 | 172 |
| (Other income not taxable)/ other expenses not deductible for tax purposes, net | (5) | 17 |
| Prior period income tax adjustment | - | (147) |
| **Total income tax expense recognized in profit or loss** | **350** | **209** |

## 7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the half-year ended 30 June 2017, the Group incurred capital expenditures in the amount of RUB 478 million (for the half-year ended 30 June 2016: RUB 426 million), which mainly comprised leasehold improvements and trade equipment. The total amount of expenditure related to purchase of intangible assets comprised RUB 319 million and RUB 151 million for the half-years ended 30 June 2017 and 30 June 2016, respectively.

## 8. LOANS RECEIVABLE

Long-term loans issued on 30 June 2017 and 31 December 2016 were as follows:

| | **30 June 2017** | **31 December 2016** |
|---|---|---|
| A loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at 10.55% per annum maturing in September 2018 | - | 754 |
| Accrued interest | - | 306 |
| **Total** | **-** | **1,060** |

In February 2017 CJSC "DM-Finance" has fully repaid the loan previously issued by the Group in the amount of RUB 1,060 million, including interest in the amount of RUB 321 million.

## 9. INVENTORIES

Inventories as at 30 June 2017 and 31 December 2016 were as follows:

| | **30 June 2017** | **31 December 2016** |
|---|---|---|
| Merchandise inventories | 24,266 | 24,677 |
| Materials | 147 | 119 |
| **Total** | **24,413** | **24,796** |

Materials are represented by spare parts, packaging materials and other materials used in outlets and warehouses.

Write-offs of merchandise inventories relating to shrinkage and write-down to market in the amount of RUB 687 million and RUB 785 million for the six months ended 30 June 2017 and 2016, were recorded within cost of sales in profit or loss.

***(in millions of Russian Rubles)***

## 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2017 and 31 December 2016 consisted of the following:

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Cash in current bank accounts | 201 | 324 |
| Cash on hand | 180 | 241 |
| Cash in transit | 164 | 1,811 |
| Bank deposits in rubles | - | 69 |
| **Total** | **545** | **2,445** |

Cash in transit comprise cash collected in the stores of the Group and not yet placed on the bank accounts of the Group as at the reporting date.

## 11. DIVIDENDS

Dividends may only be declared from accumulated undistributed and unreserved earnings, as shown in the Company's statutory financial statements prepared in accordance with Russian accounting standards ("RAS"), and if certain other requirements of Russian legislation are met. If statutory undistributed earnings are negative as of the beginning of fiscal year, then dividends may only be declared from net profit earned in that fiscal year, as shown in the Company's statutory financial statements prepared under RAS.

On 28 June 2017 annual General meeting of shareholders approved the dividend payment for the year 2016 in the amount of RUB 2,572 million or RUB 3.48 per share. (As of the 30 June 2016 dividend payment for the year 2015 was approved in the amount of RUB 1,308 million or RUB 1.77 per share).

## 12. TREASURY SHARES

As at 30 June 2017 the Group has 433,670 treasury shares with cost of RUB 43 million.

## 13. LOANS AND BORROWINGS

Loans and borrowings as at 30 June 2017 and 31 December 2016 comprise:

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| **Bank loans** | | |
| Unsecured bank loans in rubles | 12,692 | 12,353 |
| Bonds | 3,000 | - |
| Secured bank loans in rubles | - | 2,285 |
| | **15,692** | **14,638** |
| Less current portion of long-term debt | (8,984) | (8,124) |
| **Loans and borrowings less short-term part** | **6,708** | **6,514** |

**Bank loans in rubles**

As of 30 June 2017 and 31 December 2016 the loans in rubles were provided to the Group by 5 banks.

The fair value of the Group's bank loans as at 30 June 2017, amounted of RUB 12,985 million. As at 31 December 2016, the fair value of the Group's bank loans was approximately equal to their carrying value.

Inputs of Level 2 and 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received and for bonds. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis.

**Bonds**

In April 2017, the Group placed documentary exchange non-convertible bonds (Series BO 04) in the total amount of RUB 3,000 million at PJSC "Moscow Stock exchange". For the first six coupon periods the interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024 with a three-year put option.

As at 30 June 2017, the book value of exchange-traded bonds issued and placed by the Group of RUB 3,000 million, excluding accumulated coupon income of RUB 65 million.

The fair value of exchange-traded bonds as at 30 June 2017 amounted to RUB 3,030 million.

**Unused credit lines**

As at 30 June 2017 and 31 December 2016, the total amount of undrawn credit lines of the Group amounted to RUB 11,866 million and RUB 11,983 million, including RUB 8,232 million and RUB 8,283 million of long-term credit lines.

**Covenants**

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios. Non-compliance with these covenants may result in negative consequences of the Group: in particular, the creditors can increase the interest rate on the loan, require for additional collateral or early repayment of outstanding debt.

As at 30 June 2017, the Group violated several similar covenants provided for by loan agreements, and a number of lenders were entitled to demand early repayment of the full amount of loans under the relevant loan agreements. Lenders have waived their rights of early repayment in respect of these violations of restrictive conditions after the reporting date in August 2017, so at 30 June 2017 the Group reclassified respective amounts due of RUB 4,266 million from long-term to short-term debt. Also in August 2017 the covenant which had been violated as at the reporting date was excluded from one of the loan agreements.

**Pledges**

As at 30 June 2017, the Group has no any assets or securities transferred as collateral for loans and borrowings granted to the Group. The performance of the Group's obligations under a credit agreement with a bank as of 31 December 2016 was secured by a mortgage of the building with a net book value RUB 2,418 million as of this date.

***(in millions of Russian Rubles)***

## 14. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Accrued expenses and other current liabilities | 2,973 | 2,807 |
| Dividends payable (note 11) | 2,572 | - |
| Accrued salaries | 567 | 629 |
| Taxes payable (other than income tax) | 272 | 357 |
| Interest payable | 87 | 41 |
| **Total** | **6,471** | **3,834** |

## 15. SHARE-BASED PAYMENTS

During the half-year ended 30 June 2017 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

***Long-term incentive plan adopted in 2014***

In August 2014, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan"). Under the conditions of the Incentive Plan, certain employees at senior levels are entitled to share-based compensation, so-called "phantom" shares, that are to be granted by the Group in annual tranches over 2014-2016. The phantom shares vest on 31 December 2016 contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company.

***Long-term incentive plan adopted in 2016***

In September 2016, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 2"). Under the conditions of the Incentive Plan 2, certain employees at senior levels are entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over 2016-2018. The phantom shares vest on 31 December 2018 contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company. This settlement choice is upon the Group's discretion. Based on the Group's plans and historical experience, management expects that the settlement shall be done in cash. Thus, the Incentive Plan 2 is accounted for as a cash-settled share-based plan.

***Long-term incentive plan adopted in 2017***

In January 2017, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 2 for the General Director"). Under the conditions of the Incentive Plan, the General Director is entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over 2017-2019. The phantom shares vest on contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically on condition of any events in accordance with Incentive Plan, including initial public offering of shares.

Upon completion of initial public offering by the Company in February 2017, the phantom shares granted under Incentive Plan 2 for the General Director fully vested.

***(in millions of Russian Rubles)***

**Liabilities recognized in relation to long-term incentive plans**

In March 2017, the Group settled a portion of its liabilities under incentive plans by making a cash payment of RUB 233 million to the participants.

As at 30 June 2017, the Group recognized liabilities of RUB 146 million in relation to cash-settled share-based payment arrangement (at 31 December 2016: RUB 180 million), calculated as the fair value of the phantom shares granted to employees as at this date. These liabilities include accrued social contributions of RUB 19 million (as at 31 December 2016: RUB 38 million).

As at 30 June 2017 the Group also recognized a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements of RUB 141 million. This amount includes accrued social contributions of RUB 19 million.

**Expenses recognized in relation to long-term incentive plans**

Expenses totaling RUB 341 million incurred by the Group in relation to Incentive Plan, Incentive Plan 2 and Incentive Plan 2 for the General Director were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for half-year ended 30 June 2017 (half-year ended 30 June 2016: income totaling RUB 32 million).

## 16. RELATED PARTIES

Parties are considered related if they are under common control or one party has the ability to control the other party or can exercise significant influencing her decisions on matters of economic and financial activity or exercise over it joint control. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form, based on reasonable judgment.

Transactions with related parties may be on terms that are not always accessible to third parties. This table presents the list of transactions and balances in the calculation of the Group with subsidiaries of PJSFC Sistema:

| | **30 June 2017** | | **31 December 2016** | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| **Payments with related parties** | | | | |
| Bank deposits and cash at bank | 3 | - | 158 | - |
| Trade payables | - | (56) | - | - |
| Other receivables/ (payables), other than dividends payable | 1 | (12) | 1 | (124) |
| Loans issued | - | - | 1,060 | - |
| Dividends payable (within other payables) | - | (1,340) | - | - |

The amounts outstanding are unsecured and will be settled in cash.

***(in millions of Russian Rubles)***

The Group's transactions with subsidiaries of Sistema for the half-year ended 30 June 2017 and 2016, as follows:

| | | For the half-year ended | |
|---|---|---|---|
| **Related party** | **Type of operation** | **30 June 2017** | **31 December 2016** |
| Detsky mir-Retail assets (i) | Rent and utilities | - | 18 |
| MTS (i) | Communication costs | 13 | 7 |
| MTS (i) | Advertising and | 56 | 24 |
| PA-Maxima (ii) | marketing expenses | 2 | 1 |
| MTS –Bank (i) | Bank commission | 3 | - |
| MTS –Bank (i) | Interest income | 1 | 1 |
| MTS –Bank (i) | Interest expense | - | 3 |
| VAO "Intourist" (i) | Costs of organizing events | - | 17 |
| CJSC "NVision group" (i) | Purchase of property, plant and equipment | 18 | 11 |
| CJSC "DM-Finance" (i) | Repayment of loans receivable | 1,074 | 4,875 |
| | Interest income | 14 | 94 |
| JSC "Elavius" (i) | Communication costs | 1 | 1 |
| LLC "Concept Group" (ii ) | Purchase of goods | 56 | 3 |
| LLC "Altai resort" (i) | Charity | 9 | - |

(i) subsidiary of PJSFC "Sistema";
(ii) associate of PJSFC "Sistema".

The information about dividends declared and paid is disclosed in Note 11.

**Remuneration of key management personnel of the Group**

During the half-year ended 30 June 2017 and 2016, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 439 million (including short-term benefits and accrued share-based compensation) and RUB 85 million (including short-term benefits and accrued share-based compensation), respectively.

## 17. COMMITMENTS AND CONTINGENCIES

**Operating leases**

The Group leases retail space through lease contracts which expire in various years through 2023. Although the store leases are generally long term, all of the store lease contracts contain provisions that enable the Group to cancel the lease provided the Group either pays a penalty, which typically consists of a payment equal to approximately two to three months rent or sends an advance notice to the lessor. Meanwhile, the contracts which are more economically beneficial to be continued by the Group rather than to be canceled are classified as non-cancellable under IAS 17.

Future minimum rental payments (w/o VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 30 June 2017 and 31 December 2016 are as follows:

| | **30 June 2017** | **31 December 2016** |
|---|---|---|
| During one year | 8,117 | 7,578 |
| More than one year, but more than 5 years | 42,920 | 41,044 |
| More than 5 years | 19,234 | 12,409 |
| | **70,271** | **61,031** |

**Legal**

In the ordinary course of business, the Group may be a party to various legal and tax proceedings, and be subject to claims. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceeding or other matters, will not have a material effect on the financial condition, results of operations or liquidity of the Group.

### Taxation

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. These changes are characterized by different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities in the Russian Federation frequently take an assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant**.**

### Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and the 1st quarter of 2016 the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In addition in the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

## 18. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

In July, the Group made a dividend payment to its shareholders thus settled liability that was recognized in the interim condensed consolidated statement of financial position as at 30 June 2017 (Note 14).

On 1 August 2017, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 3"). Under the new plan, which covers the three-year period to February 2020, the third anniversary of the Company's initial public offering, senior management in continuing employment by the Company as of that anniversary will be entitled to the Company's shares from a share pool equivalent in value to up to 2% of the increase in the Company's stock market value (including dividend payments) over the period. The Group's Board of Directors may change the settlement method of the incentive plan (either partially or fully) from the Company's shares to cash. The Incentive Plan 3 will include key employees of the Company.

The new incentive plan also stipulates cash compensation (that is not linked to the Company's shares) to key management personnel of the Group in the total amount of approximately RUB 500 million, out of which RUB 250 million are to be paid in January 2018. Amounts and timings of any further payments are yet to be determined by the Company's Board of Directors.

The Group has evaluated subsequent events through 23 August 2017, the date on which the interim condensed consolidated financial information was approved.