




Annual Report Detsky Mir

2018

detmir.ru



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About This Report

This is the Annual Report for the period from 1 January 2018 to 31 December 2018 detailing the activities of Public Joint Stock Company Detsky Mir and its subsidiaries referred to as Detsky Mir Group ("Detsky Mir Group" or the "Group"). PJSC Detsky Mir is the parent of the Group, providing consolidated information on the financial and operating activities of the Group's key assets used to prepare this Annual Report.

The list of subsidiaries included in this Annual Report and PJSC Detsky Mir's shareholdings in the subsidiaries are disclosed in the notes to the IFRS consolidated financial statements for 2018.

This Annual Report is based on operational analytics and indicators in the IFRS consolidated

financial statements. Although the Company has been applying IFRS 16 Leases since 1 January 2018, key financial metrics in the statements have been compared as if IFRS 16 had not been applied, as comparative information for 2017 has not been restated when transitioning to the new standard.

This Annual Report has been verified by the Audit Commission and approved by the Board of Directors and the General Meeting of Shareholders.

This Annual Report may contain errors in shares, percentages, and sums due to rounding. Due to rounding, indicators in this Annual Report may differ slightly from previously reported ones.

Disclaimer on Forward-Looking Statements

This Annual Report has been prepared based on the information available to the Company as at the time of reporting, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication date of this Annual Report. However, the Company does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future. This Annual Report includes estimates or forward-looking statements related to operating, financial, economic, social, and other metrics that can be used to assess the performance of PJSC Detsky Mir and Detsky Mir Group.

The Company does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

Chief Executive Officer's Statement

Dear Shareholders!

In 2018, Detsky Mir Group reinforced its leading position in the children's goods market and improved its business process efficiency. New store openings, a doubling in online sales, and a 31.6% net profit growth – these are only some of our achievements from the past year. Despite the stagnating children's goods market in Russia, our company is continuing to grow rapidly and consistently ramp up its revenue.

Our consolidated revenue in 2018 was RUB 110.9 billion, up 14.3% year-on-year. Our efficient pricing policy and continuous improvements to our product assortment helped achieve a 4.3% growth in like-for-like (LFL) sales. Another important factor is that we are continuing to attract new traffic to our stores. As a result, LFL number of tickets has increased by 6.9%.

We delivered on our plan to expand the Detsky Mir retail chain in 2018 by launching 100 new stores. Our geographic footprint is expanding dynamically: we have entered a new region, the Russian Far East, with debut stores opened in Blagoveshchensk, Vladivostok, and Khabarovsk. We will continue to expand our presence in this region. New stores in the Republic of Kazakhstan were also actively launched. Today, Detsky Mir has 30 stores in 15 cities across Kazakhstan. Our target is to become the leader of the children's goods market in Russia.

Toys remain our best-selling category.

Throughout 2018, their share in the total sales of our retail chain in Russia grew to 33%. We closely monitor demand and continuously develop and improve our toy assortment with a focus on quality and exclusive offers.

Developing private labels and signing direct contracts with large international manufacturers enables us to offer our customers popular children's goods at the best prices in the market thanks to high production volumes and the absence of intermediaries. In 2018, the share of private labels and direct imports increased to 36.1%.

Last year, we launched a new retail chain, ABC, offering toys for children aged 0 to 14. It features an extended product assortment at affordable prices not only for preschool children, like the ELC chain, but for school children as well. The first ABC store was opened in May 2018 in Chelyabinsk, followed by new stores in Novosibirsk, Tula, Rostov-on-Don, the Udmurt Republic, and Zhukovsky.

In late 2018, we launched a pilot project to enter the Russian pet supplies market. Four Zoozavr pet supply stores were subsequently opened, featuring products by leading global manufactures. The pet supplies market has strong potential in terms of volume, expected growth, and a high degree of fragmentation, and will provide an opportunity for our management team to apply their extensive experience.

We will continue to scale up our business by optimizing our product assortment and expanding our retail chain. In 2019, we plan to open at least 80 new stores and enter the Belarusian market. Our positive experience in Kazakhstan demonstrates Detsky Mir's ability to successfully grow its business outside Russia.

Online sales increased considerably during the

past year. Detsky Mir fulfilled over 5.1 million online orders in 2018, while the revenue in this segment almost doubled. These achievements were driven by expanded delivery coverage and improved customer services, and we are maintaining our focus on improving service level throughout the order process. The share of on-line orders ready for pickup at any retail store within an hour increased in the reporting period from 45% to 90%.

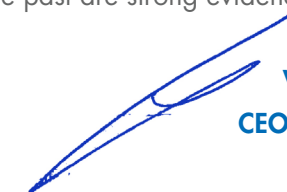
In 2018, we launched a mobile application for consumers which enables them to not only obtain a loyalty card, but also check their current bonus points balance and transaction history, as well as monitor discounts. This is an intermediary stage toward launching the full-scale on-line store app that we have planned for 2019.

Maintaining and consolidating our leading position in the online segment of the children's goods market is our key strategic objective. Our plans for 2019 include service level improvements across all online order delivery channels and the launch of our revamped online store.

Our primary goal in corporate social responsibility is to provide younger generations with

high-quality and safe goods at affordable prices. Charity projects aimed at improving the quality of life for children, including those in difficult life situations, remain a top priority for us. The Detsky Mir Charitable Foundation provided a total of RUB 630 million in charitable assistance throughout 2018, including our own funds and raised funds.

The Detsky Mir team will maintain its focus on business growth, performance improvement, and increasing profitability. Our shareholders can rest assured that they made the right investment decision. The targets we have met and the promises on which we have delivered in the past are strong evidence of our success.

 **Vladimir Chirakhov,**
CEO of PJSC Detsky Mir





Key 2018 Results

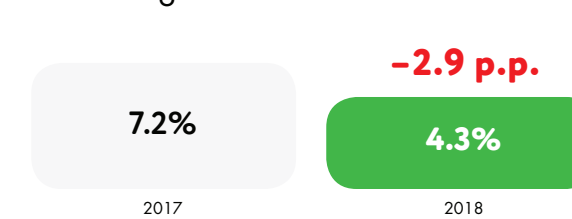
Revenue, RUB m



Net debt, RUB m



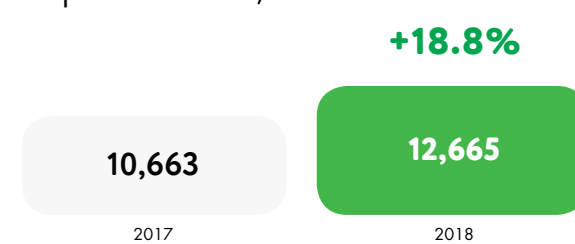
LFL sales growth



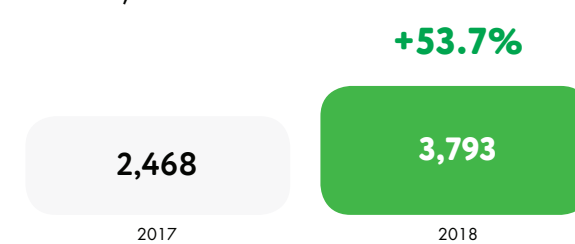
Average headcount, '000 people



Adjusted EBITDA, RUB m



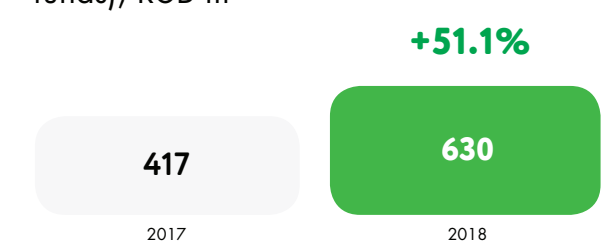
CAPEX, RUB m



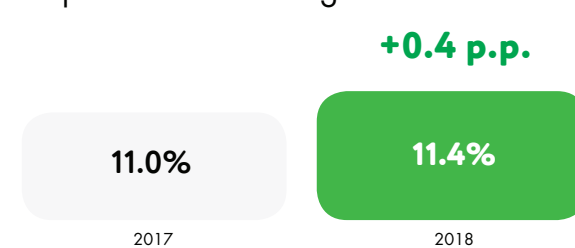
LFL number of tickets growth



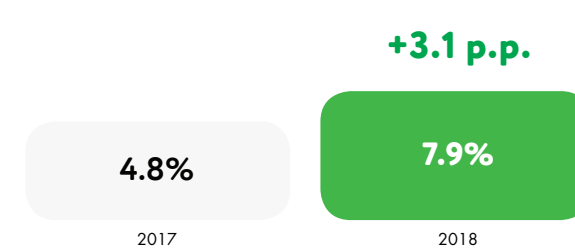
Charity expenses (raised and own funds), RUB m



Adjusted EBITDA margin



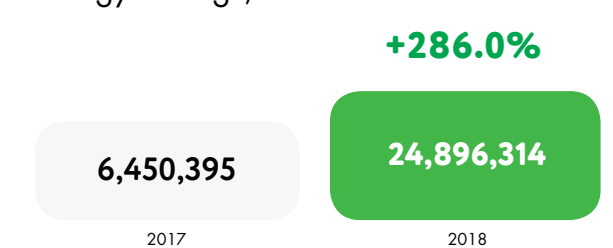
Share of online sales in revenue



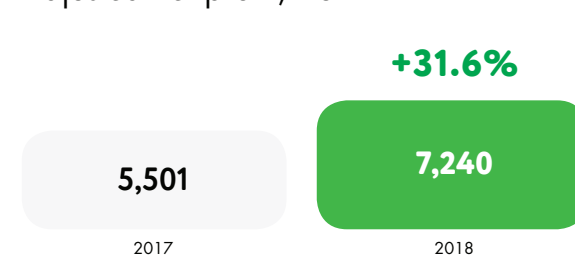
LFL average ticket growth



Energy savings, kWh



Adjusted net profit, RUB m



Online revenue, RUB bn



Tax payments, RUB bn



The IFRS 16 – Leases standard has not been applied when compiling the data. Financial results with the IFRS 16 – Leases applied are presented in the Appendix.



Key 2018 Events

High Dividend Yield

Detsky Mir sustainably combines robust business growth and high dividend payments. In 2018, we paid RUB 6.1 bn in annual and interim dividends (RUB 8.27 per ordinary share), which corresponds to the dividend yield of 9% of the average Detsky Mir share price over the past 12 months.



Entering a New Market – Pet Supplies

In December 2018, we launched four pilot pet supply stores under the Zoozavr brand, in line with the approved strategy to enter new markets. This market offers great opportunities in terms of its size (over RUB 200 bn), expected growth, and a high degree of fragmentation.



Customer Recognition

In 2018, Detsky Mir won the Golden Bear Cub National Award in the children's good industry in four categories: Company of the Year, Best Footwear (Puuhutu private label footwear collection), Social Project (charitable volunteer cleanup day), and Online Store (www.detmir.ru online store).

Moya Goroshinka (My Little Pea), Detsky Mir's private label, won the golden diploma in the Russian Brand of Children's Apparel category (Parents' Score contest).



Social Project Development

As part of the "Uchastvuyte!" ("Participate!") charity campaign, Detsky Mir donated 9.6 million items worth a total of RUB 553 million to needy children in 280 cities across Russia and Kazakhstan.



Targeted aid totaling RUB 10.8 million was provided to 45 seriously ill children in 2018. The money was used to pay for required rehabilitation procedures. This year, the project covered as twice as many children as in 2017.

In 2018, Detsky Mir opened 110 playrooms in 38 medical and social institutions in Russia. New playrooms were set up in 34 Russian cities and villages. Investments in the project throughout the year exceeded RUB 15.1 million, which is 1.5 times more than in 2017. There are currently 400 playrooms in 122 hospitals across Russia.

Increased Number of Stores, and the Detsky Mir Retail Chain Geography Expansion

In 2018, the Group occupied a 23% share by revenue in the children's goods market in Russia.

We launched 100 new Detsky Mir stores in 2018, including 33 debut stores in new cities in Russia and Kazakhstan.

We have also expanded into the Russian Far East, with stores opened in Blagoveshchensk, Vladivostok, and Khabarovsk.

As at the end of 2018, Detsky Mir Group comprised 743 stores: 673 Detsky Mir stores across 252 cities both in Russia and Kazakhstan, and 66 ELC and ABC stores, with a total selling space of 768 thousand square meters.

Detsky Mir Group has decided to enter the



Belarusian market. Our target is to open ten debut stores in Belarus as early as in 2019 and become a key market player in the medium term. In Q3 2018, PJSC Detsky Mir registered its Belarusian subsidiary, LLC Detmir BEL.

Developing Omnichannel Proposition

The online business remains Detsky Mir Group's fastest growing sales channel. The online revenue increased by 89.2% year-on-year to RUB 8.8 bn in 2018. The share of online sales in Detsky Mir's total revenue was 7.9%.

Detsky Mir recorded over 178 million online store visits and fulfilled over 5.1 million online orders in 2018. Our e-commerce strategy is focused on omnichannel proposition while expanding delivery coverage and improving service level.

The detmir.ru online store reinforced its position as the No. 1 player with a 15% share in online sales of children's goods in Russia.

Private Label and Direct Import Development

Developing private labels and switching to direct contracts enables us to offer our customers popular children's goods at the best prices in the market, while maintaining high sales margins.

As at the end of 2018, Detsky Mir owned 25 private labels in apparel and footwear, each with its own target audience, range, and price positioning.

Private label and direct import products account for about 93.7% of Detsky Mir Group's sales in apparel and footwear, and 22.9% and 2.9%

in toys and newborn products, respectively. On average, the share of private label and direct import products in the entire assortment grew from 33.3% to 36.1%.



Detsky Mir intends to increase the depth of ranges across its stores in the medium term, including by increasing the number of unique products, building on the quality of our private labels, and boosting the share of products in the low-to-medium segment.





Detsky Mir's Investment Case

Share Capital

In February 2017, PJSC Detsky Mir held an initial public offering (IPO) on the Moscow Exchange under the ticker DSKY. The shares were included in the Level One Quotation List. Securities transactions are subject to the T+2 trading mode. The shares are included in the main Russian stock indices: MICEX, MICEX BMI (Broad Market Index), MOEXCN (Consumer Index), and RTSI (RTS Index).

The IPO was the first public offering in three years with international marketing, and the first IPO of a Russian non-food retailer in ten years. At the start of trading, the Company's market capitalization was approximately RUB 62.8 billion.

The total offering size was approximately RUB 18.4 billion, excluding the over-allotment option. The offering was priced at RUB 85 per share and included the sale of 216,514,669 shares by existing shareholders, which represented 29.3% of the Company's share capital excluding the over-allotment option. Over 90% of the final offering was purchased by foreign investors.

The shareholder structure changed following the IPO: PJSC Sistema retained a controlling 52.1% stake, with a free float of 30.5%. PJSC Detsky Mir's shareholder structure as at 31 December 2018 is set out below.

The highest share price during 2017 was RUB 112.85, up 33% from the IPO offering price. Detsky Mir became one of the most expensive Russian public companies and was ranked 59th (with a capitalization of USD 963 billion) by RIA Rating.¹

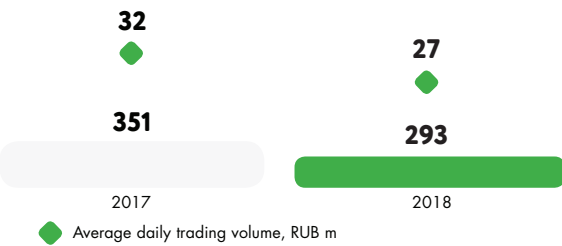
The Company delivered on all its promises to shareholders and investors in terms of operational and financial performance: over 200 Detsky Mir stores were opened in two years, adjusted EBITDA grew by 60%, and dividend payouts totaled over RUB 10 billion.

As part of its long-term incentive program for key employees, the Company bought back 5,808,320 ordinary shares of PJSC Detsky Mir for RUB 570 million via its subsidiaries between 2017 and 2018, accounting for 0.79% of its share capital (see the Remuneration section for more details).

PJSC Detsky Mir Share Price Highs and Lows



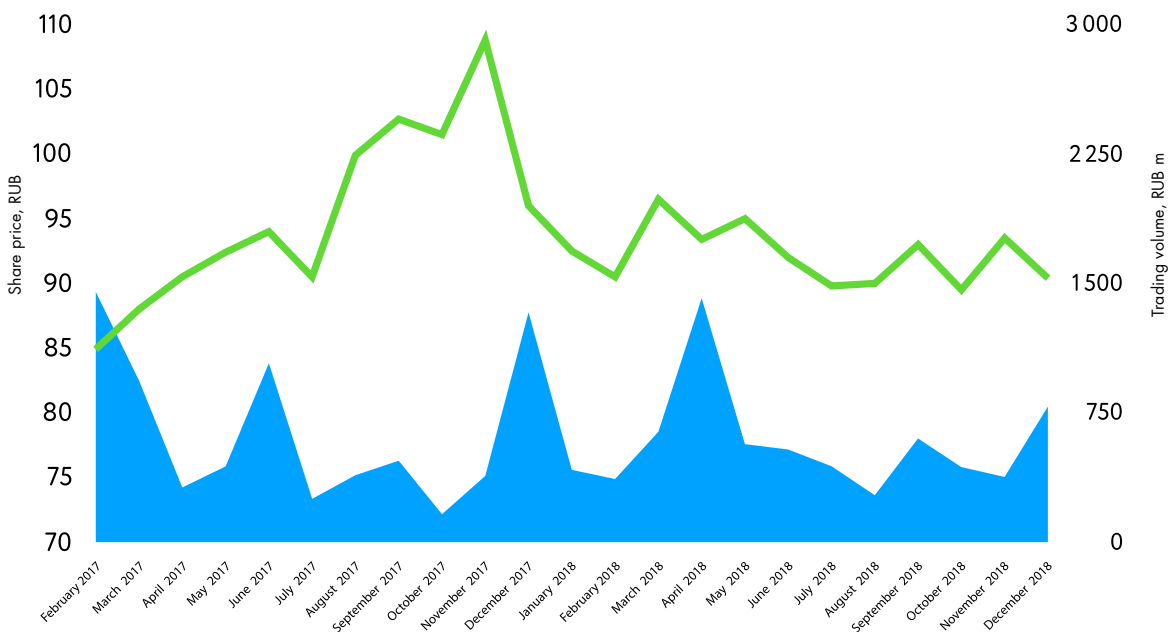
Average Daily Trading Volumes of PJSC Detsky Mir Shares on the Moscow Exchange, '000 shares



Analyst Recommendations as of 2018



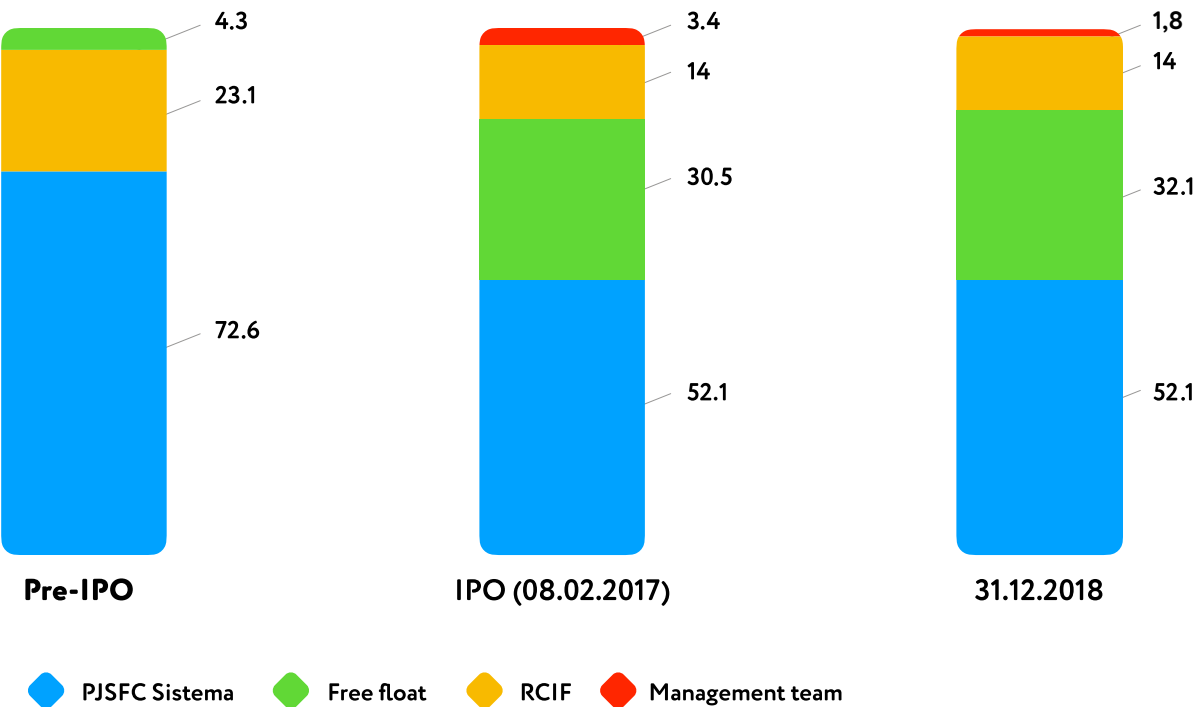
Share Price Performance and Trading Volumes of PJSC Detsky Mir Shares in 2017–2018²



¹ RIA Rating, based on data provided by the Moscow Exchange, issuers, and the Central Bank of Russia. Market capitalization was calculated using the price of ordinary shares or depository receipts traded on exchanges at the end of December 2018. Translation to US dollars was made using the exchange rate set by the Central Bank of Russia at the end of 2018.

² Trading volumes excluding 10 February 2017 (the first day of trading).

Shareholder Structure Pre- and Post-IPO





Bonds

In April 2017, PJSC Detsky Mir successfully completed book building for its series BO-04 exchange bonds issued with a total par value of RUB 3 billion and a coupon of 9.5% per annum. The earliest redemption date is on 7 April 2020.

The coupon on PJSC Detsky Mir bonds in the reporting period was paid in full and in strict compliance with the payment schedule:

RUB 142.11m

06 April 2018
payments for the
second coupon
period



RUB 142.11 m

05 October 2018
payments for the
third coupon period



The bond placement and high demand for the bonds from investors became another highlight in Detsky Mir's history, confirming the high assessment of the Company's growth potential and solvency. Following a successful book building, the book was closed at the lower end of the range and was more than two times oversubscribed. During book building, over 50 bids were submitted by a wide range of investors exceeding a combined RUB 12 billion.

As part of preparations for the bond placement in March 2017, S&P Global Ratings assigned PJSC Detsky Mir a B+ rating with a stable outlook. In December 2017, the credit rating was withdrawn at Detsky Mir's request. The decision was made due to the Company's lack of need to maintain an international credit rating and the shift in the debt market towards Russian ratings under Federal Law No. 222-FZ.

No new debt instruments were issued in 2018.

Investment Highlights

Detsky Mir Group's distinct business model provides a compelling investment case which is expected to drive the Company's value:

Undisputed leader of the Russian children's goods market, a large and sustainable segment of the consumer market

23% Market Share FY 2018

100 New Store Openings

Iconic retail brand with a highly popular customer proposition and a long-standing market presence

99% Brand Awareness

> 70 years Brand History

Affordable, multi-category product assortment driving constant customer traffic and sustainable sales growth

110.9 RUB bn FY 2018 Revenue

+ 14.3% Revenue Growth

Fast-growing online retail business focused on omni-channel proposition while expanding delivery coverage and improving service levels

7.9% Total Revenue Share

+89.2% Online Revenue Growth

Asset-light, cash-generative business model providing strong returns on capital and consistently high dividends

80% Adj. ROIC

9% Dividend Yield

Scalable supply chain and infrastructure platform ensuring high operational efficiency

11.4% Adj. EBITDA Margin

+ 19% Adj. EBITDA Growth

Strong management team with a track record of delivering business growth between 2013 and 2018

+ 522 New Store Openings

+ 410 Adj. EBITDA Margin Growth



AWARDS AND CUSTOMER RECOGNITION



The enduring success of Detsky Mir, the national champion in children's retail, is recognized annually with a number of top Russian public and industry awards.



Ranked 88th (+ 12 places) in Forbes Top 200 Largest Private Companies in Russia

Vladimir Chirakhov, CEO of Detsky Mir Group, ranked 16th in Forbes Top 20 Directors

Ranked 126th (+ 14 places) in RBC magazine's Top 500 Largest Russian Companies

Ranked 13th (+ 3 places) in the INFOLine Retail Russia Top 100, ranking of Russia's top retail chains

Ranked 61st in Top 100 Most Expensive Russian Public Companies according to RIA Rating

Ranked 37th in RBC magazine's Top 50 Fastest Growing Companies in Russia

Ranked 59th in Russia's Top 100 Most Capitalized Companies

Vladimir Chirakhov, CEO of Detsky Mir Group, won the Business Expert category of the EY Entrepreneur of the Year Awards

Nine managers with Detsky Mir Group were listed in the Top 1,000 Russian Managers, with five top managers coming top of the list for the first time

Four top managers from Detsky Mir Group were listed in the Top Retail Managers, Russia's rating of top managers in retail

Winner of the Debut category as Russia's most transparent retailer in the Corporate Transparency of Russian Companies 2017 rating

Winner of the Golden Teddy Bear national children's goods industry award in four categories:

— "Company of the Year"

— "Best Footwear" (footwear collection under the Puuhtu private label)

— "Social Project" (volunteer cleanup day)

— "Online Store" (the www.detmir.ru online store)

Detsky Mir's Moya Goroshinka (My Little Pea) brand was awarded the golden diploma in Russian Children's Apparel Brand (Parents' Choice) category

Detsky Mir Group's central office won the Business Interior category of the Eurasian Prize

Strategic Report

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1.1. Detsky Mir's History

1997–2002

Establishment of Detsky Mir Group

In 1997, PJSC Sistema established OJSC Detsky Mir – Center, the predecessor of Detsky Mir Group, to manage its assets in the children's retail market.

In the summer of 2000, Detsky Mir's top management and PJSC Sistema, a new shareholder, decided to build a national retail chain and Detsky Mir supermarkets began to spring up in cities across Russia.



1947–1996

Creation of the Detsky Mir Brand

The first Detsky Mir store was opened on 8 September 1947 in Moscow on Kirov Street (presently Myasnitskaya Street) as a branch of the Central Department Store (TSUM).

In 1957, the new Central Detsky Mir opened next to the Lubyanka Metro Station.

In 1992, the Moscow Government established JSC Detsky Mir, which owned and operated the Detsky Mir department store on Lubyanka Street in Moscow under the name Lubyanka Store Operator.

In 1994, PJSC Sistema acquired a 43% stake in Lubyanka Store Operator, which at the time had no other stores under the same brand or using the "Detsky Mir" name.

2003–2012

Retail Chain Expansion

In 2003, PJSC Sistema approved a five-year plan to grow the Detsky Mir retail chain, subsequently opening 85 new stores in Russia between 2003 and 2007 and increasing the Group's total selling space by approximately 145 thousand square meters.

In 2007, the "Detsky Mir" trademark was registered, still in use today.

In 2011, the first store was opened in Astana, Kazakhstan, and LLP Detsky Mir – Kazakhstan was established.

In 2011, Detsky Mir launched its online store (www.detmir.ru).

In 2012, Detsky Mir acquired a 100% stake in the Cyprus company Sparthema Limited, the owner of LLC Kub-Market, which develops franchised stores of the British toy retail chain ELC in Russia.

2013–2018

New Phase of Development

In 2012, new Company management was appointed, led by Vladimir Chirakhov, CEO of PJSC Detsky Mir.

In December 2015, Floette Holdings Limited and Exargo Holdings Limited acquired a 23.1% stake in PJSC Detsky Mir from PJSC Sistema for RUB 9.75 billion.

In 2017, PJSC Detsky Mir held an initial public offering on the Moscow Exchange with a total offering size of approximately RUB 18.4 billion (29.3% of the Company's share capital, excluding the over-allotment option). As a result, PJSC Sistema retained a controlling stake of 52.1% (72.6% before the IPO) and the free float was 30.5%.

In 2018, the Company adopted a strategy of penetrating new markets both in terms of geography and product categories.

In Q3 2018, LLC Detmir BEL subsidiary was registered to develop and manage a retail chain in the Republic of Belarus.

In Q4 2018, the Company launched the Zozavr pet supplies chain by opening four pilot stores.

Historically, Detsky Mir is the most recognized brand in the children's goods market in Russia, celebrating its 71st anniversary in 2018.



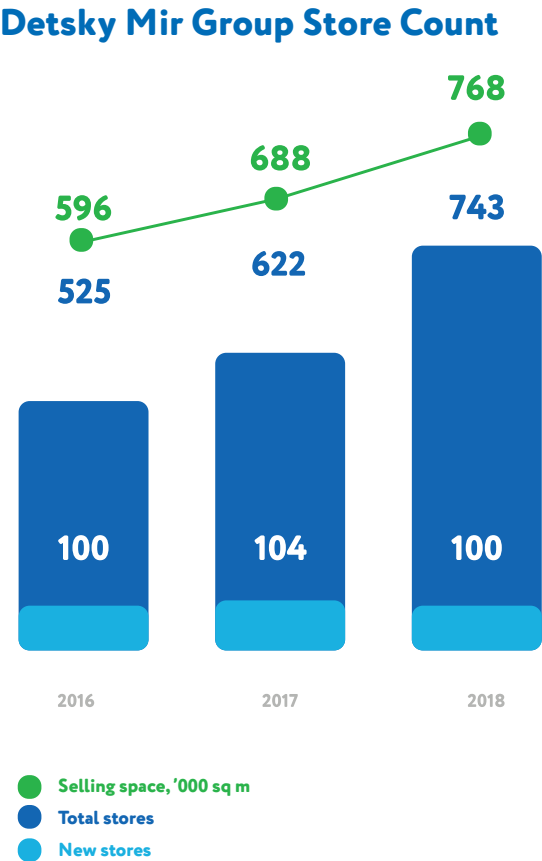
1.2. Company Overview

Detsky Mir Group is a multi-format retailer and a leader in the children’s goods market in Russia operating the Detsky Mir national retail chain, the ELC and ABC chains, and the Zoozavr pet supplies chain.

As at 31 December 2018, the Group comprised PJSC Detsky Mir, LLC Kub-Market (ELC and ABC), LLP Detsky Mir – Kazakhstan, JSC Detsky Mir – Orel, LLC DM NORTHWEST, LLC Detmir BEL, and LLC DM Capital.

PJSC Detsky Mir owns the “Detsky Mir” trademark and manages all stores within its retail chain. Detsky Mir Group is also developing the ELC and ABC store chains in Russia. To date, the ELC and ABC retail chains are represented by stores in Moscow and 43 Russian cities.

As at the end of the reporting year, Detsky Mir Group comprised 743 stores: 673 Detsky Mir stores across 252 cities in both Russia and



Detsky Mir Group’s unique profile and leading position in the Russian market are underpinned by its modern business approach based on an omnichannel model and strong operational efficiency

Kazakhstan and 66 ELC and ABC stores, with a total selling space of 768 thousand square meters.

In 2018, Detsky Mir successfully met its expansion targets, launching 100 new stores, with more than 50% opened during the last quarter of the year. In addition, we continued to pursue active regional and international expansion. Detsky Mir Group entered new cities in Russia and Kazakhstan with 33 debut store openings throughout 2018. We have also expanded into the Russian Far East, with stores opened in Blagoveshchensk, Vladivostok, and Khabarovsk.

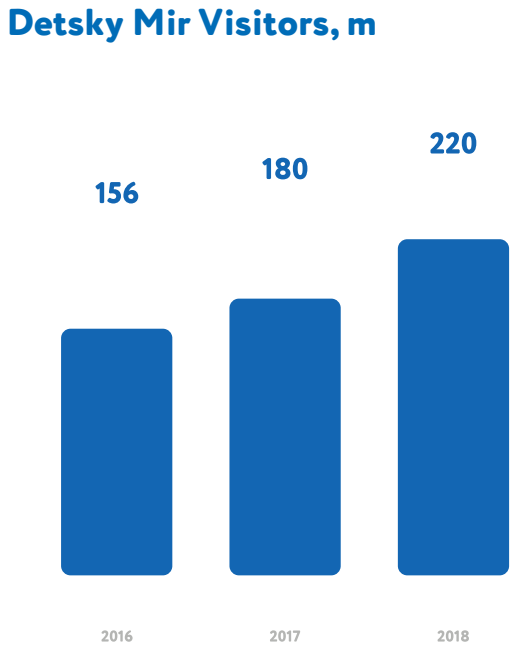
As at the end of 2018, Detsky Mir Group’s revenue was up by 14.3% to RUB 110.9

see the Financial Overview section for more details

Kazakhstan remains one of the most promising markets to expand Detsky Mir’s retail chain. By the end of the year, Detsky Mir had added eight supermarkets to its retail chain and almost doubled its revenue, while like-for-like (LFL) sales in KZT grew by 30%. Overall, Detsky Mir operates 30 stores across the 15 largest cities in Kazakhstan.

Over 220 million people visited Detsky Mir stores in 2018, and the traffic is set to grow throughout this year.

over 220 mln people visited Detsky Mir stores in 2018





ELC and ABC Retail Chains

ELC — the Early Learning Centre is a fast-growing retail chain comprising 57 stores across Russia, an online store (www.elc.ru), and ELC-branded corners in Detsky Mir stores.

The British brand ELC is well-known worldwide: the Early Learning Centre has been creating safe, high quality toys for more than 30 years which foster well-rounded children’s development and encouraging the young to explore the world. When developing toys, the Early Learning Centre engages child psychologists, leading designers, and the most important specialists - children.

Our may years’ experience in toy retailing encouraged us to develop our own brand — ABC. The first ABC store opened in Chelyabinsk in May 2018, and the chain comprised nine stores by the end of the year.

ABC stores offer an extended assortment of affordable products for both preschool and school-age children, differentiating from ELC, which is focused on preschool products.



We plan to continue growing the ELC chain in Moscow, Saint Petersburg, and other of the major Russian cities. In the near term, Detsky Mir plans to open ABC stores in Russia cities outside of the ELC footprint. The ABC chain will come to shopping malls and street retail locations, with stores reaching up to 150 square meters.

ABC stores feature toys, building sets, and leaning and creative products for children up to 14 years of age. We offer customers toys from both ABC and widely-recognised foreign manufacturers such as LEGO, Hasbro, and Mattel. The ABC store product mix comprises approximately 1,500 SKUs.



ELC Russia | ELC Russia | @elc_russia | ELC Russia | 28.03-10.04 | www.elc-russia.ru

-60%
Игрушка ELC «Домик на дереве»
4749-1899-

СУПЕРПРЕДЛОЖЕНИЕ ОТ ELC

-55% Игрушка ELC «Сортировщик» 2290-1029-	-55% Игрушка ELC «Сортировщик» 2290-1029-	-55% Игрушка ELC «Сортировщик» 2290-1029-
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Акция действует с 28 марта по 10 апреля 2018. Товар по акции ограничен - уточняйте в магазинах. Организатор акции ООО «Рус Маркет».

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Zoozavr Retail Chain

In December 2018, we launched four pilot pet supply stores under the Zoozavr brand, in line with the approved strategy to enter new markets. Zoozavr stores offer products from leading international manufactures, including pet food and veterinary, cosmetic, pet care, and grooming products, among many others.

Pet supplies are also available at the Detsky Mir online store (www.detsky-mir.ru). Ordered products can be picked up at any Detsky Mir store in Moscow or Saint Petersburg or delivered by courier.

Customers holding Detsky Mir loyalty cards can benefit from all loyalty program rewards when shopping in a Zoozavr store, including a 2% bonus for purchase and the option to pay 100% of the purchase price with bonus points. The Detsky Mir, ELC, and ABC chains in Russia are also a part of the shared loyalty program.





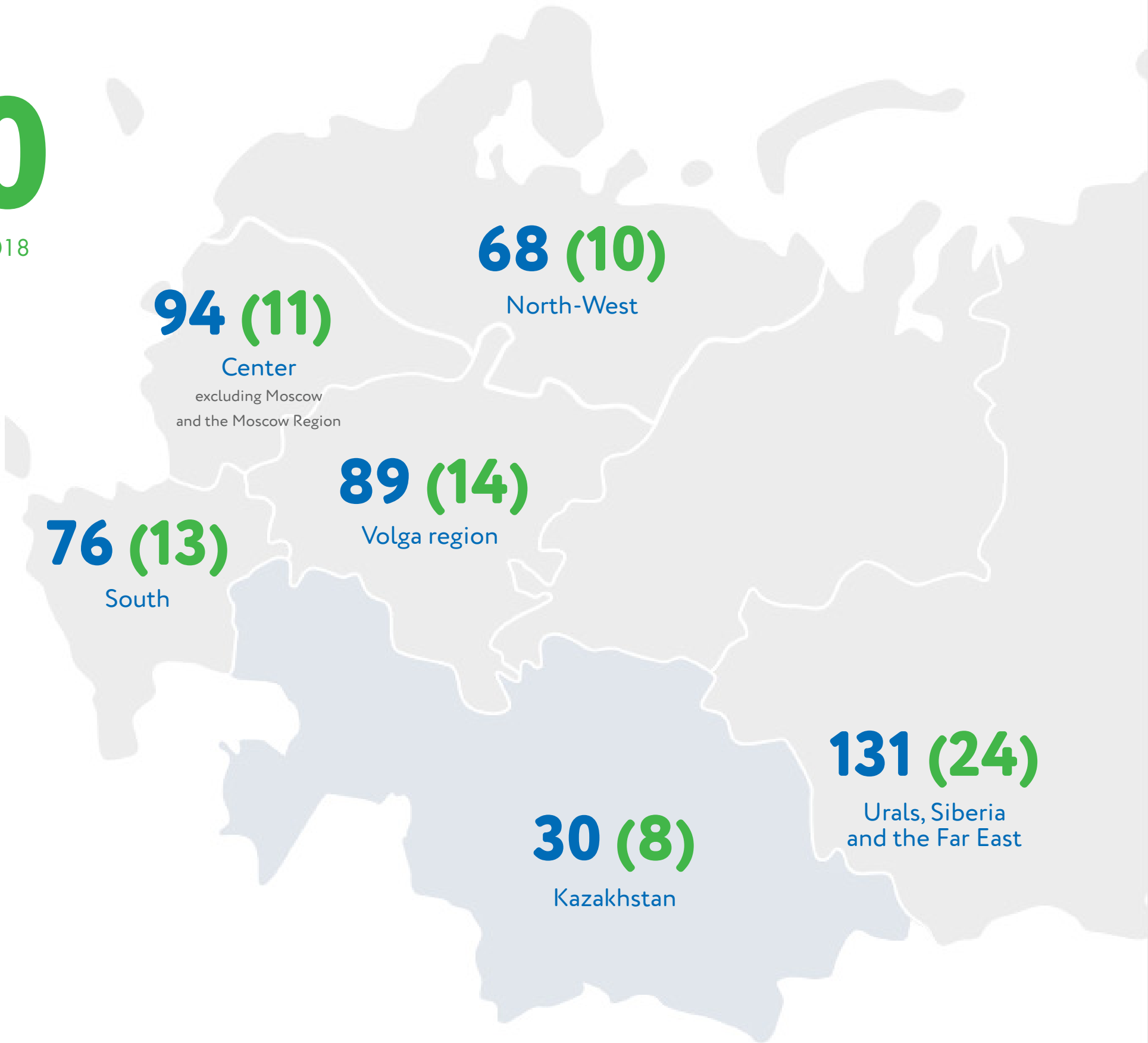
Detsky Mir Retail Chain Footprint

673

Total stores

100

New stores in 2018



1.3. Strategy Overview

Detsky Mir's key strategic goal is to consolidate the children's goods market in Russia and Kazakhstan. To that end, we plan to expand our retail chain, develop our omnichannel proposition, and continue providing our customers with a wide assortment of affordable products including private labels. We have well-defined strategic growth pillars that will aid us in achieving our goal.

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Strategic Growth Pillars of Detsky Mir Group



Regional and International Expansion



Developing Omnichannel Proposition



Developing Private Labels



Improving Operational Efficiency

A range of key initiatives were developed for Detsky Mir's strategic growth areas, as well as operational and financial KPIs.

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Strategy Implementation

The targets are as if IFRS 16 – Leases has not been applied.

	Detsky Mir Store Count	Revenue	LFL Sales Growth	Gross Profit Margin	Rent and Utility Expenses	Staff Expenses	Adjusted EBITDA Margin
Post-IPO Near-Term Guidance (March 2018)	+ 70 new stores	Key drivers are store openings, LFL growth, and store ramp-ups	Single-digit growth outperforming the children's goods market	Stable	Further significant decline as a percentage of revenue compared to 2016, with zero growth in rental costs per square meter	Slightly declining to stable as a percentage of revenue	Double-digit
2018 Actual	100 new stores opened	Yes	+4.3%, outperforming the children's goods market	Slightly declining (– 60 bps) due to price investment to drive additional traffic	Continued decline as a percentage of revenue (– 60 bps)	Continued decline as a percentage of revenue (– 10 bps)	Improved by 40 bps
Post-IPO Medium-Term Guidance (March 2018)	+ 250 new stores from 2018 to 2021 (increased to 300 in Q3 2018)	Key drivers are store openings, LFL growth, and store ramp-ups	Single-digit growth outperforming the children's goods market	Stable	Further significant decline as a percentage of revenue compared to 2016, with zero growth in lease cost per square meter	Slightly declining to stable as a percentage of revenue	Double-digit
Updated Medium-Term Guidance (March 2019)	+ 300 new stores from 2019 to 2022, including + 80 new store openings in 2019	No change in guidance	No change in guidance	Slightly declining due to price investment to drive additional traffic	Slightly declining to stable as a percentage of revenue	No change in guidance	No change in guidance



Key 2018 Business Initiatives

1. A new distribution center was put into operation at PNK Park Bekasovo, located in the Naro-Fominsk City District of the Moscow Region. The total area of the logistics hub is 62 thousand square meters
2. Detsky Mir has also expanded into the Russian Far East with debut stores opened in Blagoveshchensk, Vladivostok, and Khabarovsk
3. The Last Mile pilot project was launched – a service for delivering online orders from retail stores in 15 cities, allowing a significant time reduction from order placement to delivery
4. Four pilot pet supplies stores under the Zoozavr brand were launched
5. A mobile customer loyalty app was launched, allowing customers to view their bonus balance, transaction history, and receive news on upcoming promotions
6. The first Children's World of Strollers was opened in the center of Moscow. The store is a new sales format – a specialized center for large-size children's goods with an area of more than 1,000 square meters, containing more than 700 SKUs of car seats and high chairs and more than 400 SKUs of strollers – a full online assortment
7. The online store's new home page and product catalog were designed and piloted (with 30% of the www.detmir.ru traffic) in order to improve its strategic position and increase mobile ordering
8. The share of private labels and direct imports grew to 36.1% in 2018

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Key 2019 Business Initiatives

1. Becoming the No. 1 children's goods retailer in Kazakhstan by the end of 2019 with 35 Detsky Mir stores
2. Entering the Belarusian market, worth over RUB 40 billion, and open at least ten stores in 2019
3. Entering the pet supplies market, worth approximately RUB 212 billion, and pilot up to ten pilot Zoozavr stores by the end of 2019
4. Maintaining the leading position in the online children's goods market. Achieving a double-digit share of online sales in total Group revenue by 2019 through improved customer experience using the Ideal In-Store and Last Mile projects (see the Growing Omnichannel sales section for more details)
5. Increasing the combined share of private labels and direct imports in toys to 25% and in diapers to 15%

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1.4. Market Overview

Detsky Mir Group operates in the children’s goods market in both Russia and Kazakhstan, and plans to enter the Belarusian market in 2019. In 2018, the Group occupied a 23% share by revenue in the children’s goods market in Russia, as well as a 15% market share in the online segment.

The Company entered the pet supplies market in Q4 2018 by opening four pilot stores. In 2019, at least ten Detsky Mir stores will be opened in Belarus.

Macroeconomics in Russia

According to the International Monetary Fund, Russia’s GDP in 2018 amounted to about USD 1.6 trillion, making Russia the twelfth largest economy in the world and the fourth largest in Europe.

Russia’s annual GDP grew by 2.4% on average from 2010 to 2014, bolstered by the rising prices of oil and other commodities as well as a generally favorable macroeconomic environment.

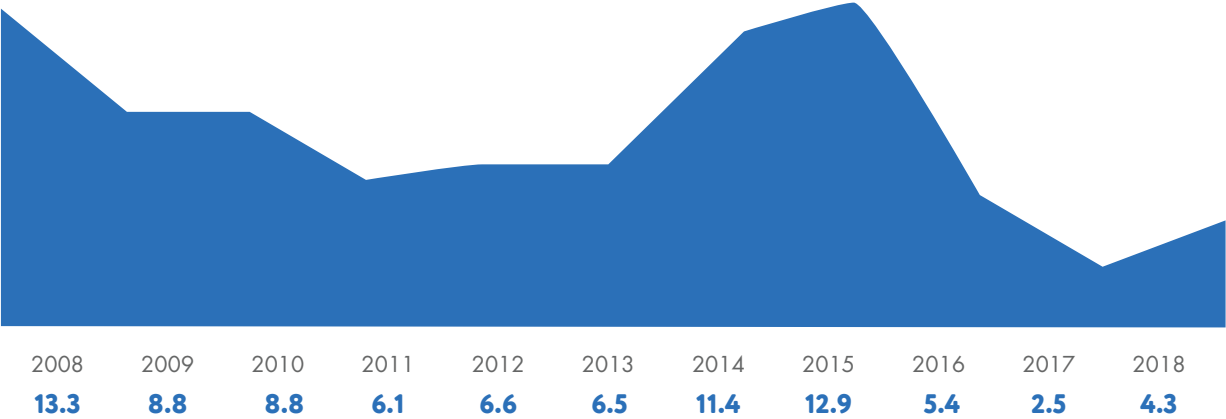
A steep drop in commodity prices and the economic sanctions imposed by some countries triggered an economic recession in Russia in 2014. Real disposable household

income and consumer spending declined in ruble terms due to the devaluation of the national currency, while unemployment increased. The devaluation of the ruble also caused a spike in inflation, which amounted to 12.9% year-on-year in 2015.

The situation began to stabilize from 2017 to 2018. According to the Ministry of Economic Development of the Russian Federation, the primary drivers of Russia’s economic

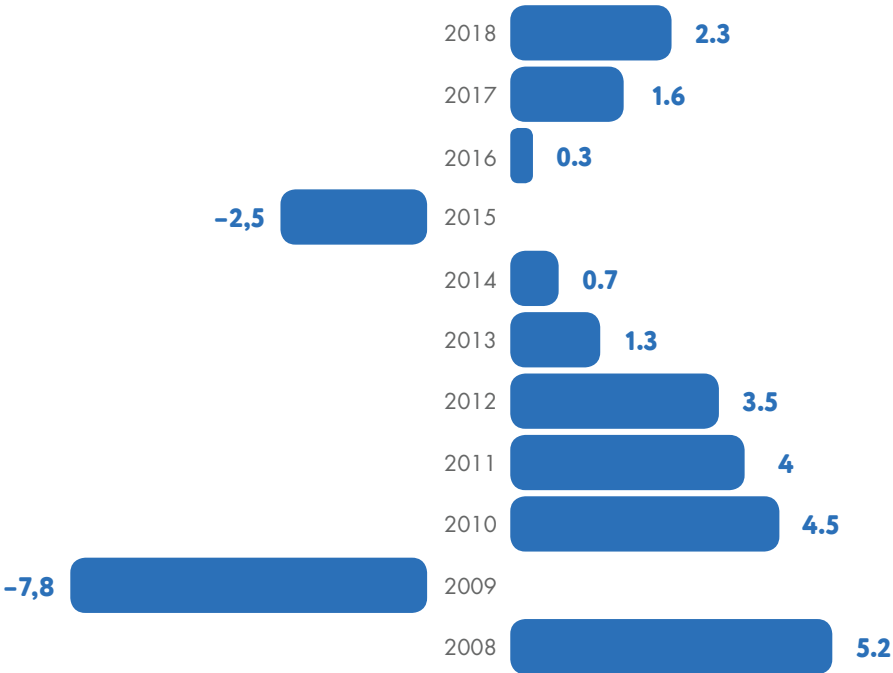
growth were industry (primarily the mining sector), construction, and transport. At the same time, the Ministry foresees a slowdown in economic growth in 2019, triggered among other factors by the increase in VAT from 18% to 20%, which, according to the Ministry, may limit GDP growth to just 1.3%. Economic growth will recover to 2% already by 2020, and then will accelerate to 3%. The Russian Government has plans to design and deploy an extensive infrastructure over the next six years to accelerate the growth.

Consumer Price Index (Inflation Rate) in Russia, %



Source: Rosstat

Russia’s GDP Growth year-on-year, %



Source: Rosstat

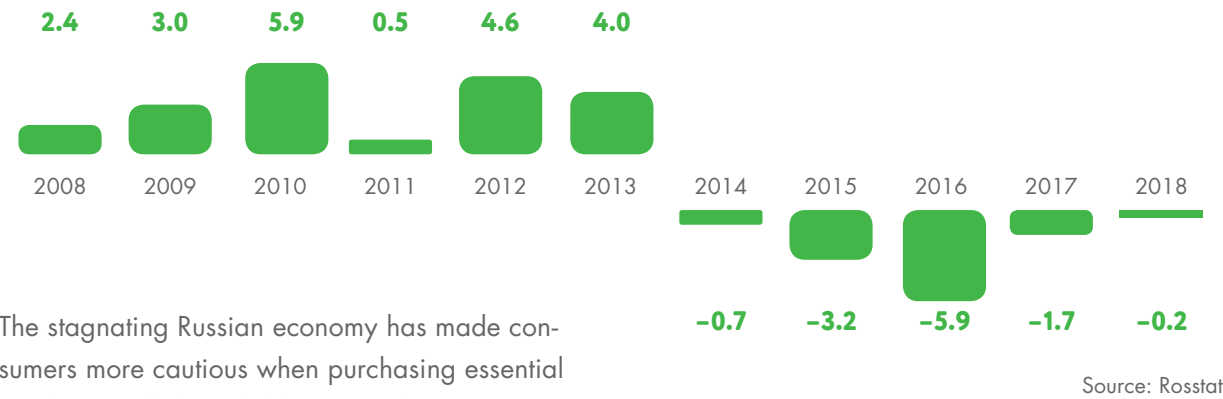
Following the ten-year minimum of 2.5% in 2017, inflation reached 4.3% in 2018, with the non-food market leading in terms of price growth at 4.1% compared to 2.7% in 2017. According to the Bank of Russia’s estimate, the 2019 inflation rate will be 5% to 5.5%, while the Ministry of Economic Development expects the inflation to be below 5%.

Consumer spending decelerated to 2.2% in 2018 from 3.2% in 2017, primarily due to a higher annual inflation rate. Retail sales grew on par with household spending at 2.6%. At the same time, real disposable household income declined by 0.2%³, indicating that growth in retail had been driven by higher consumer lending. Thus, 2018 was the fifth consecutive year of real disposable household income falling in Russia.

³ Includes a one-off RUB 5,000 pension payment made in January 2017.



Real Disposable Income in Russia



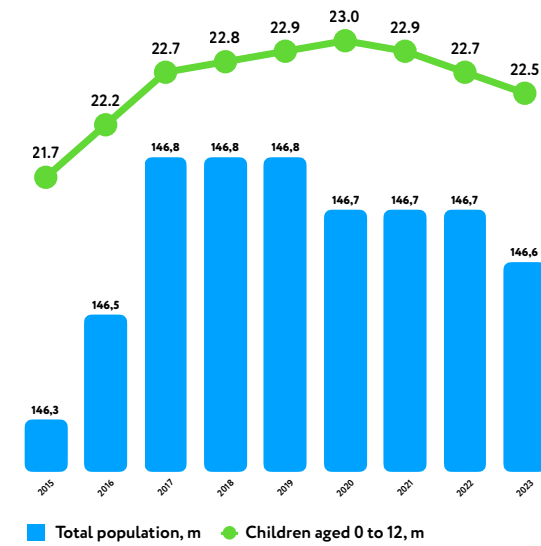
The stagnating Russian economy has made consumers more cautious when purchasing essential products, including children’s goods. Consumers have come to avoid impulse purchasing while cutting expenses by focusing on lower volume purchases and trading down to cheaper products, thereby reducing the average retail ticket.

In efforts to mitigate the negative financial impact of the challenging macroeconomic environment, Detsky Mir Group adapted its product assortment and pricing policy. The growing number of purchases in Detsky Mir stores was due to improved shelf pricing, particularly in traffic-generating categories such as products for newborns.

decline will be due to the overall effect of the low birth rates observable since 2017.

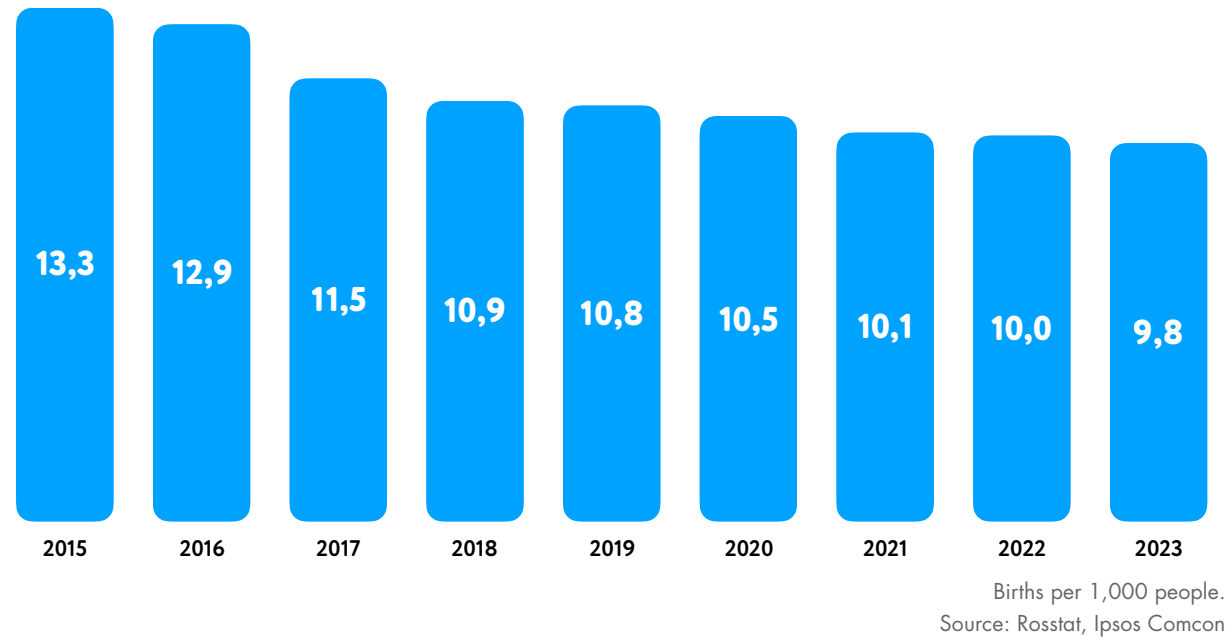
In 2018, birth rates declined by 5.2% to 10.9 compared to 11.5 in 2017. Lower birth rates in the reporting period are due to both the demographic gap of the early 1990s and the economic recession over the past few years.

Population of Children Aged 0 to 12 in Russia



The distribution of children by age group in Russia has remained approximately the same in recent years, with a small decline in the share of children aged 0 to 4 and an increase in the share of children aged 5 to 9. Toys and apparel – the highest margin products – will see an increased demand due to the growing share of children aged 5 to 9 and 10 to 12 in the next few years.

Total Birth Rate



Population of Children Aged 0 to 14 in 2017 by Country

Country	Children, m	Share of Children in the Total Population, %
India	350.4	27.3
China	236.5	17.1
USA	61.1	18.7
Brazil	46.2	22.3
Russia	24.3	17.1
Turkey	19.9	24.7
France	12.4	18.5
UK	11.3	17.5
Germany	10.3	12.8
Poland	5.67	14.8
Kazakhstan	5.0	27.8
Belarus	1.5	15.8
Ukraine	6.9	15.8

Source: Rosstat, IMF

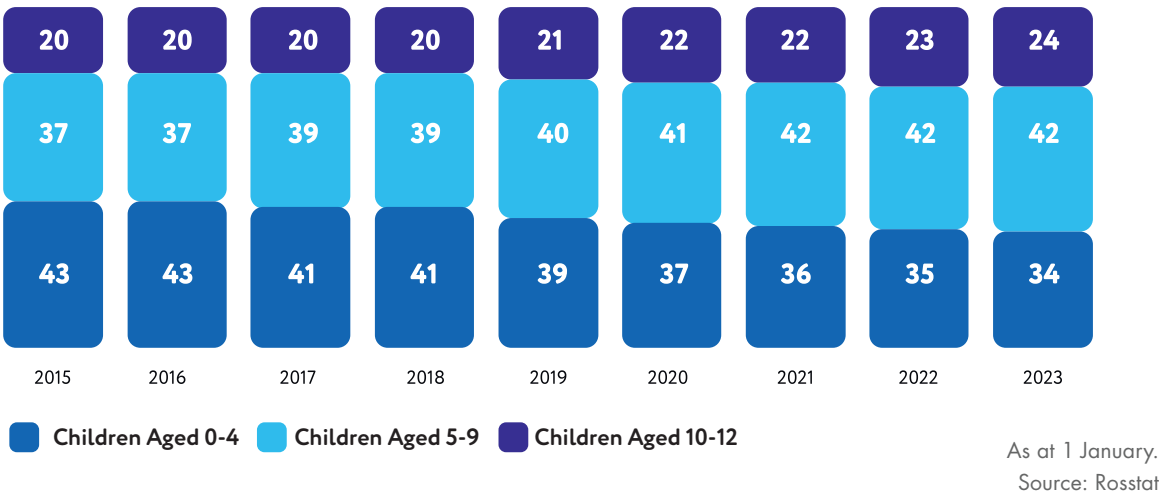
Russian Demographics

In early 2018, the number of children in Russia aged 0 to 12 (Detsky Mir’s target audience) was 22.8 million. Russia has Europe’s largest population of children aged 0 to 14, making up about 17% of the total Russian population, which is comparable to many European countries.

The average annual population growth rate from 2014 to 2017 was 2.3%, outperforming many developed and developing countries. In the next few years, the population of children in Russia will continue to grow at an average rate of 0.1% per year and is expected to reach 22.9 million by early 2021. The post-2020



Population of Children Aged 0 to 12 by Age Group, %

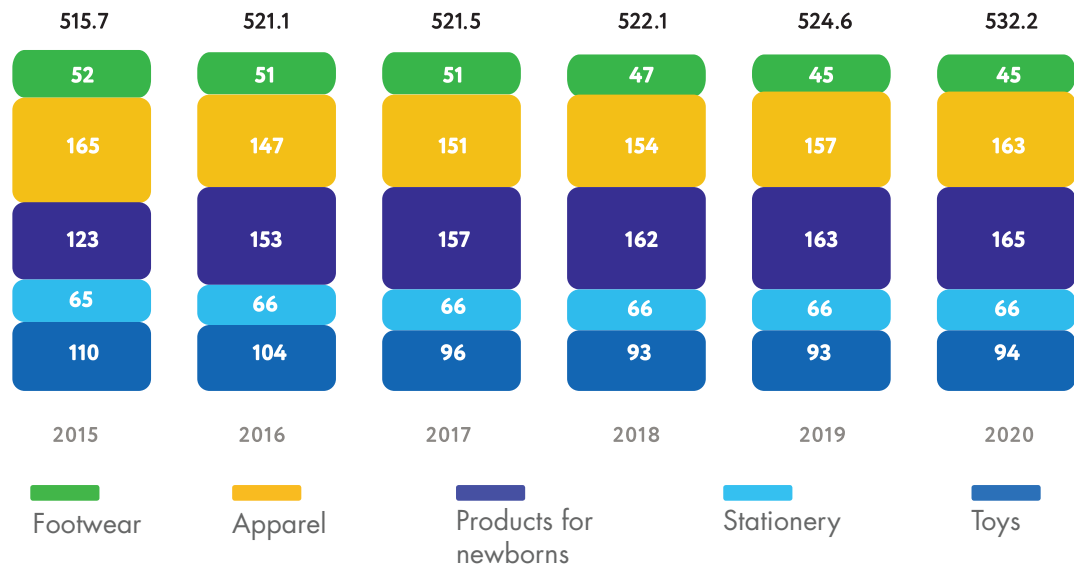


The Children's Goods Market in Russia

According to the research company Ipsos Comcon, the children's goods market in Russia grew by 0.1% year-on-year in 2018 to RUB 522.1 billion. Over the last four years, the average annual market growth rate had amounted to 0.4%. According to analytical forecasts, the market is expected to grow by an average of 1% and total RUB 532.2 billion by 2020.

The largest portion of the children's goods market has historically been comprised of apparel and footwear, with a cumulative share of 38.5% (29.6% and 9.0% respectively) in 2018. Products for newborns and toys account for 31.0% and 17.9% respectively, with the highest growth rate demonstrated by products for newborns. In terms of value, the share of these products grew from RUB 158 billion in 2017 to RUB 162 billion in 2018 at an average annual growth rate of 9.5% over the last four actual years.

Annual Volume of the Children's Goods Market in Russia by Category, RUB bn



The current economic climate has prompted Russians to reconsider their approach to purchasing children's goods. Price has been the most important purchasing factor since 2015, changing consumer behavior as the focus shifted toward cheaper products. The flow of consumer demand migrated from premium and medium price segments into both the mass market and low price segments. Domestic goods and Detsky Mir's own private labels have gained significant popularity, as the prices are lower than those of similar foreign or branded goods. Detsky Mir is therefore actively developing its own private labels (see the Supply Chain section for more details).

Non-chain retail stores have historically been widespread in Russia, leading in sales of most goods, including children's goods, and occupied the second place in the children's goods market with a combined share of 32.2% in 2010. Growing demand for a wider product assortment, the active expansion of modern retail spaces, and large retail chain development has led to a rapid reduction in the market share of non-chain retail stores, which contracted to 9.4% in 2018, while buyers switched to specialized children's goods stores and food retail chains.

In 2018, some specialized retailers left the market or closed the majority of their stores, while the remaining federal and regional retail chains lost traffic and closed their stores following a significant decrease in like-for-like sales. Nevertheless, specialized retailers have remained the main sales channel for children's goods, along with hypermarkets and supermarkets (in 2018, 39.1% and 38.9% respectively). This market distribution strongly reflects consumer preferences – according to a survey by Ipsos Comcon, the most important purchasing drivers are affordable prices (92%) and a wide product assortment (77%), while proximity to one's

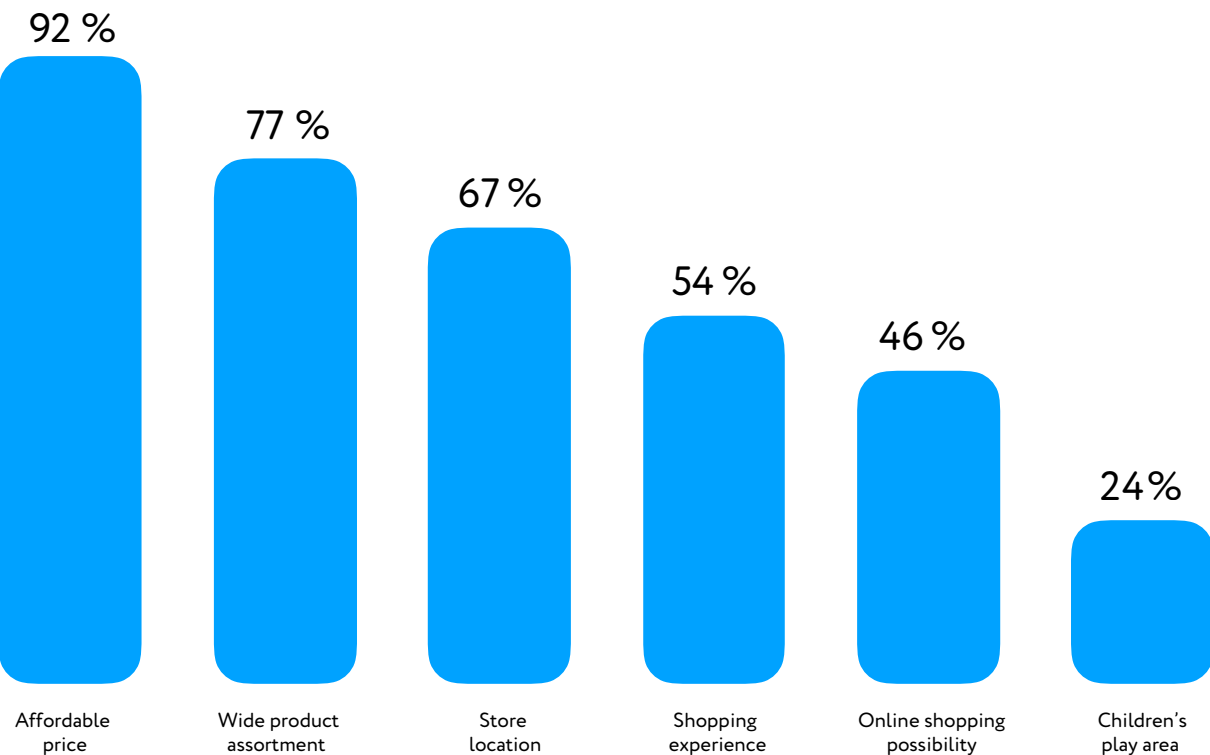
home, which is important for food retailers, only comes third. However, the strong consumer preference for a varied range of children's products can only be satisfied by specialized stores.

Factors Affecting the Children's Goods Market

1. Parents' priorities when allocating money to purchase children's goods — parents' rising education level and increasingly widespread internet access leading to more rational purchase decisions
2. The internet is an increasingly popular sales channel offering both a wide range of products at attractive prices and the opportunity to evaluate, research, and compare products. Online shoppers have become a valuable target audience - according to the Data Insight agency, their number in Russia has grown 1.4-fold over the last three years, with the largest portion residing in Russia regions
3. Business transformation and digitalisation — investing in digital technologies and Big Data
4. Deeper diversification of product assortment and private label development (at prices lower than those of similar foreign goods)
5. Limited market growth associated with declining birth rates, decreasing real disposable household income, and consumer inflation and spending trends



What Is Important for Buyers When Choosing Where to Purchase Children’s Goods?



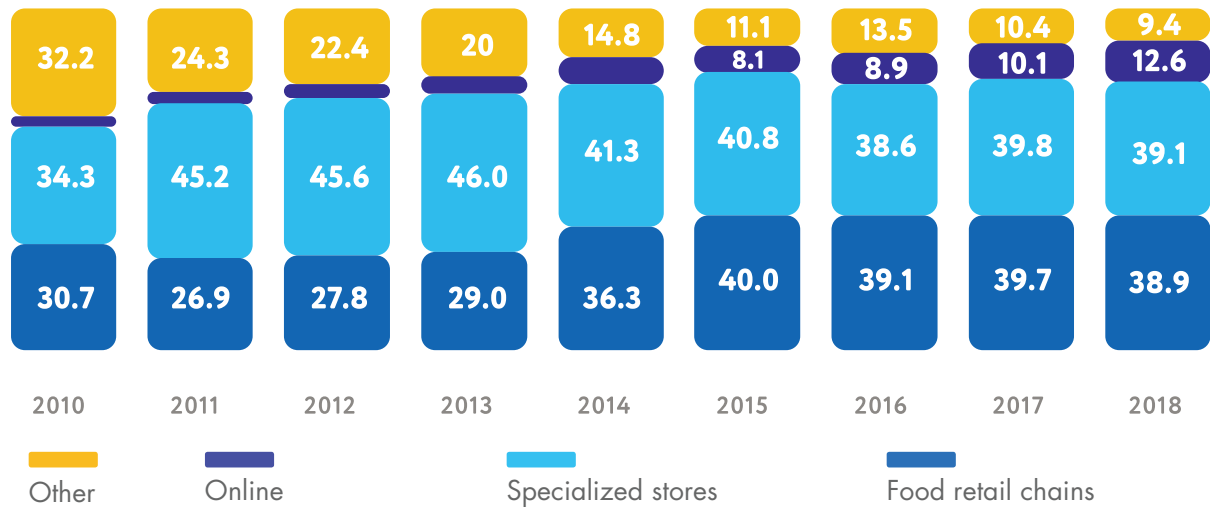
Source: Ipsos Comcon survey

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The internet is an increasingly popular sales channel offering both a wide range of products at attractive prices and the opportunity to evaluate, research, and compare products. The share of online retail in the children’s goods market is growing steadily at 12.6% in 2018 compared to 10.1% in 2017, due to a 27% annual

growth rate between 2010 and 2018. In terms of value, specialized stores’ sales of children’s products increased from RUB 119 billion in 2010 to RUB 204 billion in 2018, while the online sales of children’s goods in 2018 amounted to RUB 66 billion.

Children’s Goods Market by Sales Channel, %



Source: Ipsos Comcon

Sales of children’s goods in Russia vary depending on the region and average income. According to Ipsos Comcon, the largest spending on children’s goods per capita in 2018 was in Moscow at RUB 11 thousand, compared to the average RUB 6.9 thousand recorded across Russia. Moscow accounts for more than a quarter (26%) of all Russian expenses on children’s goods.

Following the 2018 results, Detsky Mir’s revenue share in the children’s goods market in Russia was 23% (20% in 2017), and 14.8% in the on-line segment (9.7% in 2017). Detsky Mir is unrivaled among specialized retailers of children’s goods, with the share of its nearest competitor, Korablik, five times smaller in 2017.

Key Children’s Goods Retailers in Russia in 2017, %

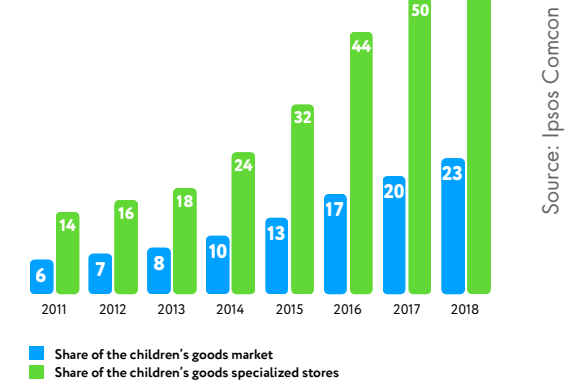


Source: Ipsos Comcon

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Detsky Mir’s share of the children’s goods market among specialized retailers grew from 14% in 2011 to 59% in 2018 due to opening a large number of stores and attracting consumer traffic from competitor retail chains during this period. From 2012 to 2018, Detsky Mir’s expanded by 478 stores.

Detsky Mir Group’s Share of the Children’s Goods Market in Russia, %

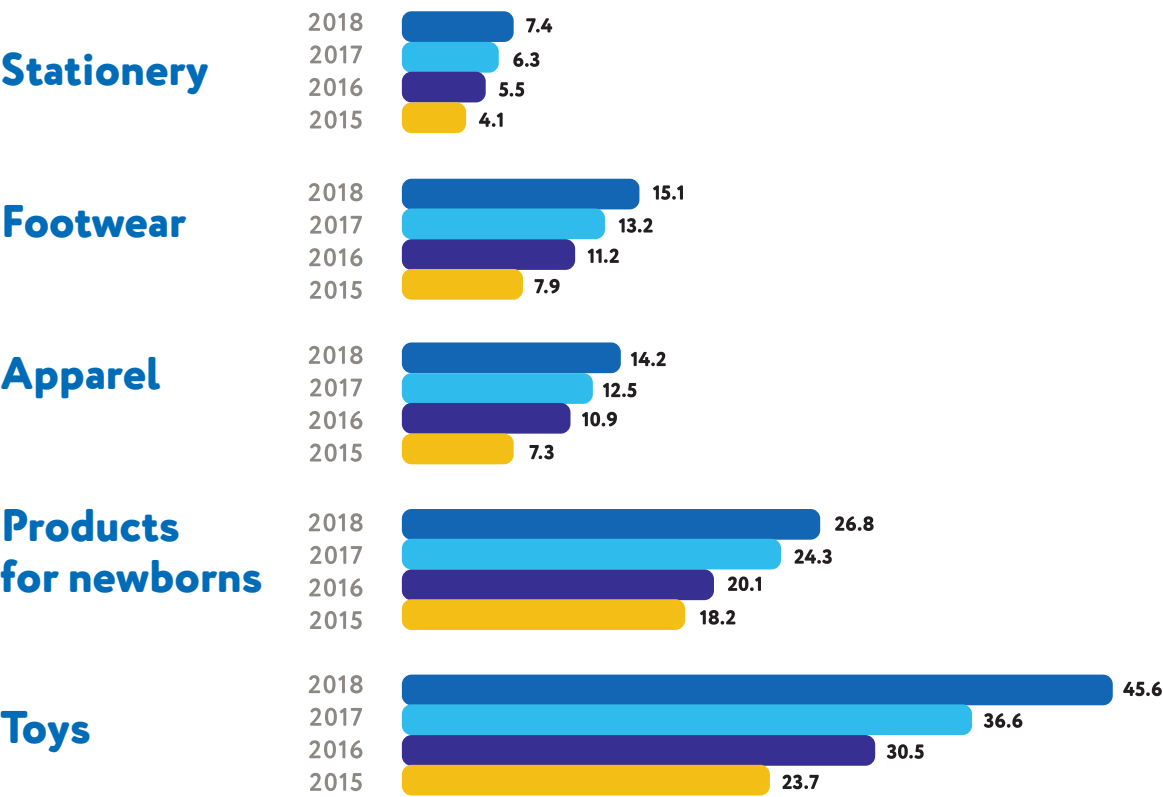


Source: Ipsos Comcon



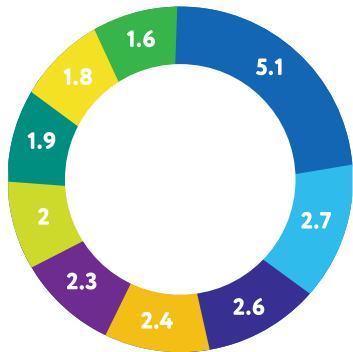
In 2018, Detsky Mir’s market share growth was largely driven by the toys and products for newborns categories, for which the market share increased from 38.9% to 45.6% and from 24.3% to 26.8% respectively. At the same time, Detsky Mir’s market share grew across all children’s product categories in 2018.

Detsky Mir Group’s Market Share by Children’s Product Category, %



Source: Ipsos Comcon

Key Companies in the Online Children’s Goods Market by Share of Sales in 2017, RUB bn



- Detmir.ru
- Mamsy.ru
- Ozon.ru
- Dochkisinochki.ru
- Mytoys.ru
- Toy.ru
- Akusherstvo.ru
- Korablik.ru
- Babadu.ru

Source: Ipsos Comcon

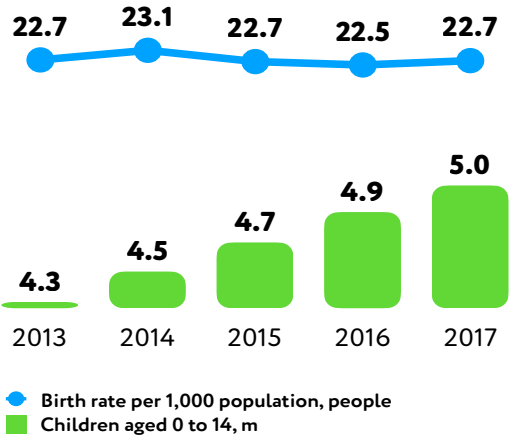
The online children’s goods market is highly fragmented and includes both several large companies and multiple online small businesses. In 2017, Detsky Mir’s online store consolidated its market leadership with a 9.7% share, which grew to 14.8% in 2018.

Republic of Kazakhstan

Kazakhstan is one of the largest CIS countries, with a population of 18.4 million and the largest economy in Central Asia. From 2010 to 2018, the average annual growth rate of Kazakhstan’s real GDP was 4.4%, with the real GDP increasing by 3.7% year-on-year in 2018. The average annual growth rate of the population from 2010 to 2017 was 1.4%, and GDP per capita grew at 10.8% per year. In 2018, the country’s GDP per capita was USD 8,800. During the financial crises of 2008–2009 and 2014–2015, the government used funds from the Kazakhstan National Fund to maintain a positive growth in real GDP.

The birth rates in Kazakhstan are on the rise, with approximately 400,000 babies born in the country each year. The child population growth rate is quite high as compared to Russia and other European countries, and is driven by the high birth rate – 22.7 infants per 1,000 people in 2017. As a result, children make up a large part of Kazakhstan’s population, with children younger than 14 comprising 27.8% of the total population in 2017.

Demographics in Kazakhstan from 2007 to 2017



Source: Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan

The growing share of children in the population has been a driver for the children’s goods market in Kazakhstan. According to our estimate, the size of the children’s goods market was approximately RUB 100 billion in 2018, which is five times smaller than that in Russia. The market offers good consolidation opportunities given the large market share of non-chain retail. At the end of 2018, Detsky Mir operated 30 stores in Kazakhstan.

Competitive Environment in Kazakhstan

Competition	2018 Stores
Marvin	32
Anvar	35
MAGNUM	42
Skif (SMALL)	65
Ramstore (including Ramstore Express)	19
Erkema	7
Kari Kids	12



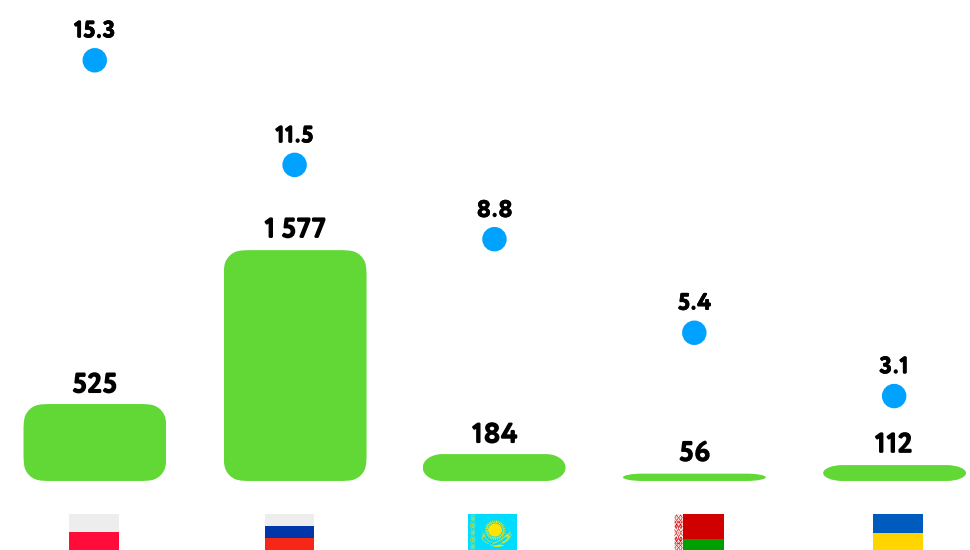


Republic of Belarus

The Republic of Belarus is the fifth CIS country in terms of population, and a member of the Customs Union. In 2018, the country’s GDP was USD 56 billion, with GDP per capita at USD 5,410.

Following the recession in 2015 and 2016, the economic climate in Belarus has started to improve: in 2017, the country’s GDP grew 2.5% and continued to trend up reaching 3% in 2018 as the national economy recovered further.

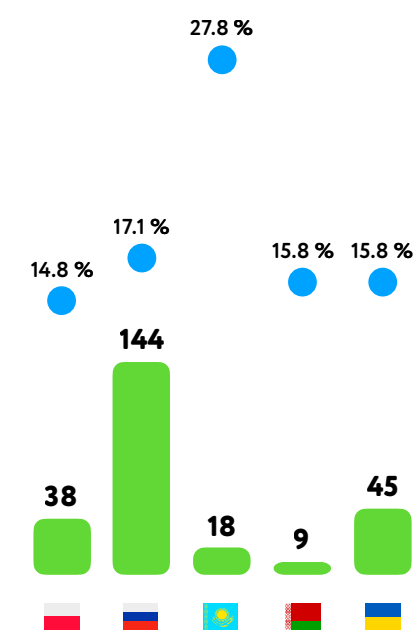
GDP vs. Neighboring Countries



Source: IMF’s World economic Outlook

Population vs. Neighboring Countries

As at 2018, children aged 0 to 14 accounted for 15.8% of the total population, which is comparable to the other CIS countries. In 2017, Belarus saw a sharp decline in the birth rate, with the rate falling by about 12.9% year-on-year. The country’s birth rate continued to decrease in 2018, dropping to 11.7 babies per 1,000 people, down 1.23% year-on-year. Belarus has already seen several cycles of birth rate declines. The low birth rates in the early 1990s resulting from an earlier birth rate decline during the Great Patriotic War, had an impact on the current reproductive generation. Between 2015 and 2017, a sharp decrease in marriages was registered due to the economic recession, which has also contributed to birth rate declines.



Source: IMF’s World economic Outlook

According to expert estimates, the size of the children’s goods market in Belarus is RUB 40 billion, 13 times smaller than that of Russia. Children’s goods market in Belarus is fragmented, with a great number of small and medium-sized players, and currently goes through a consolidation phase. Buslik is the top market player, with the total market share in 2018 estimated at 12.5%.

In 2018, non-chain retail stores dominated the market with a 36% market share, while supermarkets and hypermarkets had a 24% share – in Russia, they had 13% and 39% market shares, respectively. Online retail grew rapidly during 2018, gaining a market share of 5%.

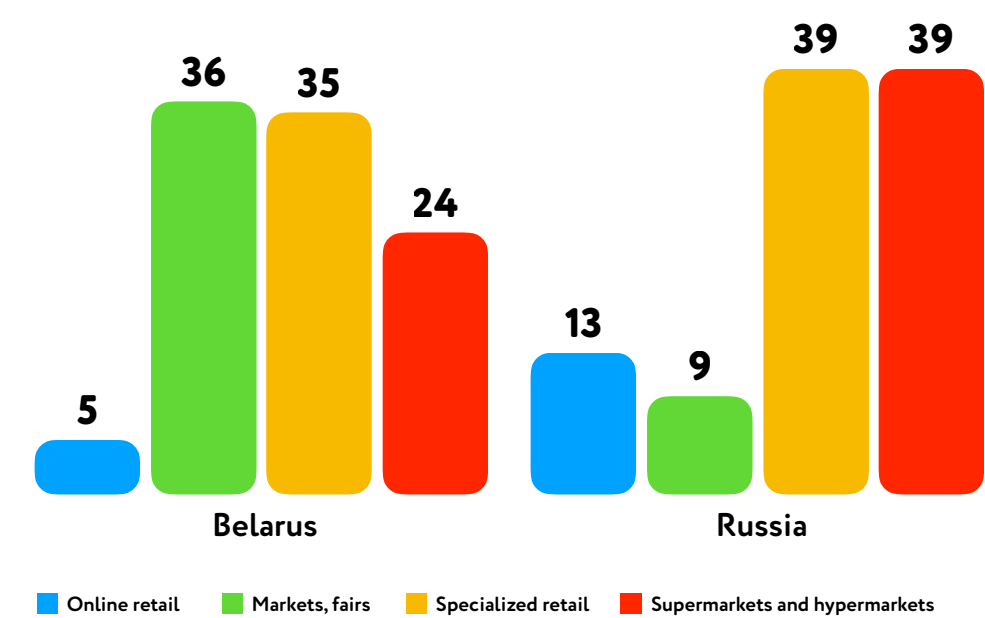
The market structure category-wise is comparable to that in Russia – apparel and products for newborns account for about 80% of total sales. According to Detsky Mir’s estimate,

in 2018, toys had a 22% share of the children’s goods market in Belarus, which is comparable to Russia’s market where toys had an 18% share.

Competitive Environment in Belarus

Competition	Stores in 2018
Buslik	47
Fantastic	34
Shagovita	30
Kari Kids	37
LC Waikiki	14
Mothercare	13
Orange Camel	10
Aleshka	5

The Structure and Size of the Children’s Goods Market in 2018, %



Source: Detsky Mir



Pet Supplies Market in Russia

In December 2018, we launched four pilot pet supply stores under the Zoozavr brand, in line with the approved strategy to enter new markets. The Russian pet care market is highly fragmented – the combined market share of top five players is 12%.

According to Mars Petcare, the number of pet cats and dogs in Russia has increased by 6.3 million, or by 14%, over the last three years (the number of cats grew by 4.7 million, and dogs by 1.6 million). Moreover, 15% of those surveyed had both a cat and a dog. As at 2018, the number of pet cats in Russia was

approximately 33.7 million, with pet dogs totaling 18.9 million. Russia ranks the world’s third by the number of pet cats and fifth by the number of pet dogs.

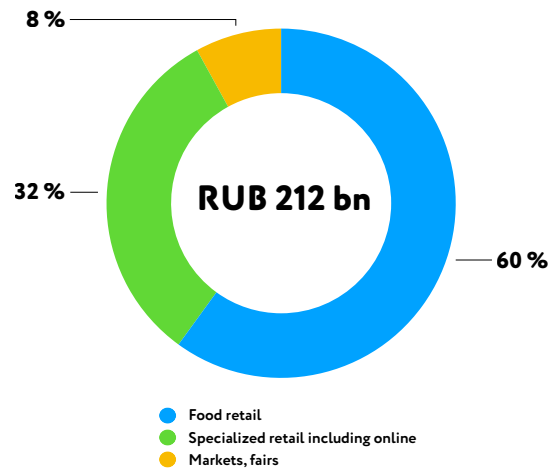
Quantity-wise, the pet ownership structure in Russia is comparable to that seen in France or Germany, where the percentage distribution of different pets is almost even across the population. According to Nielsen, the size of the Russian pet supplies market was USD 3.2 billion in 2017. The online segment of the Russian pet supplies market made up only 5% of the total market size, which is more than two times smaller than the share of e-commerce in the USA, Germany, or Japan. In 2017, food retail accounted for the bulk of total sales in the Russian pet care market (60%), while specialized retail and e-commerce had a combined 32% market share.

The key growth driver for the pet care market is the growing number of pets per capita in Russia (from 27 in 2013 to 500 in 2017 per 1,000 population). As the pet supplies market evolved, so did the consumer preferences in pet food. According to Mars Petcare, the use of specialized pet food grew from 17% for cats and 2% for dogs in 2002 to 54% and 13%, respectively, in 2018.

The Russian pet care market is largely focused on pet food for cats and dogs. According to estimates, cat and dog food has been stable as a percentage of the total market over the recent years, accounting for about 65%–70%. However, in 2017, this market segment surged by 7.4% year-on-year to RUB 159 billion.

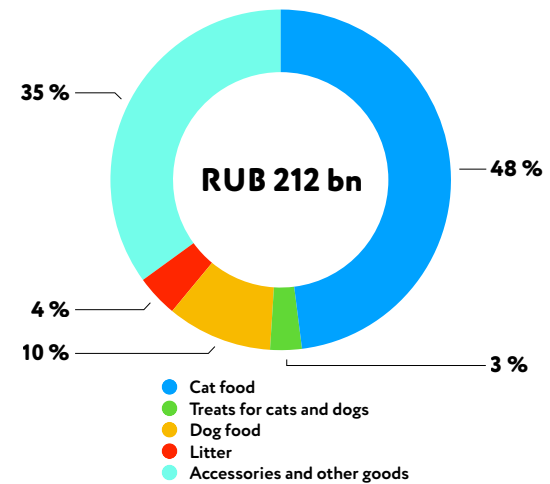
According to UBS forecasts, the Russian pet supplies market will continue growing, with the average annual market growth projected at 11% between 2017 and 2023, and the number of pet cats and dogs growing at an average 2.5% over the same period.

Pet Supplies Market by Sales Channel



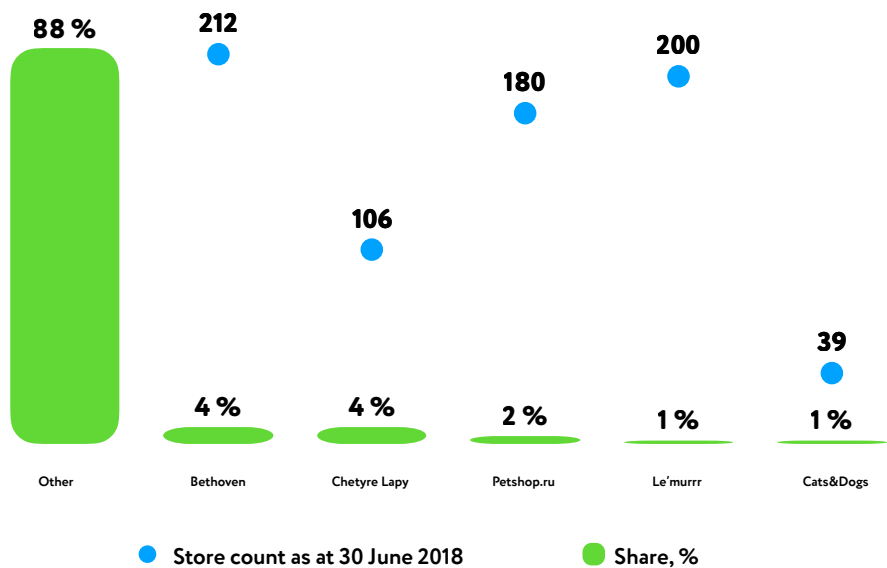
Source: Nielsen

Pet Supplies Market by Category



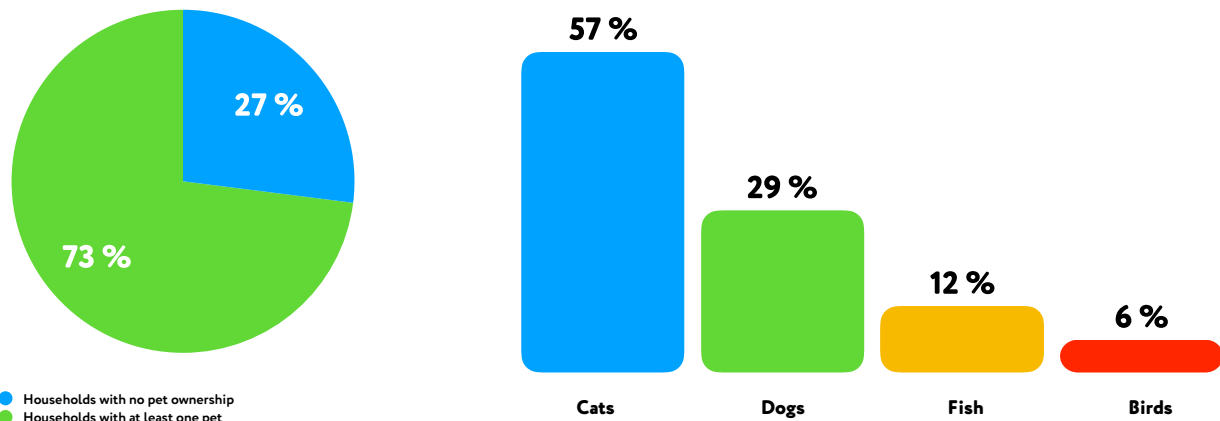
Source: Nielsen

Market Shares of Top Players in the Pet Supplies Market



Source: Detsky Mir

Pet ownership in Russia in 2018



Source: GFK

1.5. Business Model

Detsly Mir Group is a multi-format retailer and a leader in the children's goods market in Russia operating the Detsky Mir national retail chain, the ELC and ABC chains, and the Zoozavr pet supplies chain.

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Detsky Mir's key strategic goal is to consolidate the children's goods market in Russia, Kazakhstan, and Belarus.

- **Detsky Mir Chain Expansion**

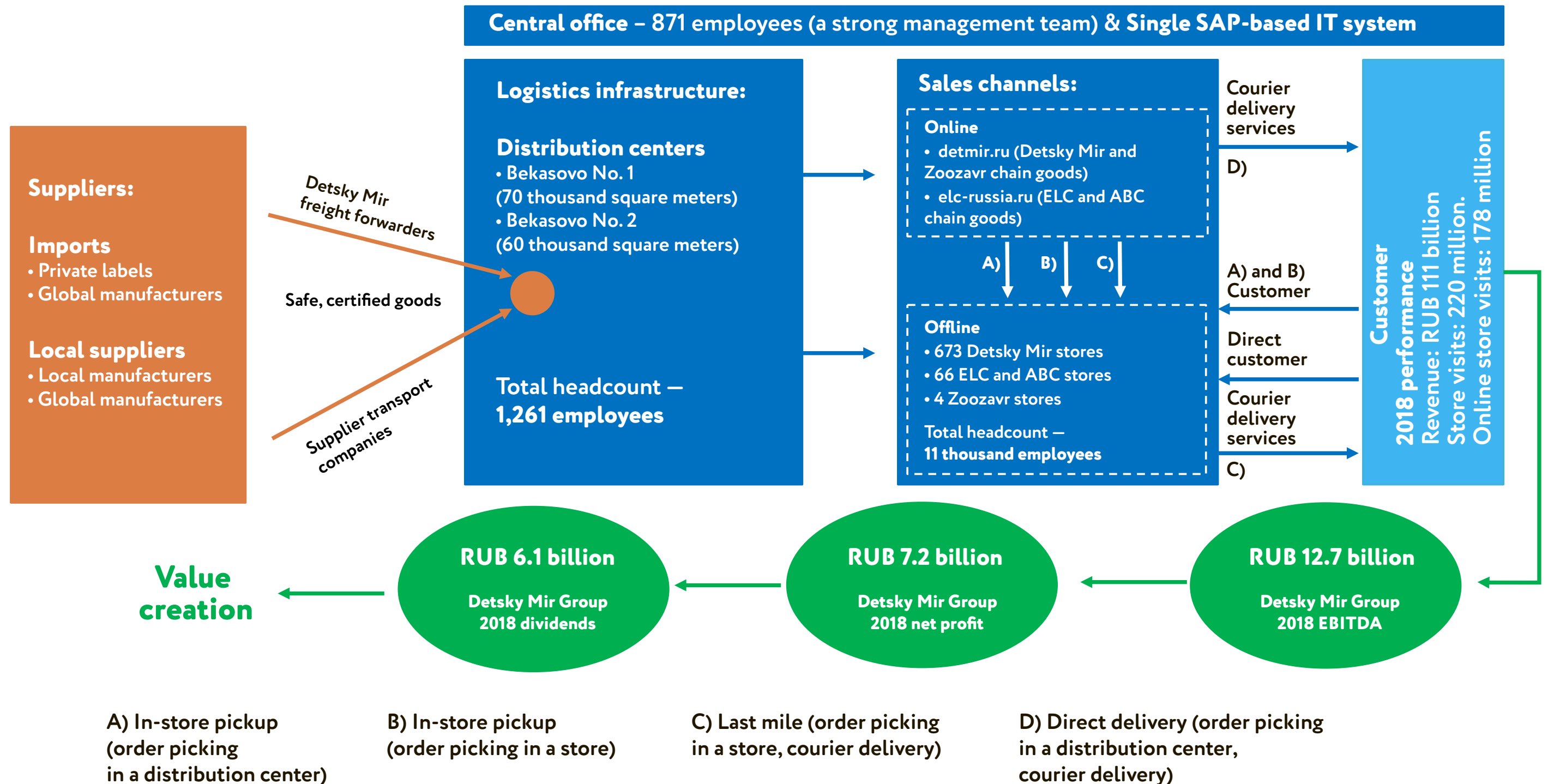
- **New Market Penetration**

- **Online Business Development**

- **Private Label Development**

- **Operational Efficiency Improvements**

49





Detsky Mir Product Assortment

Traffic Generator

Products for Newborns

Products for newborns include baby food, diapers, and childcare products.

This category qualifies as FMCG (fast-moving consumer goods), which are purchased with the highest frequency at several times a week.

Products for newborns are strategically important, as they generate key consumer traffic.

Our key goal is to boost retail sales by offering a wide range of products for newborns at the best prices compared to our direct competitors.

In addition, products for newborns can reduce the seasonality impact felt by all non-food retail chains, as sales of products for newborns are not seasonally based.

Share in revenue	32%
Share of private labels	2.5%
SKU	3,500
Detsky Mir's market share	26.8%
Key competitors: food retail	

Profit Generator

Toys

Detsky Mir's leading position in the market means it can secure special terms with suppliers and access to exclusive products.

Exclusive products drive consumer traffic, foster customer loyalty, and increase sales growth for LFL stores while also building Detsky Mir's resilience to price competition from other retailers.

Detsky Mir is also actively developing its own private labels, thereby maintaining competitive pricing without seriously affecting margins.

Share in revenue	33%
Share of private labels	12.3%
SKU	5,900
Detsky Mir's market share	45.6%
Key competitors: specialized children's stores	

Profit Generator

Large-Size Goods

These products include children's car seats, strollers, baby carriers, and children's furniture.

We primarily offer branded goods in this category, along with extensive ranges of our own private label products.

Share in revenue	4%
Share of private labels	45.8%
Key competitors: specialized children's stores	

SKU	200
-----	-----

Stationery and Other Products

Stationery and other products include books, multimedia, sports goods, and the New Year's product ranges.

Stationery sales are highly seasonal, with peak sales achieved during the Back to School period in August and September.

Share in revenue	6%
Share of private labels	26.2%
Key competitors: specialized children's stores	

SKU	2,500
Detsky Mir's market share	7.4%

Apparel and Footwear

Detsky Mir's apparel offering includes outerwear, seasonal collections, underwear, socks, and accessories. The footwear collection includes classic and casual styles, sports and walking shoes, as well as beach and aquatic footwear.

Detsky Mir's collection includes shoes from leading international brands such as Lassie (manufactured by Reima) and Blue Seven (manufactured by Obermeyer), as well as a wide range of private label footwear which has a steadily growing share in total sales.

Apparel and footwear provide the highest profit margins of our overall product assortment. In line with our strategy, we are expanding the product ranges within these categories by offering more private label clothes and footwear.

Detsky Mir is focusing on offering a large number of fast-fashion and seasonal collections and expanding the range in each. Eight fast-fashion and seasonal collections were launched throughout 2018: Spring, Summer, Hot Summer, School, Early Fall, Fall, Winter, and New Year.

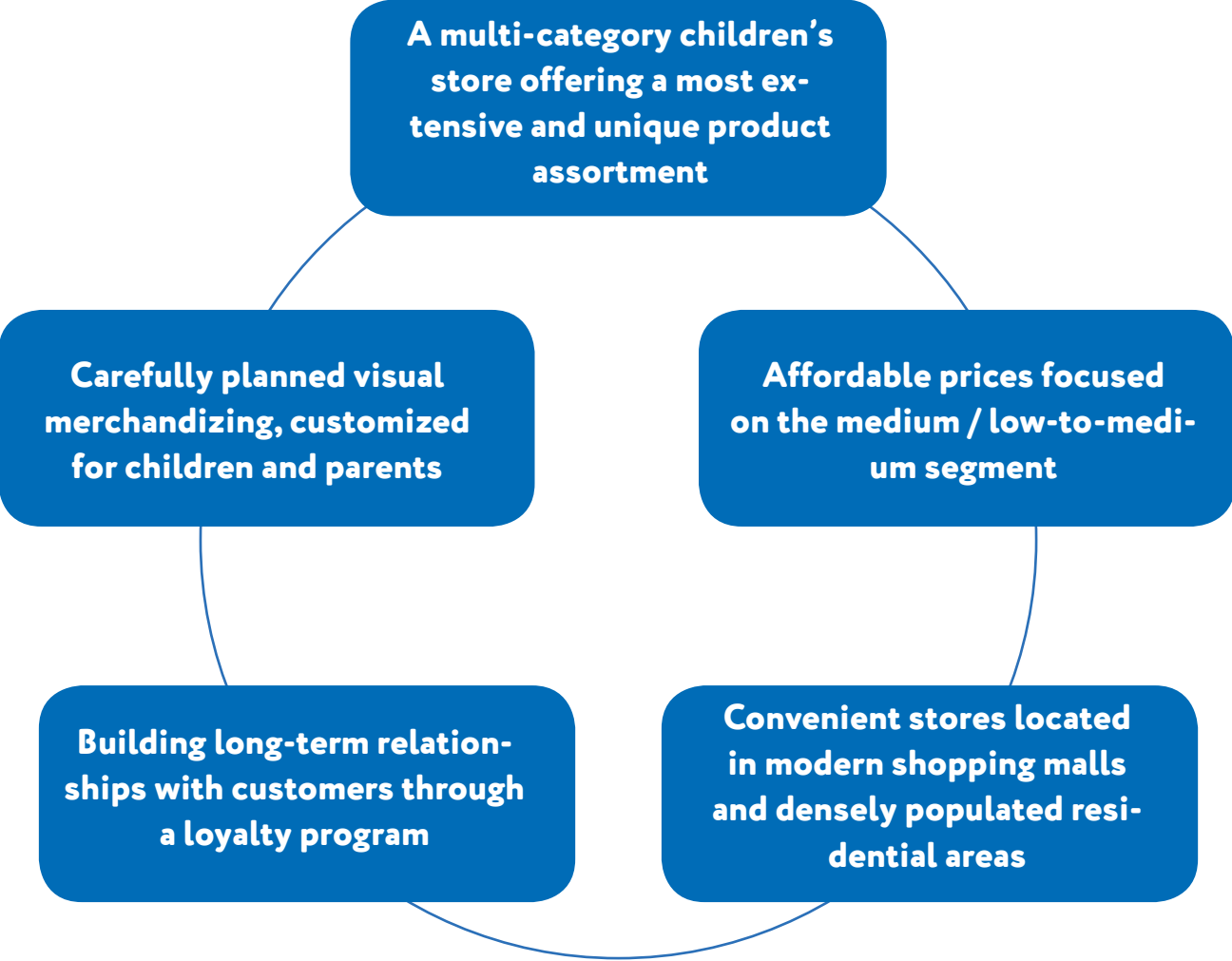
Share in revenue	25%
Share of private labels	87%
SKU	7,500
Detsky Mir's market share	14.2% apparel 15.1% footwear
Key competitors: apparel and footwear retail stores, sports stores	



1.6. Retail Business Concept

The retail concept of the Detsky Mir chain is a combination of five key elements:

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Since 2014, Detsky Mir stores in Russia and Kazakhstan have been refreshed with an upgraded interior design concept. The new design draws on the international experience of embedding interactive activities into selling space, with in-store playgrounds integrated into sales areas.

The design concept also offers an improved store layout and a more vibrant overall look and feel. All stores use a uniform zoning concept with right-sized shelf heights and wider aisles for customers with strollers.

The approach to product display was also revised to add visibility and logic. Stores feature dedicated promo zones to highlight special offers and discounted products.

Our flagship stores now have interactive children's zones that combine shopping experience and entertainment to encourage more family visits.

Mature stores are refreshed with consideration for the new concept. Stores are divided into five categories based on the selling space and number of SKUs:

Store Size	Selling Space, sq m	Average Number of SKUs (Excluding Apparel and Footwear)
Extra-small	500—600	5,000
Mini	600—800	6,500
Super	800—1,500	11,000—14,000
Hyper	>1,500	16,000
Flagship	>2,000	18,500

20—30,000
SKU's

The overall format features a standard product mix of 20–30 thousand SKUs (including fashion), individual zones for each product category, and a separate zone for advertising.

1,100 m²
selling space

The average size of Detsky Mir stores is approximately 1,100 square meters of selling space, and about 74% of stores have a selling space of 800–1,500 square meters.

55



Detsky Mir Retail Chain in Russia and Kazakhstan	2014	2015	2016	2017	2018
Total number of new stores per year	55	103	100	104	100
Number of new concept stores, including new openings and existing stores refreshed during the year	58	105	101	110	108
Cumulative number of new concept stores at year-end	59	164	265	375	483
Total number of stores in operation at year-end	280	380	477	578	673
Share of new concept stores in the total store count for the Company's chain	21%	43%	56%	65%	72%

56 The stores are mainly located in modern shopping malls and densely populated residential areas near main traffic arteries or metro and railroad stations. As at 31 December 2018, the Company operated 659 stores in shopping malls and 14 stores outside shopping malls (street retail).

Regional and International Expansion

We are planning to further consolidate the children’s goods market in Russia and Kazakhstan by launching stores in both existing and new cities for Detsky Mir.

The Russian and Kazakhstan markets offer opportunities for opening at least 265 new stores over the next three to four years, including at least 80 stores in 2019:

- about 115 cities (with a population between 40 and 100 thousand) not covered by the Company or its key competitors
- about 70 stores of specialized retail competitors suspending their expansion programs or closing stores

- about 35 shopping malls in Detsky Mir’s existing cities (with a population of at least 100 thousand) that meet the Company’s strict investment criteria, including a high internal rate of return (IRR) of at least 40%
- about 20 stores in the Russian Far East (in cities with a population of at least 50 thousand)
- at least 25 store openings in Kazakhstan (including at least five in 2019), which has outperformed the Russian market, posting a 30% growth in like-for-like (LFL) sales in 2018.

As part of its geographic expansion strategy, Detsky Mir Group has decided to enter the Belarusian market, aiming to open at least 35 stores in Belarus in the medium term, including at least 10 stores in 2019.

The Russian-speaking population, no customs barriers (Belarus being part of the Customs Union), short distances (between two and four days from the Bekasovo Distribution Center to Minsk) and the high fragmentation of the children’s goods market facilitate our fast and successful entry to this market.

300 stores within 3–4 years

Thus, the overall growth potential for the Detsky Mir chain, including regional and international expansion, is 300 store openings within three to four years.

Potential for New Store Openings Within the Detsky Mir Chain

When deciding on the store opening pipeline, our team of professionals is guided solely by the results of analyses and evaluation of potential opportunities for new store openings based on the level of a country’s economic

development, as well as consumer income, population density, and competitive environment in respective regions and cities.

Almost all stores are located in leased premises, mostly in modern shopping malls. Due to low capital requirements, this business model has secured high returns on capital for the Company and has allowed us to promptly change locations in line with local demand or customer traffic.

Our asset-light business model is the key element of our chain growth strategy, with its relatively low capex per store. As a result, the Company generates a positive cash flow from operations to finance its expansion plans from its own funds.

When launching new stores, the Company uses a strict set of investment criteria focusing on return on investment, specifically:

- an Internal Rate of Return (IRR) of at least 40% on 7-year cash flows without terminal value
- EBITDA Breakeven achieved within four months after opening
- Store Ramp-Up (achieving targets such as customer traffic and gross profit per square metre) within 18 to 24 months.

Most openings take place during the fourth quarter, which allows us to benefit from higher seasonal sales during the year-end period.

The ongoing performance monitoring of every store is central to managing the overall retail chain. If a store fails to meet KPI targets over time, the Company’s management can consider closing or, where possible, moving it to a nearby location where better lease terms can be negotiated or higher customer traffic can be secured.



Over the past few years, the Company has closed or moved only a handful of stores.

Seeking new opportunities to drive the Company’s value and enter new markets is our key strategic priority. In September 2018, the Company’s management made a strategic decision to enter the pet supplies market. This segment offers great opportunities in terms of its size, expected growth, and a high degree of fragmentation, and will provide an opportunity for our management team to apply their extensive experience gained in the children’s goods market.

As a result, four pilot stores of the Zoozavr chain were opened in the fourth quarter, with another six stores to be launched in 2019.

A decision on further developing the chain will be made based on the pilot stores’ performance.

- 673

Detsky Mir stores as at 31 December 2018
- 115

Cities with no Detsky Mir presence
- 20

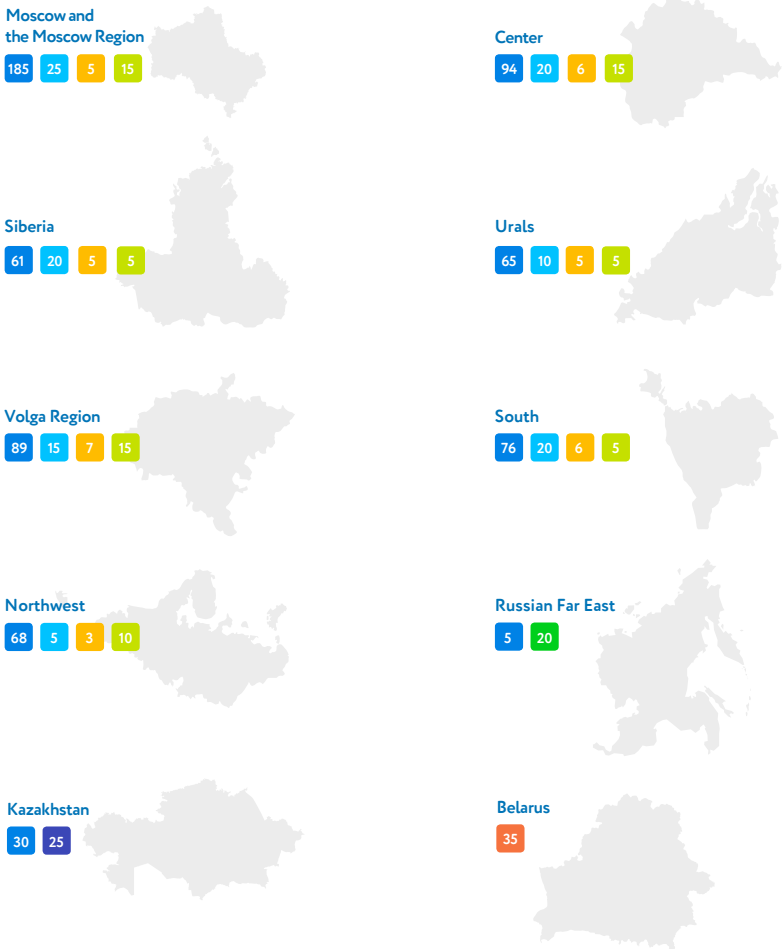
New stores in the Russian Far East
- 35

Shopping malls prioritized by Detsky Mir in its existing cities
- 70

Specialized retail outlets of competitors
- 25

Target outlets in Kazakhstan for the mid-term
- 35

Target outlets in Belarus for the mid-term



1.7. Growing Omnichannel Sales

The full product assortment offered by Detsky Mir Group is available for purchase not only through our brick-and-mortar retail stores, but also online at www.detmir.ru and www.elc-russia.ru.

Our online business was launched in 2011 and has since been our fastest growing sales channel. The Company recorded over 178 million online visits and fulfilled over 5.1 million online orders in 2018.

> 178 m

Online Visits

> 5.1 m

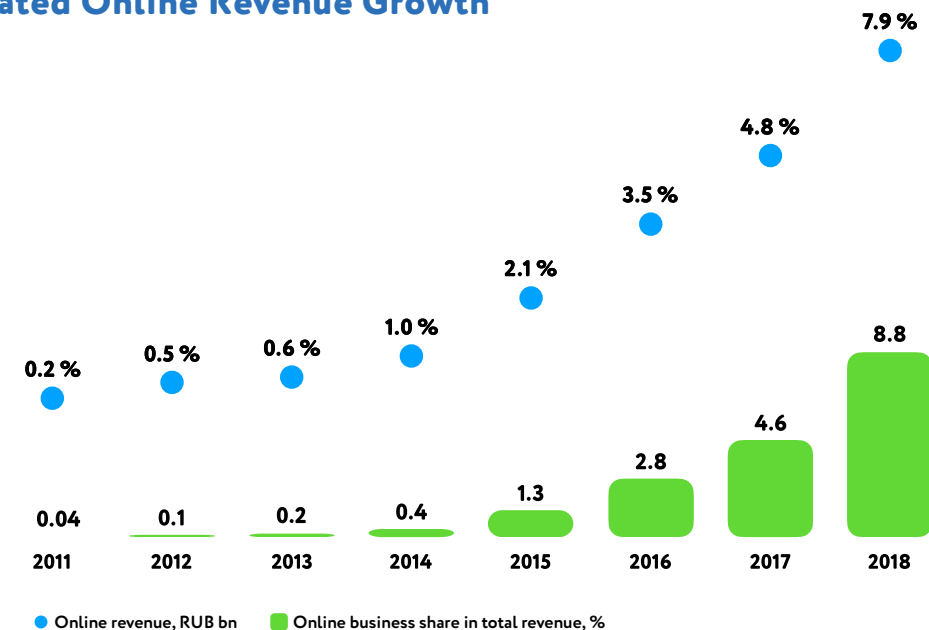
Online Orders

7.9%

Online Business Share in the Company’s Total Revenue



Accelerated Online Revenue Growth



In 2018, our online revenue was RUB 8.8 billion, more than double the 2017 figure, while the share of online sales in the total revenue was 7.9%.

In 2018, 77% of online revenue came from in-store pickup at Detsky Mir retail stores, including orders picked in-store and in warehouse (and later picked up by the customer in-store).

The detmir.ru online store has reinforced our position of No. 1 player, with a 15% share in the online children’s retail market in Russia.

As delivery and in-store pickup services grow in regional markets, the share of revenue from Russian regions other than Moscow, the Moscow Region and Saint Petersburg is also growing, reaching 53% of the total in 2018 (against 39% in 2016).

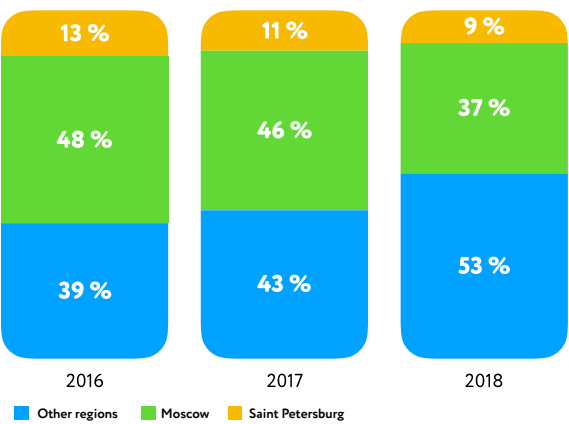
In order to increase conversion and the number of mobile orders, the Company started adopting a new design for the www.detmir.ru website at the end of 2018. This process

Online Order Pickup Options¹¹



¹¹ Direct delivery options include home delivery and delivery to a partner’s pickup point. In-store pickup options cover online orders for products offered offline and products which are out of stock at the time of the order but can be delivered through the Company’s logistics system (available since October 2017) from a warehouse to the store selected by a customer.

Online Revenue, %

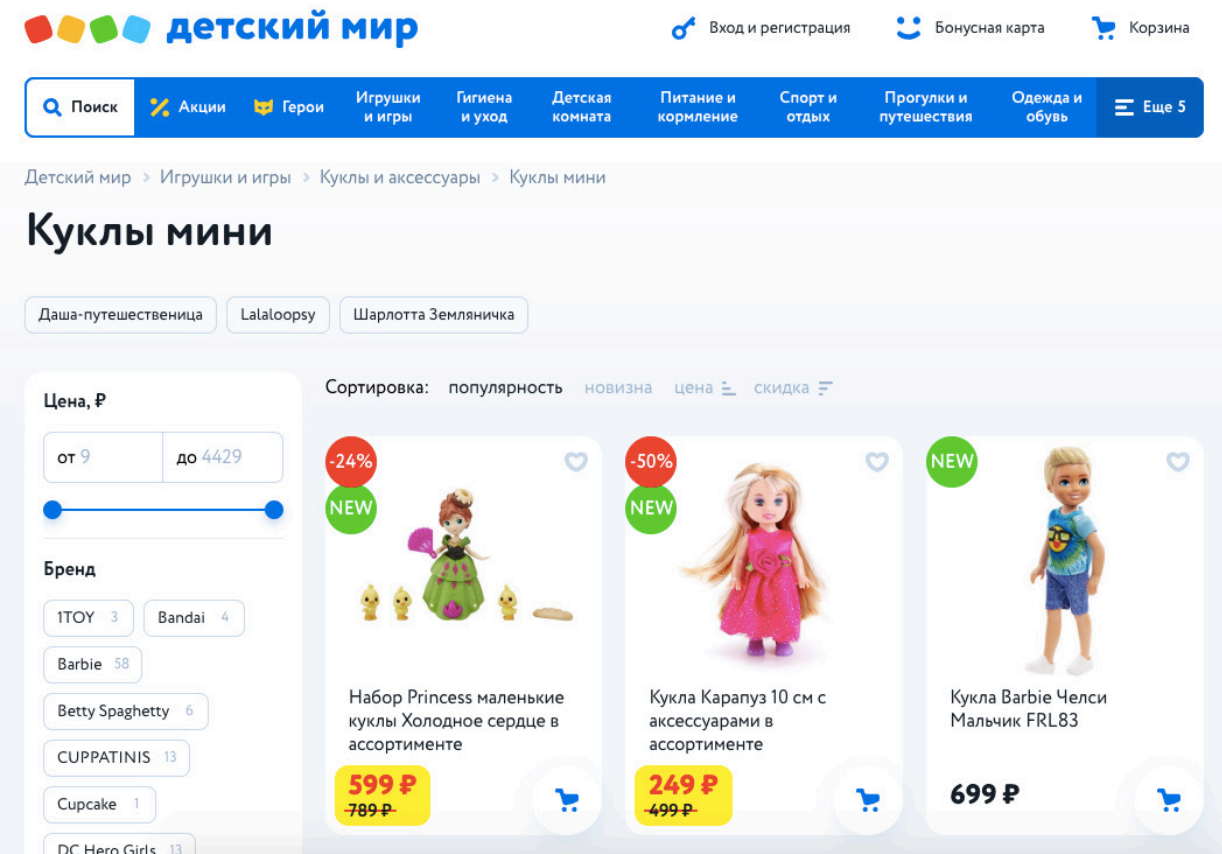


is accompanied by an ongoing monitoring of legacy and new design performance in the AAB test mode to tweak the interface. The Redesign project is not simply about changing the look of the website, but is also focused on streamlining its functionality. We expect the new online store website to increase conversion by 10%, with the full launch scheduled for Q4 2019. The Company is also planning

to launch an online store of the Detsky Mir chain in Kazakhstan, complete with an in-store pickup option.

As traffic from mobile devices continues to grow (with the mobile traffic share rising to 67% in 2018 from 58% in 2017), Detsky Mir has launched the first version of its mobile application. The app includes the functionality of a mobile reward card that can use QR codes to credit or debit points when making a purchase at the checkout. In 2019, Detsky Mir is planning to expand the application’s functionality to a full-fledged online store.

The share of online revenue from the CyberDays sales was 27% in 2018. Our important achievements include maintaining the service level through careful planning and sustaining margins through active involvement of suppliers in discounts and marketing activities.



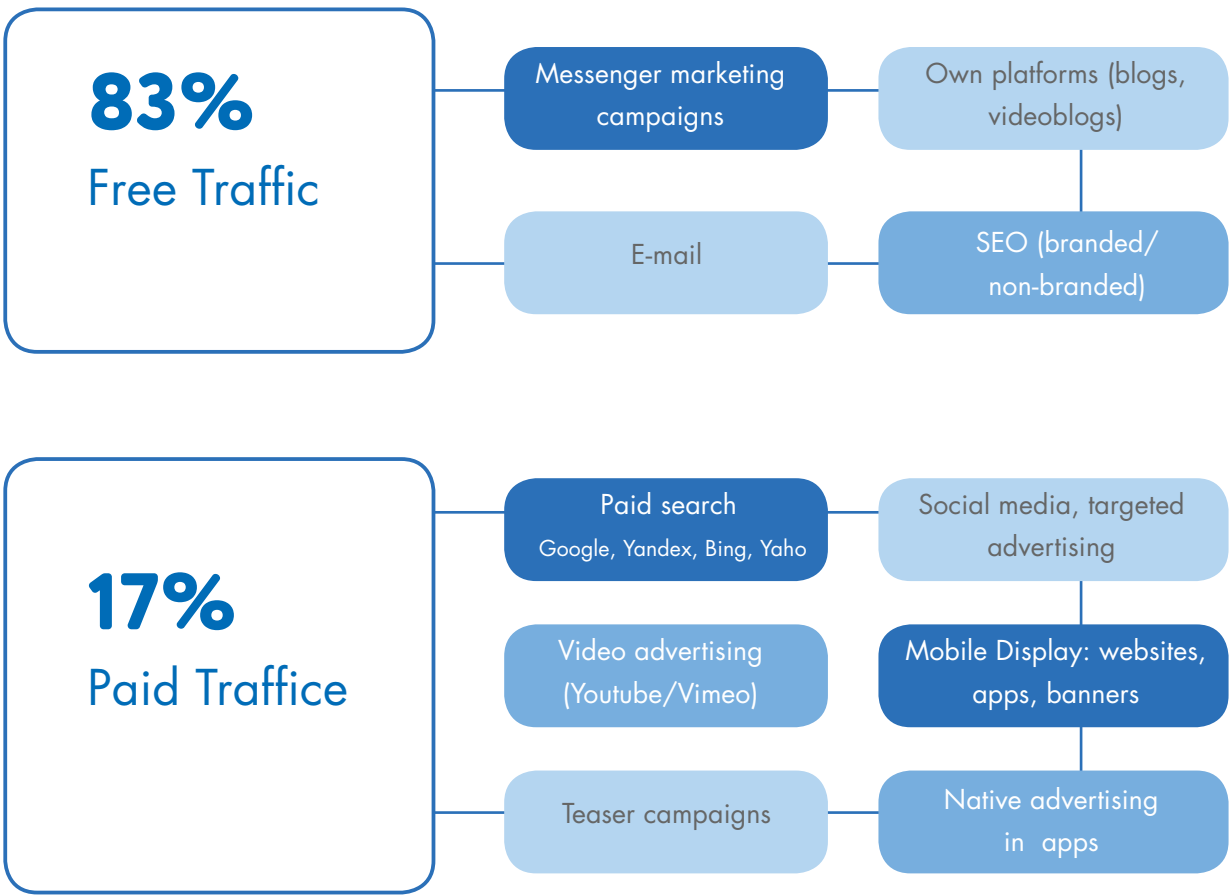


In 2018, the share of free and freemium (with fixed cost) traffic generation channels was 83%.

As part of developing the e-mail channel, the Company is planning to deploy a CRM system in 2019, which will aggregate all user data and manage all communications from one source. Its rollout is expected to increase the effectiveness and reach for marketing communications while boosting revenue from regular customers.

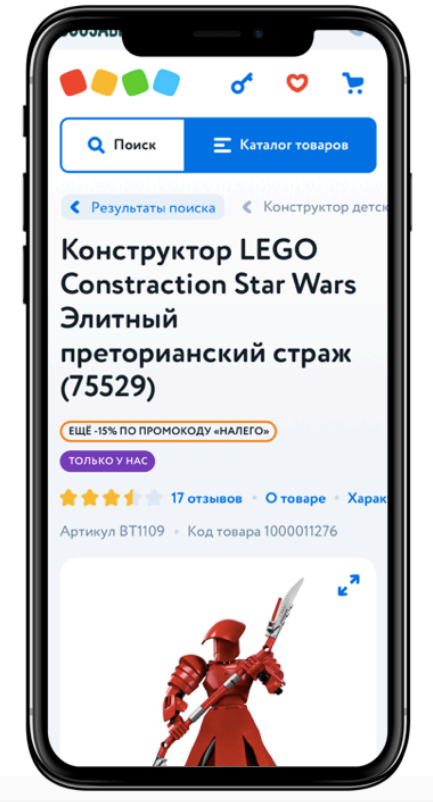
The number of online visitors is continuously growing: in 2018, this figure grew by one third year-on-year while the number of orders fulfilled rose to 5.1 million.

Service level is a key performance indicator of an online store. To enable hands-on monitoring, we have developed the Composite SL indicator comprising data on service levels



The www.detmir.ru online store was the main channel for our annual Black Friday sales. Between 19 and 25 November 2017, customers were offered up to 90% discounts on about 20 thousand items in toys, apparel, footwear, strollers, diapers, etc. Compared to the 2017 Black Friday, our online revenue for the period doubled in 2018.

The Company’s online marketing and advertising strategy is based on developing free and freemium traffic channels such as SEO and e-mail. As part of this strategy, Detsky Mir is planning to implement the filtering functionality in product listings in 2019. They will simplify the selection experience for customers and help create more landing pages for Yandex and Google search engines. The solution will dramatically boost our target SEO traffic.

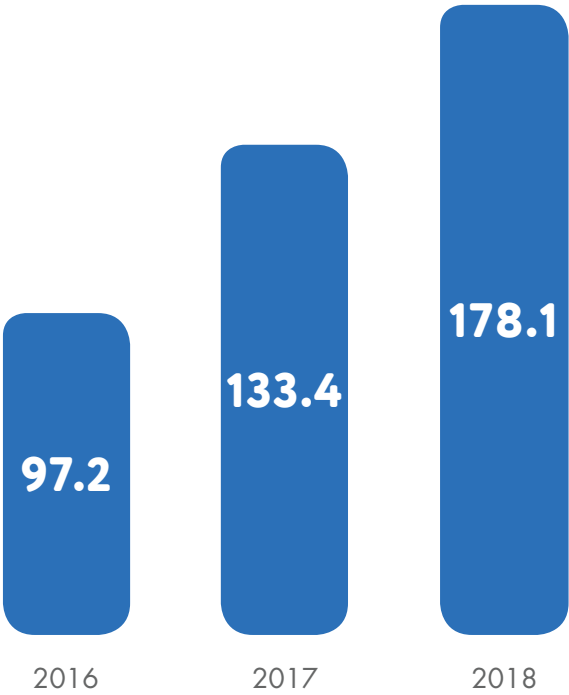


across order processing stages and order delivery options, and reflecting their contribution to our total online revenue. The share of orders ready for pickup in-store within 60 minutes after the online purchase is an important element of the Composite SL. In Q4 2018, this indicator reached 91%. In 2019, the Company will continue to improve its processes to ensure seamless order delivery.

A higher service level for in-store order picking opens up great opportunities for the Company to cover last-mile delivery through direct delivery (courier) services.

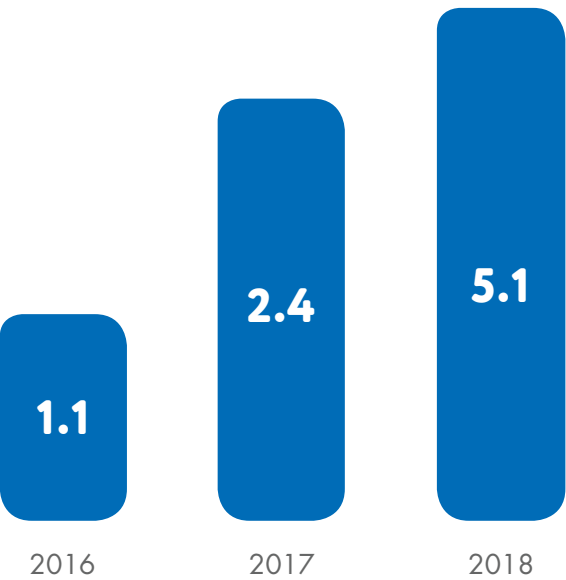
In 2018, Detsky Mir piloted its Last Mile project in 15 Russian cities to deliver online orders from retail stores. The service considerably reduces the time from ordering to delivery and proved especially popular in regions farther away from Moscow.

Online Visits, m

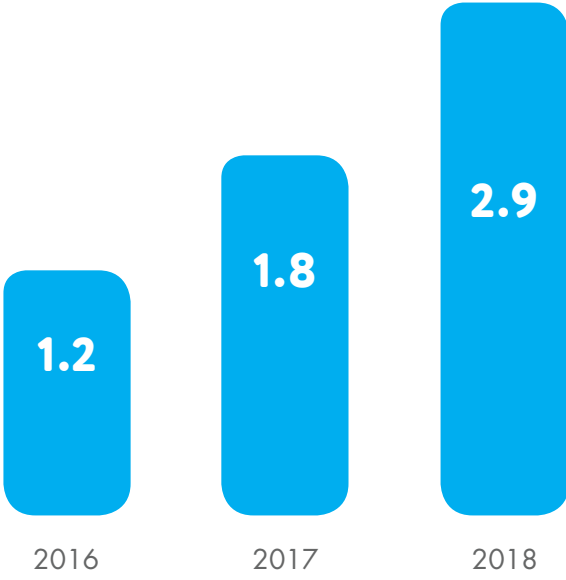




Orders Fullfilled, m



Online Conversations, %



Key 2019 projects include the full-scale launch of express delivery (orders delivered within several hours) and next-day delivery services. Both options allow for delivering an order picked in-store to the address specified by the customer. Express delivery means direct, store-to-door delivery within the shortest time possible, but to be viable this option needs to be restricted to a certain coverage zone around our stores. The next-day delivery implies consolidating and routing such orders through partner courier delivery companies, which will significantly expand the delivery zone while keeping the service fast (next day) and low-priced almost in all cities where Detsky Mir has a presence.

Customers are increasingly moving online to buy large-size goods at www.detmir.ru,

choosing home delivery. Nevertheless, many parents wish to learn more about the product and its consumer properties and to consult experts before buying it.

As part of developing its omnichannel sales, the Company has decided to trial a new sales format, launching its first Children’s World of Strollers store in the center of Moscow in 2018. The specialized hub for large-size goods has a selling space over 1,000 square meters and a full selection of products otherwise offered online.

Its special retail equipment can accommodate a vast selection of large-size goods while ensuring easy access for customers. Here you can also test drive a stroller on paths with different

1 Доставка

Убедитесь, что правильно указали населённый пункт — от этого зависят доступные виды доставки и стоимость

Населенный пункт *

г. Москва

Способ доставки *

☒ Забрать в магазине сегодня **Бесплатно**

Забрать сегодня в 103 магазинах

☐ Доставить в магазин

Привезем товар в удобный вам магазин через несколько дней. Заказ храним 5 дней

☐ Курьер

Доставка по указанному адресу

☐ Пункт выдачи

Забрать в одном из пунктов выдачи

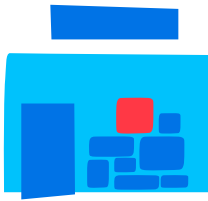


surfaces such as paving slabs, lawn, or even a speed bump. You can test a car seat in a real car by installing it onto the passenger seat and see whether it will be comfortable enough for your kid. You can check out online, including delivery, right in the store.

The wide choice of large-size products in a single hub has freed up selling space in neighboring stores for more traffic-generating goods.

The Company is planning to continue developing new formats that enable showcasing wider product ranges and a better in-store

pickup experience for online orders. In 2019, the Company is planning to pilot its Hub Store format – stores with increased selling space and a wider product mix, including unique online hit products unavailable from regular store formats. These stores will support regional express delivery services, acting as platforms to move products to other locations within the same region. The new format will provide customers with access to a wider range of products with fast and low-cost delivery, further sharpening our competitive edge.





1.8. Customer Service and Brand Management

Detsky Mir's mission is reflected in its motto – “A happy childhood for all!” We are committed to guaranteeing a wide product assortment and the best prices for children's goods to our customers.

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Detsky Mir Group has the most extensive retail chain both in Moscow and Russian regions, including cities in the Far East as of 2018, bringing socially significant products closer to customers. The children's product assortment at Detsky Mir chain stores currently totals more than 50 thousand SKUs.¹²

All Detsky Mir retail stores have a uniform product assortment and pricing across the chain, regardless of the region in which they are located. To achieve that, we optimize our internal business processes, actively work with suppliers, and further grow sales in our online channel.

¹²Including the expanded assortment of the Detsky Mir online store.

We ensure affordable pricing through:

- expanding the assortment of domestic goods at a comparable quality and lower average price than that of peer imports
- developing private labels, which enable below-market pricing (best price guarantee) due to eliminating additional mark-ups by manufacturers
- running promotions and developing frequent seasonal sales and special offers for regular customers
- ongoing monitoring of competitors' in-store and online pricing for comparable goods
- providing a 2% discount on goods in Moscow for customers holding a Moscow Resident Social Card
- developing our own loyalty program, which allows the use of bonus points to pay for 100% of a purchase
- participating in regional social programs in Moscow and Saint Petersburg to support families with children.

Our Loyalty Program

In late March 2017, Detsky Mir updated the terms of its loyalty program and enabled the use of points to pay for up to 100% of a purchase. Bonus points equivalent to 5% of each total purchase are earned when buying apparel and footwear, and 2% when buying consumer goods. The program has proved highly popular among our customers.

20.7 m people
loyalty program 2018
members

As at the end of 2018, loyalty program members totaled 20.7 million (up 2.5 million people year-on-year). The share of purchases made by members amounted to 73% in total tickets, and 78% in total sales. The loyalty program has proven a success, with a card holder's average ticket amount almost 30% higher than that of a customer without a loyalty card.

The loyalty program at Detsky Mir stores in Kazakhstan is also rapidly developing, with 295 thousand members registered by the end of 2018 compared to 90 thousand a year prior. The share of purchases made by loyalty card holders in total tickets amounted to 48%, and 59% in total sales. The average ticket paid for with a loyalty card is 53% higher than non-member tickets.

67



Since the loyalty program has achieved good results within the Detsky Mir chain in Russia, a decision was made to launch a shared reward program with the ELC chain (LLC Kub-Market), a part of the Detsky Mir Group. During November and December 2018, about 45 thousand Detsky Mir loyalty card holders made purchases at ELC chain stores and over 10 thousand shared loyalty cards were issued.

The shared reward program also covers our new Zoozavr pet supplies stores, with customers earning the same 2% of the total purchase price in bonus points as they do when shopping at Detsky Mir or ELC stores. Bonus points can be used to pay for up to 100% of a purchase.

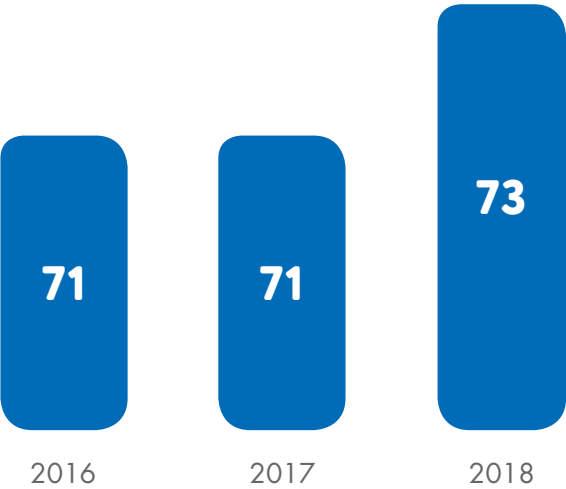
The launch of the reward program mobile app in December 2018 was a major milestone of the year.

By the end of 2018, 96 thousand users had already installed the Detsky Mir Points and Promos mobile app. The app allows a customer to receive a virtual loyalty card or link their existing card for use when making purchases. It also shows their current point balance and provides information on current promotions and offers.

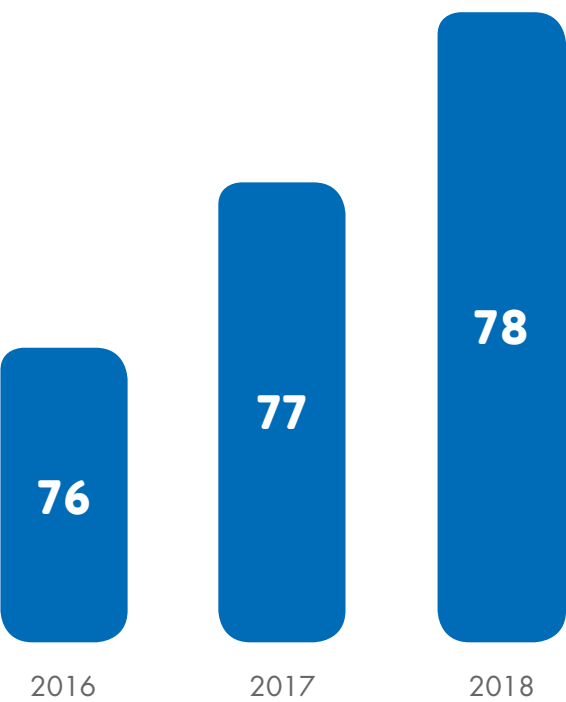
⁴ Calculated based on data from Detsky Mir retail stores and the online orders fulfilled at Detsky Mir retail stor^{es}.

⁵ Calculated based on data from Detsky Mir retail stores and the online orders fulfilled at Detsky Mir retail stores.

Share of Cardholder Tickets in Total Tickets (in Russia)⁴, %



Share of Cardholder Purchases in Total Sales (in Russia)⁵, %



Support for Families with Children

Detsky Mir Group is a key partner in social projects due to its minimal retail mark-ups on socially significant categories, including products for newborns.

Since 2005, the Detsky Mir chain has been involved in the Government of Saint Petersburg’s social initiative to support families with children. The local government provides welfare payments to families with children. The local government provide welfare payments to families: a one-off payment when a child is born, followed by monthly payments until he or she is seven years old. This financial aid is deposited to “Newborn” and “Preschool” bank cards issued by PJSC Bank Saint Petersburg. The money can then be used to purchase children’s goods at retail chains accredited by the Administration of Saint Petersburg, including the Detsky Mir chain.

Since March 2016, Detsky Mir Group has been a partner in a social project run the Moscow Government’s Department of Labor and Social Protection. As a part of the project, certificates are credited to Moscow Resident Social Cards held by low-income families with children, which can be used to cover up to 100% of purchases (excluding baby food) in accredited retail chains. Certificates worth a total of RUB 125.5 million were used in Detsky Mir stores throughout 2018.

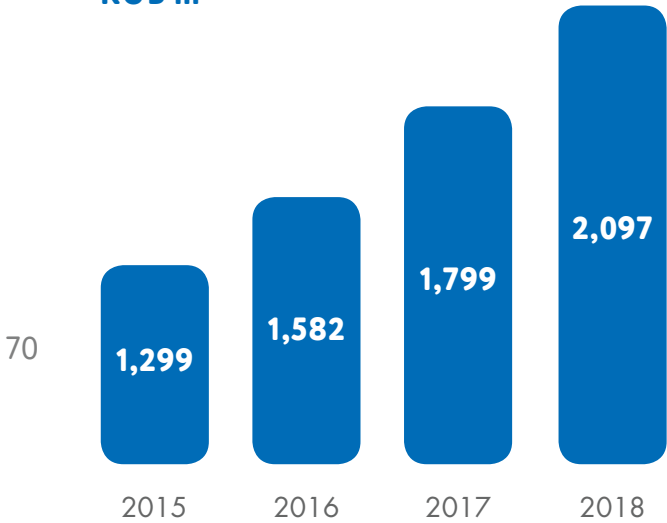
In December 2018, PJSC Detsky Mir signed an agreement with Saint Petersburg State Budgetary Institution Information Support Center on technical support for the Saint Petersburg Resident Unified Card project. Under the agreement, holders of Saint Petersburg Resident Unified Card will be able to use it to earn redeem Detsky Mir points starting from 2019.



Gift Cards

Detsky Mir Group is continuing its projects aimed at improving the customer service level at its retail stores. Gift cards and electronic gift certificates remain a key sales product. As at the end of 2018, the Detsky Mir chain’s revenue from the sale of gift cards and electronic gift certificates was RUB 344.5 million, up 17% year-on-year.

Detsky Mir Group’s Revenue from the Sale of Gift Cards and Electronic Gift Certificates, Including B2B Sales, RUB m



Gift cards can be used to make purchases at any store within the Detsky Mir retail chain. Gift cards and electronic gift certificates with a fixed value of RUB 300, 500, 1000, 1500, 2000, 3000, and 5000 are available, as well as gift cards with a flexible value between RUB 300 and 50,000, in multiples of RUB 100.

A gift card is valid for 12 months from the date of purchase and can be used an unlimited number of times before its balance is expended. To ensure a smooth customer experience, dedicated services have been developed, enabling users to check the balance of their gift cards in real time on www.detsky-mir.ru or in-store using a price checker. Customers can also enquire about their card balance at the checkout counter.

The detsky-mir.ru online store and external aggregator platforms offer electronic gift certificates valid at all Detsky Mir stores across Russia. The share of electronic gift certificates in the total revenue from the sale of gift cards and certificates grew by more than 30% in 2018 to 7.5% in monetary terms.

Depending on the occasion, such as the birth of a child or a boy’s or girl’s birthday, customers can select free gift wrapping and a card holder in a corresponding design.

Gift cards and electronic gift certificates are extremely popular, as they save time on selecting a gift and allow the recipient to purchase something that they are more likely to appreciate and make use of.

The positive dynamics of gift card sales in Russia have enabled Detsky Mir to actively promote gift cards in Kazakhstan. As a result, sales in the region almost tripled year-on-year in 2018. This offer by the Detsky Mir retail chain in Russia and Kazakhstan is not limited to individuals, but is available to legal entities as well.

Gift cards and electronic gift certificates are an effective solution in employee loyalty programs, customer and partner incentives, and promotions and marketing events for products and services.

Customer Satisfaction Survey

Detsky Mir has been measuring customer loyalty using the Net Promoter Score (NPS) since 2015, carrying out the measurements on a quarterly basis since 2016. The key element of the survey is in-store polling. Each survey covers about 7,500 retail store visitors, about 2,000 online store customers, and from 500 to 1,000 online store visitors who did not make purchases but accepted the invitation to take the survey.

The survey is split into three main sections:

- In-store polling, covering about 7,500 visitors
- Online polling, covering about 3,000 customers of the online store (www.detsky-mir.ru) and from 500 to 1,000 online store visitors who did not make purchases but accepted the invitation to take the survey
- Benchmarking customer satisfaction against that of key online competitors using an external panel (since Q3 2018) The survey covers about 1,000 online customers, and benchmarks loyalty and other satisfaction metrics of other online stores against Detsky Mir.

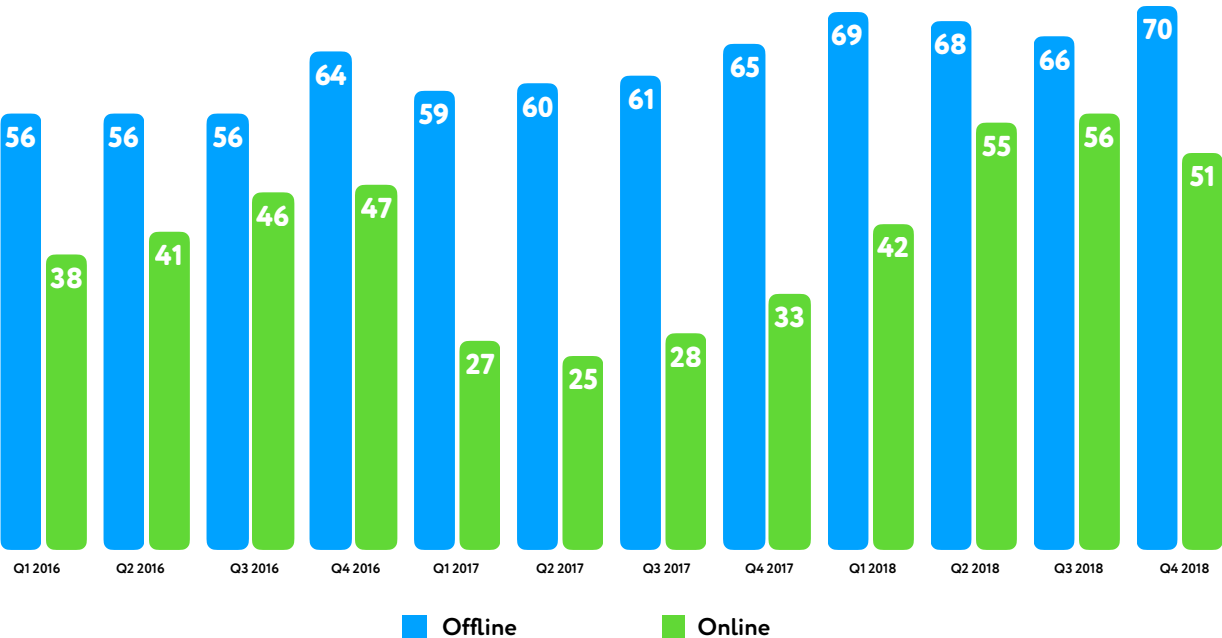
NPS — a customer loyalty metric that predicts the likelihood of a customer repurchasing through willingness to refer a company to an acquaintance, relative, or friend. NPS is an important indicator of a company’s performance, along with traffic, sales, average ticket, and other metrics.

The first section of the survey contains the question: “How likely are you to recommend Detsky Mir to a friend, relative, or colleague?” The second section helps identify factors that drive the customer’s loyalty and subsequent NPS.

The survey is designed to collect feedback from our customers for improving brand loyalty and the customer experience. The insights generated by the survey can be used to adjust our store operations as well as learn Detsky Mir’s strengths and areas for improvement directly from customers, ultimately boosting both the customer satisfaction level and our performance.

We have been benchmarking customer satisfaction against our key online competitors using an external panel (since Q3 2018). The survey covers about 1,000 online customers and benchmarks loyalty and satisfaction indicators against Detsky Mir.

Customer Satisfaction Survey Results (NPS)

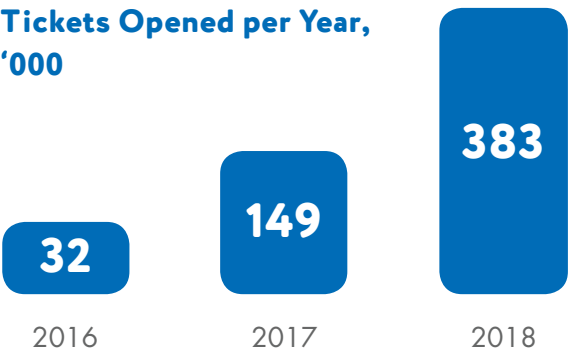
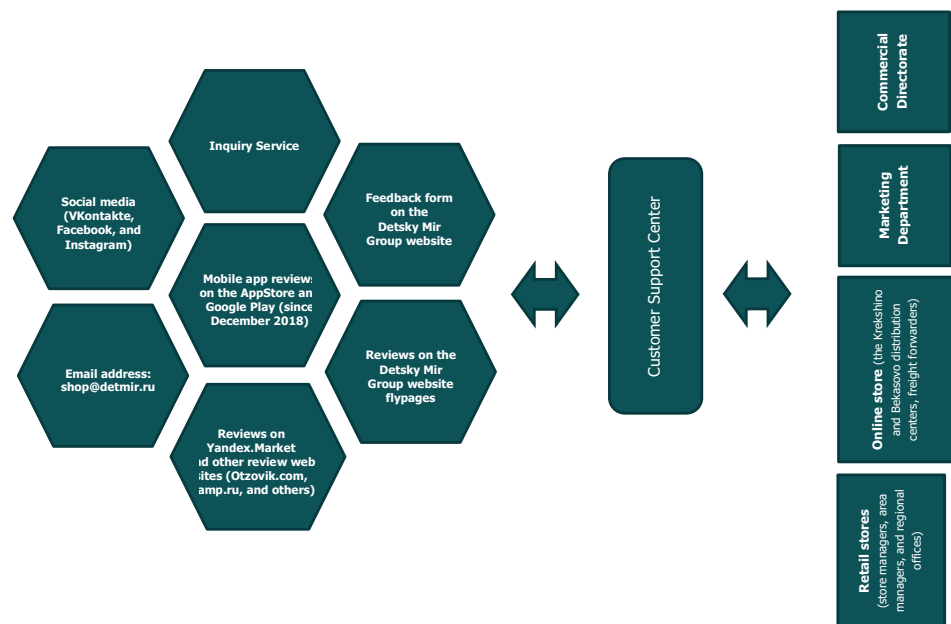




Feedback Loops

Detsky Mir established an effective feedback loop to promptly address any customer questions, needs, and complaints.

Our customers can contact us via the following channels:



and the Detsky Mir newsletter. Detsky Mir also actively communicates with its loyalty program members via Viber, SMS, and email.

Detsky Mir Group exclusively uses the communication channels that have proved to work well:

- TV advertising
- Mass and targeted newsletters via Viber, SMS, and email
- In-store advertising such as POS materials and displays
- Online advertising

Detsky Mir Group’s legal department approves all advertising prior to publication, guided by our key advertising principles of openness, integrity, and regulatory compliance. From 2014 to 2018, the Group only recorded three cases of non-compliance with applicable regulations on marketing communications. Only one of the three cases triggered an administrative sanction. Another case resulted in an administrative warning, and the last one – in a fine.

We established the Customer Support Center in 2017 to:

1. promptly address customer questions, needs, and complaints
2. adapt our business processes based on customer feedback.

The Customer Support Center operates as a one-stop-shop, aggregating all customer, contractor, and employee inquiries in a single system. Currently, the Customer Support Center operates on a third-party help desk solution – HelpDeskEddy.

A 2.5-fold growth in the number of tickets was due to:

1. the launch of our one-stop-shop system aggregating information across all customer communication channels

2. the growth in the number of Detsky Mir retail stores, to a total of 675

3. the number of online orders doubling year-on-year.

The help desk solution enables our Customer Support Center to promptly address all customer inquiries. 2018 metrics:

- VKontakte — **3 minutes**
- Facebook — **3 minutes**
- Tickets from the Inquiry Service, feedback form on the website, and email — 2 hours

Fair Advertising

We maintain an open line of communication with our customers to keep them well-informed about current promotions, special offers and sales, as well as exciting new arrivals. We use various channels for this, primarily television



1.9. Supply Chain

Today Detsky Mir Group has ambitious global targets. Achieving them effectively requires taking industry specifics into account, enhancing supply chain management, and building long-term partnerships with suppliers.

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Direct Contracts

To receive the best procurement prices and more effectively manage the chain's assortment and product quality, Detsky Mir is reducing the share of distributors in its supply chain in favor of direct contracts with major specialized manufacturers and their representatives in Russia.

As a result, Detsky Mir is able to lock in attractive prices for its customers as well as mitigate FX risks and also secure direct access to supplied goods. This drives both profit margins and revenue while also boosting our Service Level due to uninterrupted deliveries. Exclusive products also allow Detsky Mir to differentiate from its competition, maintaining and boosting its profile as a specialized store with the largest assortment of children's goods.

About 73% of the goods available at Detsky Mir stores in 2018 were sourced outside Russia, mostly from China, India, Vietnam, and Bangladesh, with approximately 65% of products purchased from international companies' representatives or distributors.

The remaining 35% are predominantly Detsky Mir's private labels sourced directly from foreign manufacturers.

Apparel and footwear are supplied to Detsky Mir by about 90 companies from 15 countries including Russia, China, India, Bangladesh, and Germany.

Top ten apparel and footwear suppliers account for 52% of total deliveries in this category.

Leading suppliers of toys, products for newborns, and large-size products make up another 45% of supplies.

In 2018, Detsky Mir made significant progress in direct toy supplies with an increase to 11% of all supplies from 8% in 2017. This had a positive impact on the toy category's profitability, which is comparable to that of Detsky Mir's private labels for the same period.

As at 31 December 2018, Detsky Mir's direct suppliers included 95 for toys, 34 for products for newborns, 72 for large-size products, and 32 for stationery and other products.

Detsky Mir also seeks to secure special terms with its suppliers for a unique product assortment which drives traffic, increases LFL sales growth, fosters customer loyalty, and protects against price competition during the pre-sale period. So far, special terms have been achieved with Mattel, Hasbro, Lego, Maclaren, and Artsana.

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Brands That Switched to Direct Import Contracts for Toy Supplies with Detsky Mir in 2017–2018



Large, Exclusive Contracts Signed in 2018

MECARD exclusive launch	An exclusive launch of a Mattel release on the Disney Channel in August. RUB 68 million in sales was reached in 2018. In December, Mattel’s base item became second in sales after a base model Hot Wheels car.
MATCHBOX exclusive launch	An exclusive launch within Mattel’s legendary brand, generating RUB 47 million in sales.
X-SHOT best price for a Blaster. A TV campaign in November	Direct import from ZURU, reaching RUB 283 million in sales.
Exclusive sales of Silverlit robot dog	Sales in fourth quarter reaching RUB 43 million.
JAKKS	The launch of a doll range from a leading global doll manufacturer, generating RUB 17 million in sales.

In 2018, Detsky Mir confirmed its leadership in school apparel and footwear. Consistent efforts to improve our product assortment and supplier relations led to retail prices decreasing by 13% and a significant 30% growth in unit sales. A record-breaking 7.2 million individual school apparel and footwear items were sold. As before, Detsky Mir’s high-margin Chessford private label, which is produced on a tender basis in Russia, Uzbekistan, India, Bangladesh, China, and Armenia, accounted for the bulk of sales (60%).

Children’s Fashion Festival

In March 2018, Detsky Mir presented it’s spring/summer 2018 collection as part of the 36th season of Mercedes-Benz Fashion Week Russia. “Hello, Summer!” was the motto of the show.

For the collection, designers chose a vibrant color palette, bold tropical and floral prints, and uncommon texture combinations. The new Detsky Mir collection was created along the aesthetics of sunny spring, a long-awaited hot summer, and a white sandy beach. All apparel and footwear in line with the latest global trends and belonged primarily to the low-to-medium price segment.



Private Labels

Private label development is a strategic area for Detsky Mir Group. We currently own 25 private labels in apparel and footwear, each with its own target audience, range, and price positioning. Collections are developed by our in-house design studio launched in July 2016, and by external designers commissioned by Detsky Mir Group on an exclusive basis.

The new product developed by the design studio in 2018 accounted for 5% of total apparel and footwear sales and comprised over 500 models. In addition to its unique design, the key strength of the Futurino Fashion label (fully developed in-house) is our ability to offer a higher-quality product at lower prices by getting quotes for each new completed design from five to ten manufacturers.



Private label brands create value mostly through offering our customers the most popular products at market-leading prices thanks to high production volumes.

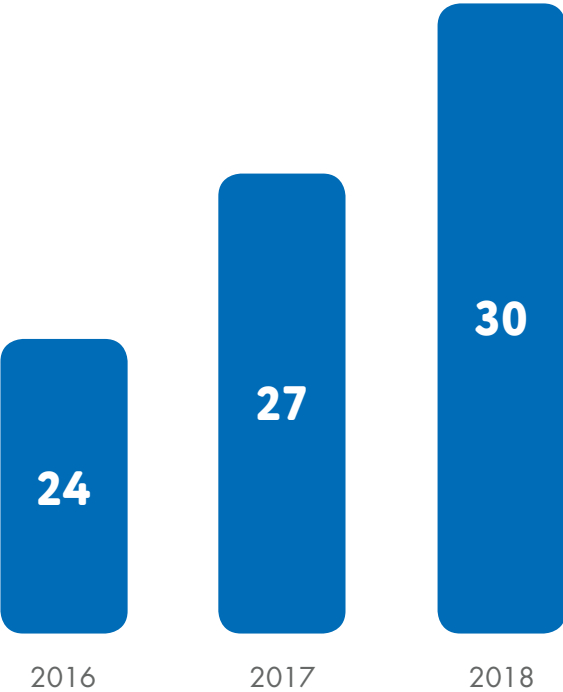
By selling products under private labels sourced in Russia and abroad we can effectively control pricing, carefully monitor the quality of materials used to manufacture these products, and significantly speed up inventory turnover.

In turn, our private label manufacturers benefit from a stable flow of orders and reduced branding and logistics costs.

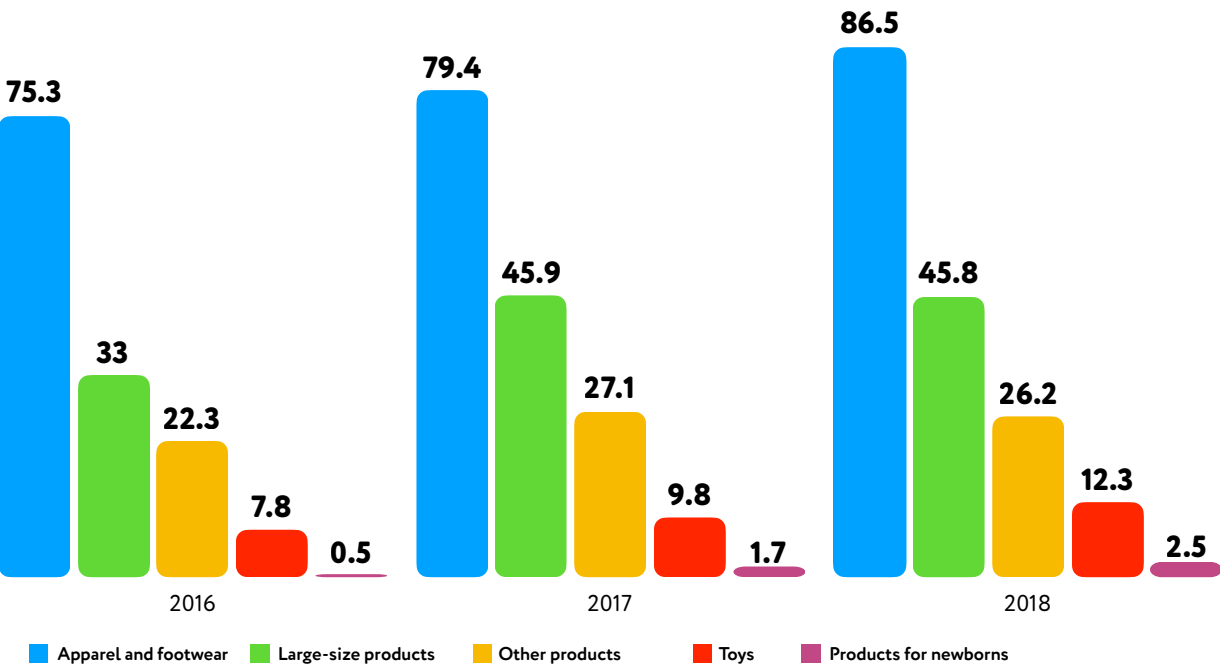
The share of private labels in Detsky Mir Group's sales of apparel and footwear is about 86.5%, while in toys and newborn products it is 12.3% and 2.5%, respectively.

On average, private labels accounted for 29.8% of Detsky Mir's product assortment in 2018.

Share of Private Labels in Detsky Mir's Sales, %



Share of Private Labels in Sales by Category, %



High Recognition for Detsky Mir's Private Labels

The Moya Goroshinskaya (My Little Pea) brand was ranked first by parents in the Russian Brand of 'Infants' Apparel category.

The consumer survey was conducted as part of the Parents' Score from August to September 2018.

The Parents' Score award is presented to suppliers of products and services for children and their parents; the contest was held for the sixth season this year.

The purpose of the award is to raise brand awareness and ensure they gain recognition in the global market, as well as to improve communication on products, services, and events for children in Russian regions.

The soya Goroshinka brand is Detsky Mir's private label of infants' apparel featured in our brand portfolio since 2014. A very

gentle and cheerful logo with whirls and coloured peas has been created by our in-house designer team. Russian consumers were instantly attracted to the smart look and comfortable fit of these clothes for the youngest ones.

Moya Goroshinka is currently one of the most popular and recognisable Russian brands of apparel for newborns. The brand's presence in Detsky Mir stores is rapidly growing with each passing year, steadily building a loyal customer base. The brand's entire range is manufactured at Russian factories, with fast-natural fabrics and accessories, the brand's key strengths include safety for infants' health, exclusive modern design, as well as carefully elaborated patterns for perfect fit.

With this in mind, it is no surprise that consumers chose Moya Goroshinka over a multitude of other children's apparel brands: the brand was awarded a golden diploma in the Russian Brand of Children's Apparel category.



Detsky Mir Group’s Private Labels in FMCG and Fashion





In 2018, our core Futurino brand launched a collaboration with Fox&Owl graphic designers to design children's apparel and accessories for boys and girls aged 2 to 6. Artists' sketches and notes featuring nature, animals, and curious facts are brought to life on the products that use only organic materials manufactured in an environmentally friendly way.

A new product range has been developed for Detsky Mir – sun proof beach and holiday wear. Bright and attractive swimsuits and accessories will keep children safe from negative effects of direct sunlight.



Starting from 2015, Detsky Mir stores have been selling maternity apparel under the Just Mom Ulla private label offering comfortable, brightly colored clothes made from soft and gentle fabrics at affordable prices. In 2017, we increased the number of stores offering this product line and launched its sales in Kazakhstan. These products are now available in 250 stores.

Radio controlled cars enjoyed a significant consumer demand in 2018. Detsky Mir sold over 1 million products in the category, with three brands accounting for more than 86% of total sales: Mobicaro (private label), Rastar (direct import), and New Bright (direct import).

The share of the BabyGo private label in diapers increased to 5% in 2018. We plan to continue developing the BabyGo brand through rebranding, active promotions, and improving quality while keeping the price the same.

Detsky Mir intends to increase the depth of ranges across its stores in the medium term, including by increasing the number of unique



products, building on the quality of our private labels, and boosting the share of products in the low-to-medium segment. In addition, we aim to reduce procurement and retail prices, and improve payment terms for Detsky Mir.





1.10. Product Safety

The quality of children’s goods is always subject to stricter requirements. Ensuring that we offer safe, high-quality products is a key commitment that helps us further build trust with our customers. Our business activities are fully compliant with Russia’s Consumer Protection Law, and Trade Rules.

A key challenge faced by players in the children’s products market is counterfeit products, which can be harmful to the health of the younger generations.

We purchase directly from major international manufacturers and suppliers to guarantee that we offer products of the highest quality.

We also focus on initiatives to address the counterfeit products issue.

Product Safety and Quality Assurance

We monitor the quality and safety of our products throughout their lifecycle: from sourcing and ordering to shelving and getting feedback from customers.

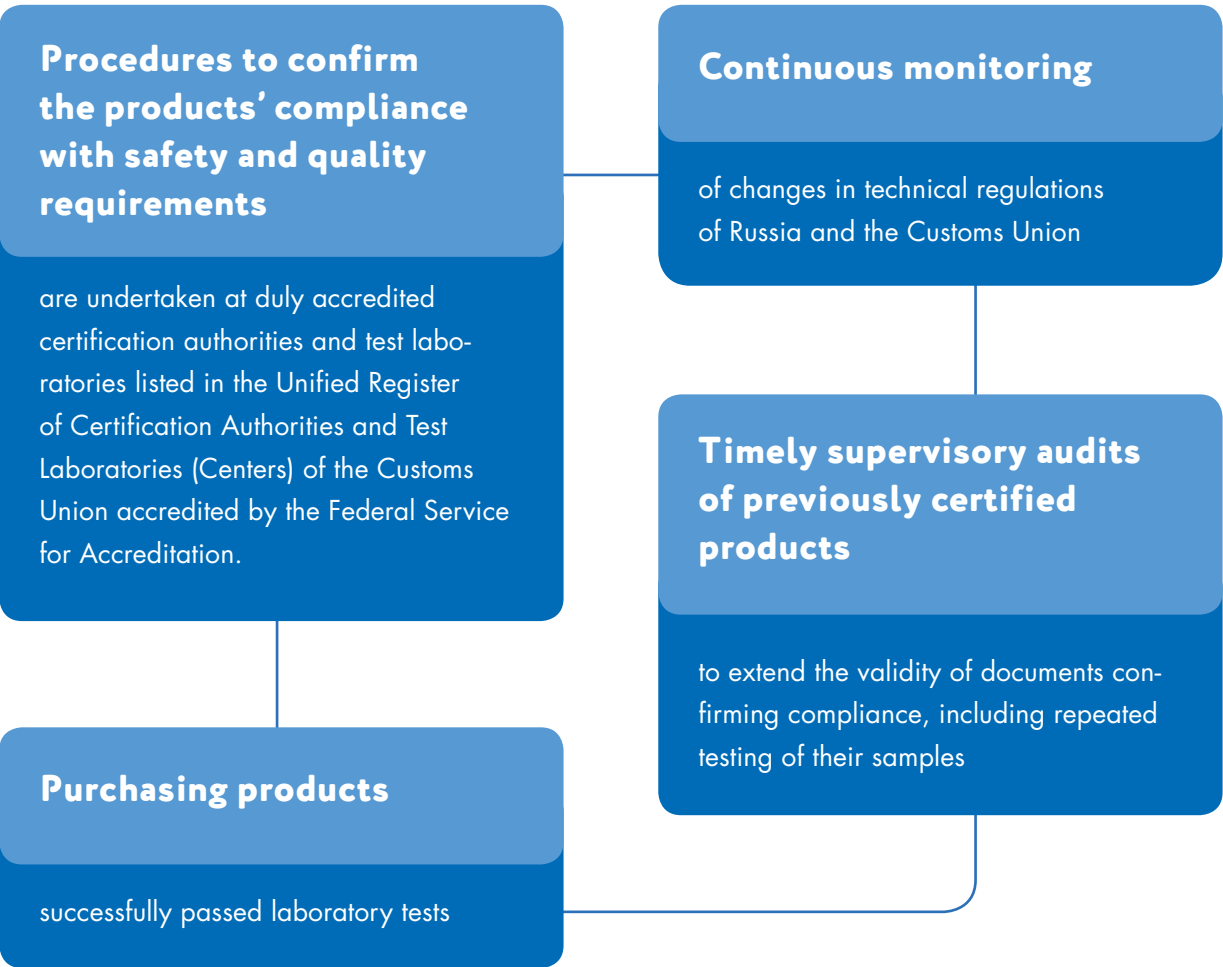
All products offered in our physical and online stores undergo mandatory procedures for compliance with technical regulatory requirements applicable within the territory of the Customs Union (technical regulations, the Consumer Protection Law, and the Rules for the Sale of Certain Types of Goods). Each SKU has statutory documents that are required for the product to be imported into the Russian customs territory and marketed through a retail chain.

We leverage our effective and streamlined safety and quality assurance processes to prevent defective goods from appearing on the shelves of our retail stores by rejecting them as early as during the laboratory testing, the initial stage of certification.

We check each item’s test report and ISO certificate in cooperation with the world’s major manufacturers of children’s products, confirming a product’s compliance with the regulatory standards of the country of manufacture and Russian laws.

As part of our cooperation with the manufacturers of our private labels,

Consistent Safety and Quality Assurance Efforts



we carefully inspect the quality of the products throughout the manufacturing cycle and run an in-house certification process.

To confirm that our products for children and adolescents meet the applicable requirements of the Customs Union’s technical regulations, we send a request to the certification authority, including a set of documents required by the regulations, and samples of the products to be certified. Following a documentation review and, if necessary, laboratory sample

testing, the certification agency makes a decision on issuing a declaration of conformity, certificates of conformity and state registration, and detailed reports on products that are not subject to a mandatory confirmation of compliance.

The documents are processed by our certification function and entered into a single SAP database, accessible to all stores within our retail chain while information on the received documents is sent to our Customs department.



Considering the Group's business growth rates (see the Strategic Report section), the number of customer complaints on product quality dropped significantly in 2018. A total of five non-compliance reports were received from the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) during the year (one of them held invalid by court), which is within tolerance for a business of our scale. A total of 27 product-related fines were imposed by supervisory authorities. Out of the total amount of fines, 11 decisions to take administrative action against Detsky Mir were held invalid, and another three decisions were partially challenged.

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If a customer finds defects in a product during its use and sends a complaint, we will thoroughly check the product documents and take all steps to prevent substandard quality products from appearing on the shelves of our stores. Additional product tests can also be run if necessary. If laboratory tests reveal a manufacturing defect, the defective product is replaced with a new one or the cost of the product is refunded to the customer.

Product Labeling

Clear and accurate labeling helps consumers identify and learn about various aspects of a product. To ensure

such clarity, we label our private labels following a set of rules. In particular, we:

- provide information on conformity of products to applicable Russian laws, including the Technical Regulations of the Customs Union, Rules for the Sale of Certain Types of Products, Customer Protection Law, and contracts related to the product type, quality and safety
- disclose all necessary information on products required under the Customer Protection Law for all stakeholders
- highlight the competitive advantages of the products through packaging and labeling to boost sales.

All our customers can obtain a copy of any product's certificate in any store of the Detsky Mir chain. The original certificate is also available for inspection within three days of purchase.

No instances of non-compliant labels were identified during the year for our private label products, confirming the effectiveness of our efforts in this area.

1.11. Procurement

Commercial Purchases

Our purchase volumes are planned for each category based on product mixes which are aligned with our product assortment policy and reflect a full list of SKUs. Inputs for product mixes include insights from our category management research, monitoring of competitor product assortments, as well as trends and highlights of the fashion, movie, and entertainment industries. We leverage these insights on a regular basis to renegotiate terms with existing or engage new suppliers.

Suppliers can either approach us with their commercial proposals or be approached by us at trade fairs or through public communication channels.

An important stage in the selection and approval of suppliers is a meeting of the Assortment Committee, a cross-functional body that brings together experts from different units within Detsky Mir, including the Commercial Directorate, Certification Department, and Marketing Department. The Assortment Committee is authorized to make strategic decisions on approving the list of suppliers, changing the terms with current suppliers, modifying product mixes, etc.

Purchases for Operational Requirements

The procurement of goods and services for operational requirements is an important focus area in streamlining and improving our business processes. Such procurement mainly includes purchases of equipment for stores and warehouses, construction and installation services, as well as marketing and advertising, logistics, and IT services. About 95% of services and products purchased for our operational requirements are sourced from Russian suppliers, with the remaining 5% directly imported from other countries.

For non-commercial purchases, we follow the principle of transparent competitive procurement and engage new suppliers through web-based public tendering procedures with information made available through public sources. New contract terms have been applied to some types of services procured, allowing us to minimize price increases and in some cases even secure lower prices as compared to prior periods.

Improving Procurement

As a public company, we view ensuring transparent procurement as a top priority for our senior leadership.

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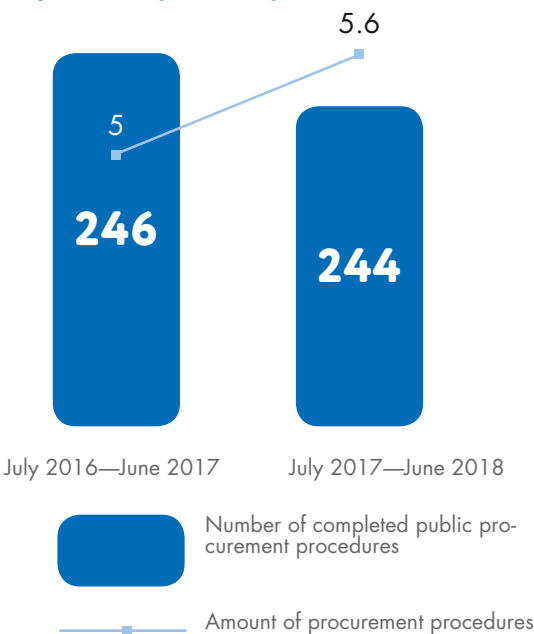


In 2018, we managed to keep the cost of most materials, products, and services procured from third parties at the prior year levels despite market price increases due to foreign exchange fluctuations.

The Group reduced the cost for some supplies of materials, products, and services by maintaining competitive tension throughout the sourcing process.

In 2019, we are planning to continue improving our procurement procedures, enhancing competition, seeking out new reliable partners, and developing existing suppliers while building mutually beneficial long-term relations.

Public Procurement Procedures Completed by Detsky Mir



1.12. Supply Chain

Consistently high levels of on-shelf availability are ensured through the effective control of inventory levels and movements of goods. Thus, one of Detsky Mir’s key objectives is maintaining its supply centralization ratio, defined as the share of the flow of goods passing through our owned distribution center).

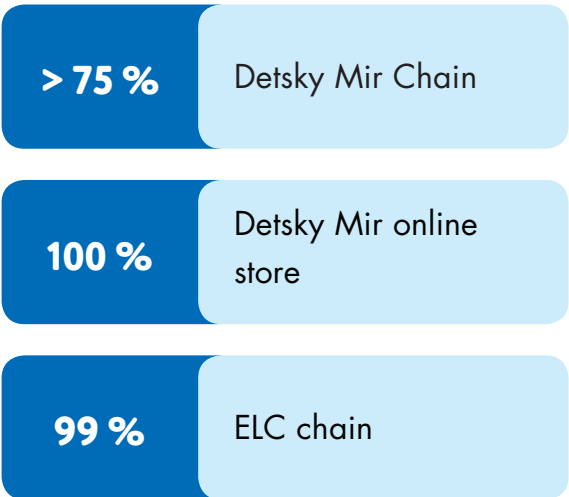
In 2018, Detsky Mir’s centralization ratio was over 75%, our online store’s ratio was 100%, and the ELC chain’s ratio was about 99%. Prior to launching our owned Bekasovo Distribution Center and migrating to the SAP platform, the centralization ratio was 26% in 2014.

In 2018, Detsky Mir’s imports from South-East Asia and Europe accounted for about one third of all supplies passing through our distribution center. The remaining portion comprised goods

sourced from local, Russian suppliers.

Goods from South-East Asia are mostly delivered by sea on a FOB/FCA basis and unloaded at ports on the Baltic Sea (Saint Petersburg, Ust-Luga, and Kotka). Goods from Europe are delivered by road mostly on a FCA/EXW basis. Customs processing is mostly electronic (through Electronic Declaration Centers of the Federal Customs Service of the Russian Federation), or at customs posts in the Moscow region, or through the procedure using Detsky Mir’s Authorized Economic Operator status.

Centralization Ratio 2018



Carriers (freight forwarders) for freight delivery from South-East Asia and Europe are selected through annual open requests for quotation with further monthly rate quotations.



Deliveries from local Russian suppliers to Detsky Mir's distribution center are made at the suppliers' expense and using their own resources.

Deliveries from the distribution centers to Detsky Mir stores are based on the principle of "the full assortment in one load".

Orders are created in the SAP ERP system on the push principle (initial delivery of new and/or seasonal assortments) and pull principle (further automated order), and are sent to a corresponding distribution center's SAP EWM system, where the order is picked and prepared for shipment.

92 Trip routing is automated in the TMS system (a solution developed in-house based on SAP ERP), factoring in shipment and delivery schedules, store working hours, as well as other requirements and constraints.

Deliveries from distribution centers to stores are mostly by road, although multimodal deliveries are also used (e.g., by road and rail; or by road, rail, and water).

In 2018, Detsky Mir's second distribution center was put into operation within the Class A+ industrial PNK Park Bekasovo in the Naro-Fominsk District of the Moscow Region. Detsky Mir currently owns PNK Park Bekasovo-1 and Bekasovo-2 with a combined area of 132,500 square

meters, and leases the Krekshino Distribution Center with an area of 20,000 square meters.

The opening of a second distribution center will allow Detsky Mir to maintain its current logistics centralization ratio at about 75%, migrate the ELC chain and Detsky Mir online store transactions to our owned Bekasovo-1 warehouse in 2019, and terminate the lease of the Krekshino Distribution Center.

We plan to further maintain a high centralization ratio, which will allow us to speed up in-store turnover, eliminate stock-outs, and build a robust logistics platform to support further business scale-up.

1.13. Information Technology

The Information Technology (IT) Department is a reliable strategic business partner supporting the Company's continuous growth and business process automation. The IT Department provides support for the implementation of virtually all projects pursued by business. In 2018, communication between IT and business was greatly improved with significant progress made toward proactive collaboration across major projects.

A shared information space was created for data exchange between customers, suppliers, Group companies and their key units, driving transparency and efficiency of business processes.

In 2018 we focused on minimizing project lead times and prioritizing business needs in project implementation plans.

Major IT projects launched by Detsky Mir Group in 2018:

ELC transition to SAP. In the first half of 2018, ELC business processes were automated within a shared SAP landscape. This project was a final step in the SAP rollout program – data on all activities within the Group will now be concentrated within a shared SAP system, with wide opportunities for integration and joint development. The project has also enabled ELC to use the Group's entire know-how without the need for developing duplicate solutions.

Bekasovo-2 Distribution Center. As part of the project, the IT department set up a modern and reliable IT infrastructure to ensure the stable operation of the new warehouse. The new distribution center's IT infrastructure was built around SAP EWM, fully emulating the functionality of the existing Bekasovo-1 Distribution Center. A number of systems have been launched at the Bekasovo-2 Distribution Center to meet the evolving business needs, including Structured Cabling, Video Surveillance, Access Control and Management, and others.

Launch of the Zoozavr retail chain. As part of the project, the IT department made necessary improvements to SAP and cash register software, as well as designed a concept to launch a new store format at a minimum cost.

E-commerce projects. Multiple projects aimed at improving Detsky Mir's omnichannel proposition and customer experience were carried out together with the E-Commerce Department. As part of the BIG ISTORE project, Detsky Mir stores were fitted with counters for online order picking. The Detsky Mir's website was optimized for mobile as part of the Listing project, and the Last Mile project, a service for delivering online orders directly from our retail stores, was launched. Towards the end of 2018, we launched the Detsky Mir Points and Promos mobile app, serving as an electronic loyalty card for now – we plan to expand the application's functionality to a full-fledged online store in 2019.

Legal compliance projects. In 2018, Detsky Mir Group successfully transitioned to a new fiscal data format (FDF 1.05) to communicate with the Fiscal Data Operator (FDO) across all retail stores operated in Russia. A similar project was implemented in Kazakhstan to transmit



sales data to the State Revenue Committee of the Ministry of Finance via the Fiscal Data Operator – Kazakhtelecom. All cash registers and SAP were ready for transitioning to the 20% VAT by 1 January 2019.

Forward-Looking Plans in Information Technology

Transitioning to joint storage of online and retail inventories. The existing system of storing online and retail inventories in separate warehouses (Bekasovo-1 and Krekshino distribution centers) no longer meets our evolving business needs, leading to inefficient logistics costs, and preventing the full-scale launch and use of distribution centers planned to be opened in 2019 and 2020. A number of projects will be completed in 2019, including the joint storage of online and retail stock at the Bekasovo Distribution Center, changing business processes in commerce function, and changing the methods and processes for preparing financial statements and management reporting.

Belarus project. As part of the project, the IT department will improve SAP software, launch regional instances of 1C:Accounting and 1C:Payroll&HR, and improve and register Profi-T POS software to launch retail stores in Belarus.

E-commerce projects. In 2019, the IT Department will further its cooperation with the Company's E-Commerce Department to drive strong growth in online sales. A launch of Kazakhstan website is planned with click and collect optionality, and the functionality of the Detsky Mir. Points and Promos mobile app will be expanded to a full-fledged online store.

Shutdown of the Krekshino Distribution Center project. In early 2019, the IT Department will support business in transferring all the inventories to the Bekasovo-1 and Bekasovo-2 distribution centers, as well as shutting down the Krekshino Distribution Center IT systems.

1.14. Financial Overview

Despite the complex social and economic environment, Detsky Mir continues to demonstrate steady growth in the number of customers.

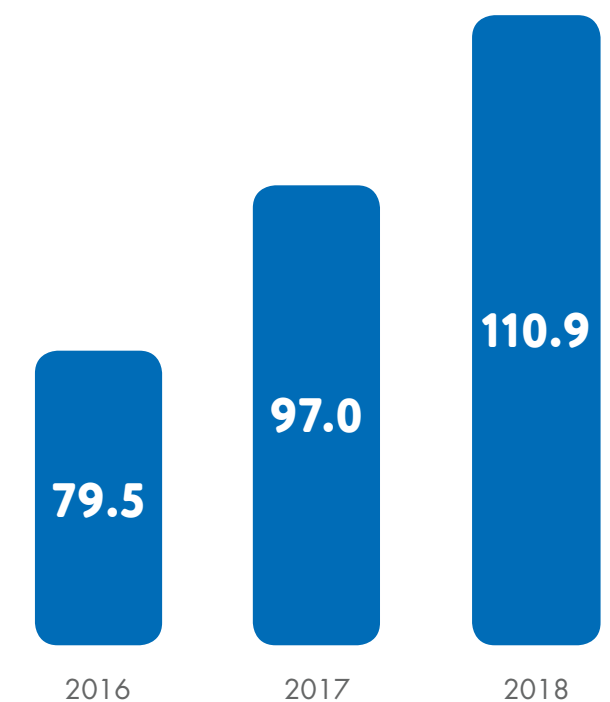
We have retained our leading position in the children's goods market in 2018, with a double-digit increase in revenue and a strong growth in LFL number of tickets. Following the retail chain's development, the ramp up of new stores, and the increase in LFL sales, the Group's revenue grew by 14.3%.

Despite the unfavorable demographic situation and the continued decline in purchasing power, Detsky Mir was able to demonstrate

impressive business growth. Detsky Mir Group's revenue increased by 14.3%, from RUB 97.0 billion in 2017 to RUB 110.9 billion in 2018. Online revenue almost doubled (+ 89%) in 2018 amounting to RUB 8.8 billion (see the Omnichannel Sales Development section for more details).

Revenue growth was supported by the opening of 100 stores in 2018, strong LFL sales growth of the Detsky Mir chain in Russia, and increased utilization of the stores opened in 2017.

Detsky Mir Group's Revenue, RUB bn



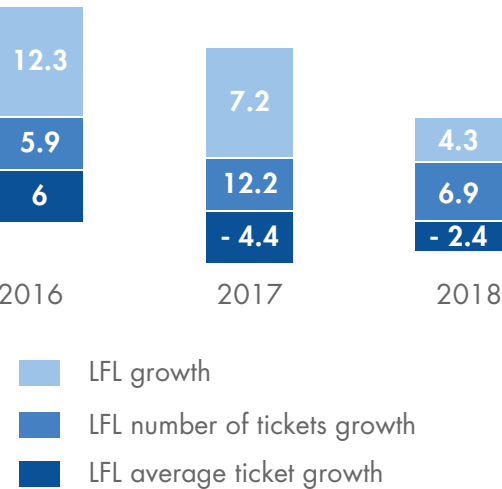
A 4.3% increase in LFL sales⁶ in Detsky Mir stores was the main driver of revenue growth:

- LFL number of tickets growth amounted to 6.9%
- LFL average ticket decreased by 2.4%

The Republic of Kazakhstan is one of the promising foreign markets for the Detsky Mir chain development. In 2018, Detsky Mir opened eight



LFL Growth, %



new supermarkets in Kazakhstan, almost doubling its revenue in the region. LFL sales growth in KZT totaled 30%. Currently, Detsky Mir operates 30 stores across 15 cities in Kazakhstan.

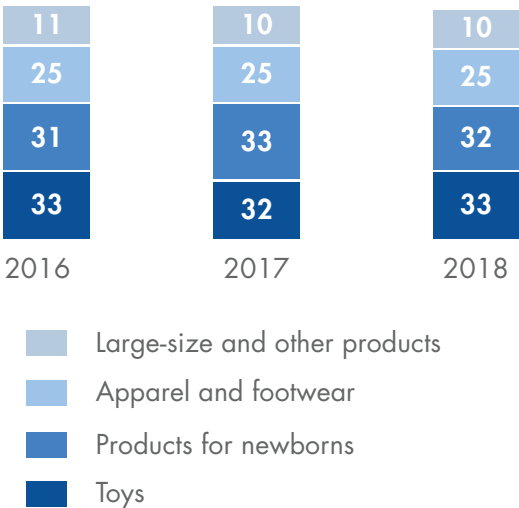
Toys continue to be the key category posting high LFL sales growth. In 2018, this category accounted for 33% the Detsky Mir chain's total sales in Russia. Other categories, apart from toys, with significant shares are products for newborns (32%), and apparel and footwear (25%).

In 2018, Detsky Mir continued investing in prices to gain traffic from competitor retail chains, which resulted in gross margin decreasing by 60 bps year-on-year to 33.2%. At the same time, private label development along with switching to direct contracts enabled Detsky Mir to offer its customers popular products at the best market prices while maintaining high sales margins. The share of private labels and direct imports in total sales grew to 36.1% (+ 280 bps year-on-year). Gross profit per square meter stayed flat year-on-year at RUB 51,000.

⁶ LFL sales growth, LFL number of tickets growth, and LFL average ticket growth were calculated based on the performance of the Detsky Mir chain stores in Russia, which had been in operation for at least 12 full calendar months preceding the reporting date.

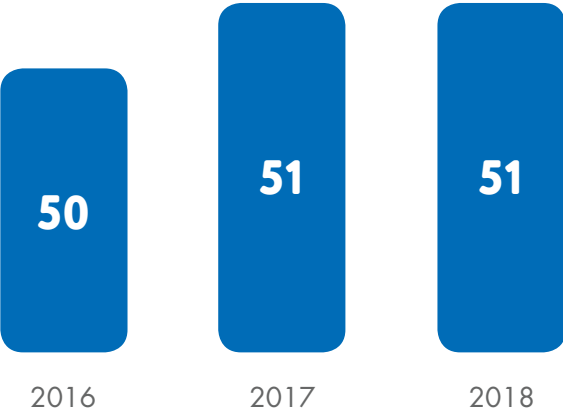
⁷ Revenue structure is presented for Detsky Mir stores in Russia.

Detsky Mir Chain's Revenue by Product Category⁷, %

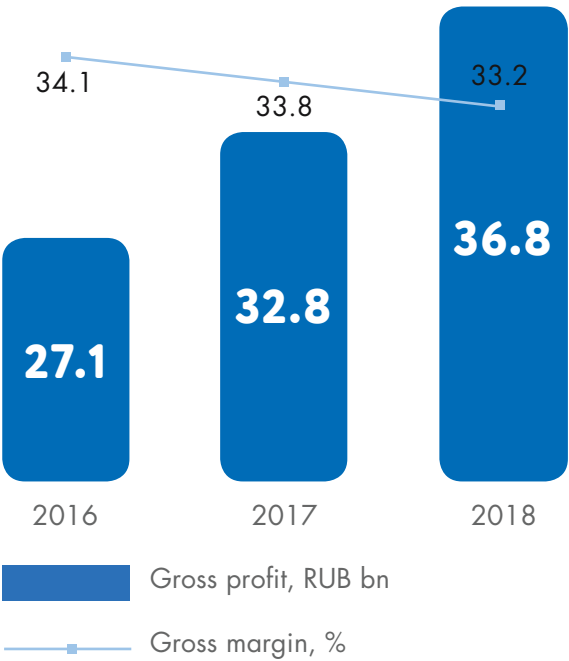


Continuous operational efficiency improvement is an important goal for the Group, with operating expense reduction being its key driver. The core expenses – rent and payroll – will be reduced by optimizing labor productivity and improving rental terms. In 2018, rent and payroll expenses less LTI payments were down by 60 bps as a percentage of revenue and by 10 bps year-on-year, respectively. Digitization of brochures and newspapers allowed us to optimize marketing expenses by 30 bps year-on-year as a percentage of revenue.

Gross Profit, RUB '000 per sq m



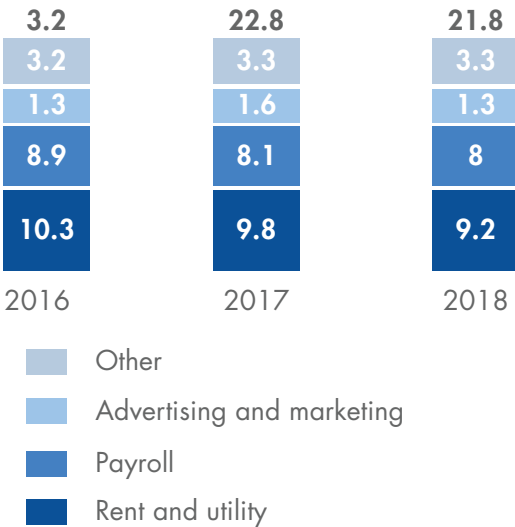
Detsky Mir Group's Gross Profit



In recent years, high income has allowed us to continue expanding our store chain while reducing financial leverage and paying consistently high dividends to our shareholders.

In 2018, adjusted selling, general, and administrative expenses less depreciation and amortization expenses and LTI payments as a percentage of revenue decreased by 100 bps year-on-year to 21.8%.

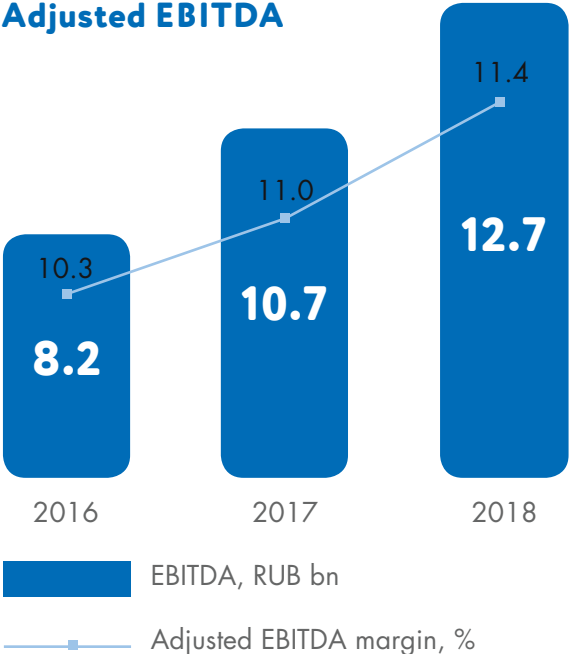
Share of Selling, General, and Administrative Expenses in Total Revenue, %⁸



Adjusted EBITDA⁹ was up 18.8% to RUB 12.7 billion compared to RUB 10.7 billion in 2017. The reduction in selling, general, and administrative expenses brought the adjusted EBITDA margin to 11.4%.

In 2018, unadjusted EBITDA was RUB 11.9 billion, up 20.7% year-on-year. EBITDA margin was 10.7%.

Adjusted EBITDA



In 2018, net interest expense as a percentage of revenue decreased by 30 bps year-on-year despite a higher total debt following decreasing interest rates in Russian capital markets and Detsky Mir's measures aimed at minimizing interest expense. By the end of 2018, Detsky Mir's weighted average cost of debt decreased to 9.3% (- 100 bps year-on-year).

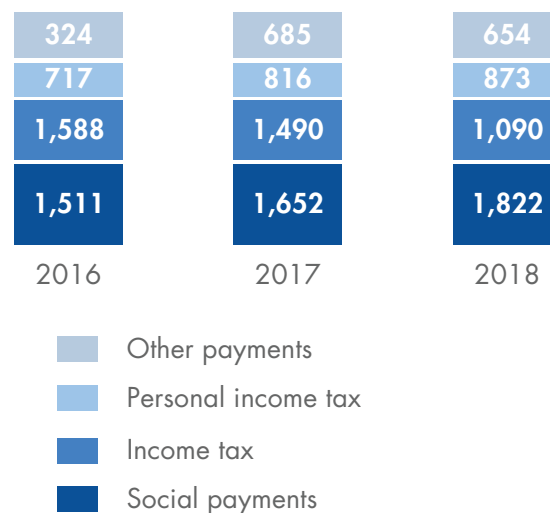
⁸ Adjusted EBITDA is calculated based on the profit for the period before deductions for income tax, foreign exchange losses, financial income and expenses, and amortization of fixed assets and intangible assets, and it has been adjusted for bonus payments to management under the long-term incentive (LTI) program.

⁹ Selling, general, and administrative expenses do not include amortization of property, plant, and equipment, as well as intangible assets, or bonus payments to management under the long-term incentive (LTI) program.



The effective income tax rate remained almost flat at 17.9% as at the end of the reporting period. Offsetting the income tax benefit for investments in Bekasovo-1 Distribution Center allowed us to maintain the rate below the income tax set rate. Depreciation and amortization as a percentage of revenue also remained flat at 1.9% in 2018. Detsky Mir had a RUB 106 million worth of foreign exchange gain vs. the loss in 2017.

Tax Payments to the Federal and Regional Budgets, RUB m ¹⁰



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Adjusted profit for the period¹¹ grew by 31.6% to RUB 7.2 billion, with net profit up by 36.5%, driven by EBITDA growth and the effective income tax rate reduction. Adjusted net profit margin increased to 6.5% (+ 80 bps year-on-year).

¹⁰ In Russia, social payments are made to the Federal Compulsory Medical Insurance Fund, the Social Insurance Fund of the Russian Federation, and the Pension Fund of the Russian Federation. In Kazakhstan, these include social contributions, mandatory pension contributions, and the social tax. Personal income tax includes personal income tax in Russia and individual income tax in Kazakhstan.

¹¹ Adjusted profit for the period (net profit) does not include bonus payments to management under the long-term incentive (LTI) program (along with the respective tax effect).

Detsky Mir's asset-light business model ensures its strong financial performance and a return on capital. In 2018, the return on invested capital (ROIC)¹² was 80%.

In 2018, the operating cash flow before changes in working capital, grew by 18.8% year-on-year to RUB 12.7 billion. Changes in working capital decreased to RUB 7.2 billion in 2018 vs. RUB 1.1 billion in 2017, largely due to the growing receivables following the changes in the calendar of marketing activities vs. 2017 and a significant increase in the share of rebate collection from suppliers in December (21.0% in 2018 vs. 12.7% in 2017). The net effect on the growth of investment in working capital was RUB 2.0 billion. The inventory size was significantly affected by additional goods purchased to hedge potential FX risks, which eventually led to about RUB 1.6 billion worth of additional investments in working capital. The sum of net interest and income tax decreased by 14.5% in 2018 to RUB 2.7 billion.

As a result, in 2018, cash received from operations was RUB 3.5 billion vs. RUB 7.1 billion in 2017.

The amount of cash used in investing activities and largely allocated to purchase property, plant, and equipment increased to RUB 3.8 billion in 2018 vs. RUB 1.4 billion in 2017 due to the opening of our own Bekasovo-2 Distribution Center in the Moscow Region. Investments in the new warehouse opening in 2018 amounted to RUB 1.8 billion (exclusive of VAT). The total area of the logistics hub is 62 thousand square meters. In February 2017, CJSC DM-Finance (a subsidiary of PJSC Sistema) fully repaid the RUB 1.1 billion loan received from PJSC Detsky Mir. Capital investments in the retail chain expansion totaled RUB 1.0 billion (– 12.3% year-on-year).

Key Metrics of the Consolidated Cash Flow Statement, RUB m

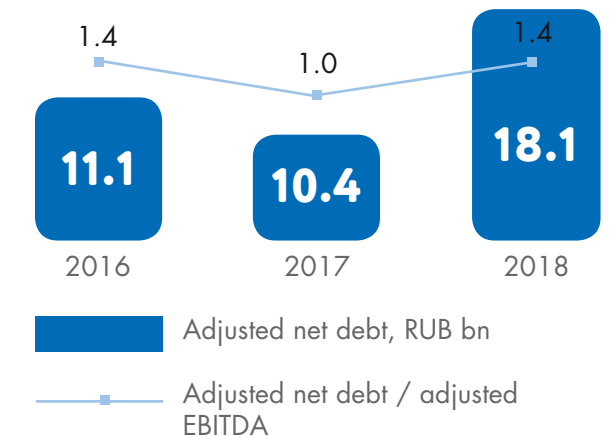
Metric	2016	2017	2018
Adjusted EBITDA	8,203	10,663	12,665
Adjustments for:			
Changes in working capital	(405)	(1,123)	(7,156)
Interest and income tax	(3,281)	(3,168)	(2,707)
Other operating cash flows	1,285	708	688
Cash received from operations	5,801	7,080	3,489
Cash used in investing activities	(3,165)	(1,370)	(3,793)
Cash received from financing activities	(8,455)	(5,001)	483
Increase/decrease in cash and cash equivalents	512	710	180

In 2018, cash received from financing activities amounted to RUB 483 million vs. RUB 5.0 billion worth of outflow in 2017. This growth was due to the drawdown of opened credit facilities to finance Detsky Mir's investment program and dividend payout.

As at 31 December 2018, Detsky Mir's total debt was RUB 21.5 billion, including 41.6% of short-term debt and 58.4% of long-term debt. Net debt was RUB 18.1 billion. Detsky Mir's debt is fully denominated in roubles. As at 31 December 2018, Detsky Mir had RUB 23.2 billion of undrawn credit facilities from major Russian and international banks.

The net debt / adjusted EBITDA ratio grew to 1.4, largely due to the investments in the opening of our own Bekasovo-2 Distribution Center, as well as the postponement of the payout date of RUB 1.1 billion interim dividends for 9M 2017 to the majority shareholder, PJSC Sistema.

Net Debt and Financial Leverage



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¹² Calculated as the ratio of operating profit (excluding bonus payments to management under the LTI program) and the average invested capital as at the beginning and end of the period. Invested capital is calculated as net debt plus share capital less amounts receivable under a loan granted to CJSC DM-Finance for the year ended 31 December 2018, net book value of the Bekasovo-2 Distribution Center and its equipment (which was bought in Q4 2018 and had not been used for the most part of 2018).



Corporate Governance

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2.1. Corporate Governance Practice

PJSC Detsky Mir takes responsibility for compliance with corporate governance regulations. Information disclosure allows us to comply with the requirements of the Russian legislation and continuously improve our corporate governance practice.

Statement of PJSC Detsky Mir’s Board of Directors on compliance with the corporate governance principles set out in the Corporate Governance Code¹³

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In corporate governance, PJSC Detsky Mir adheres to the principles set out in the Corporate Governance Code, which provides shareholders with every opportunity to participate in corporate governance, as well as with access to all the information on the Company’s activities in accordance with the Federal Law On Joint Stock Companies, the Federal Law On the Securities Market, and the regulations of the Bank of Russia.

Our main principle in building shareholder and investor relations is a reasonable balance of our interests as a business entity and as a joint-stock company willing to protect its shareholders’ rights and legitimate interests.

Detailed information on compliance with the corporate governance principles is available in the Appendix to this Report.

Corporate Governance Model

There were no amendments to PJSC Detsky Mir’s corporate governance model in 2018. Last year, our Charter was amended to enable shareholders to participate in the General Meeting of Shareholders by filling out electronic ballots online. Control over interested party transactions was automated based on SAP software.

Three to four independent directors participated in the work of the Board of Directors and its Committees, in line with the Listing Rules of PJSC Moscow Exchange. The governance structure is three-tiered and includes the General Meeting of Shareholders, the Board of Directors, the collegial executive body (the Management Board), and the sole executive body (the CEO). The Board of Directors has expanded powers and plays the key role in the governance of PJSC Detsky Mir. The Board of Directors has established the Audit Committee, the Nomination and Remuneration Committee, and the Strategy Committee.

Corporate Governance Quality Assessment

The assessment was based on the Methodology for Self-Assessment of the Quality of Corporate Governance in Public Companies and Joint-Stock Companies approved by Order No. 306 dated 22 August 2014 of the Federal Agency for State Property Management (Rosimushchestvo).

In accordance with this methodology, the maximum score is 548 points (100%), and the minimum allowable score is 356.2 points (65%). PJSC Detsky Mir scored 422 points (77%) in corporate governance quality assessment.

Corporate Governance Improvement Plans

In 2019, we intend to propose that our shareholders approve the new version of PJSC Detsky Mir’s Charter and the new Regulations on the General Meeting of Shareholders. These documents must comply with the applicable laws and the requirements of the Bank of Russia.

Corporate Governance Quality Self-Assessment Components

Component	Number of Questions	Component Weight in the Total Score	Actual Score	Maximum Score	Level of Compliance
Shareholder rights	22	14%	67	79	12%
Board of Directors	56	37%	149	202	27%
Executive management	5	7%	27	38	5%
Transparency and information disclosure	15	25%	110	135	20%
Risk management, internal control, and internal audit	16	11%	42	63	8%
Corporate social responsibility and business ethics	6	6%	27	31	5%
Total score	120	100%	422	548	77%

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¹³ Recommended by the Bank of Russia in Letter No. 06-52/2463 On the Corporate Governance Code dated 10 April 2014.



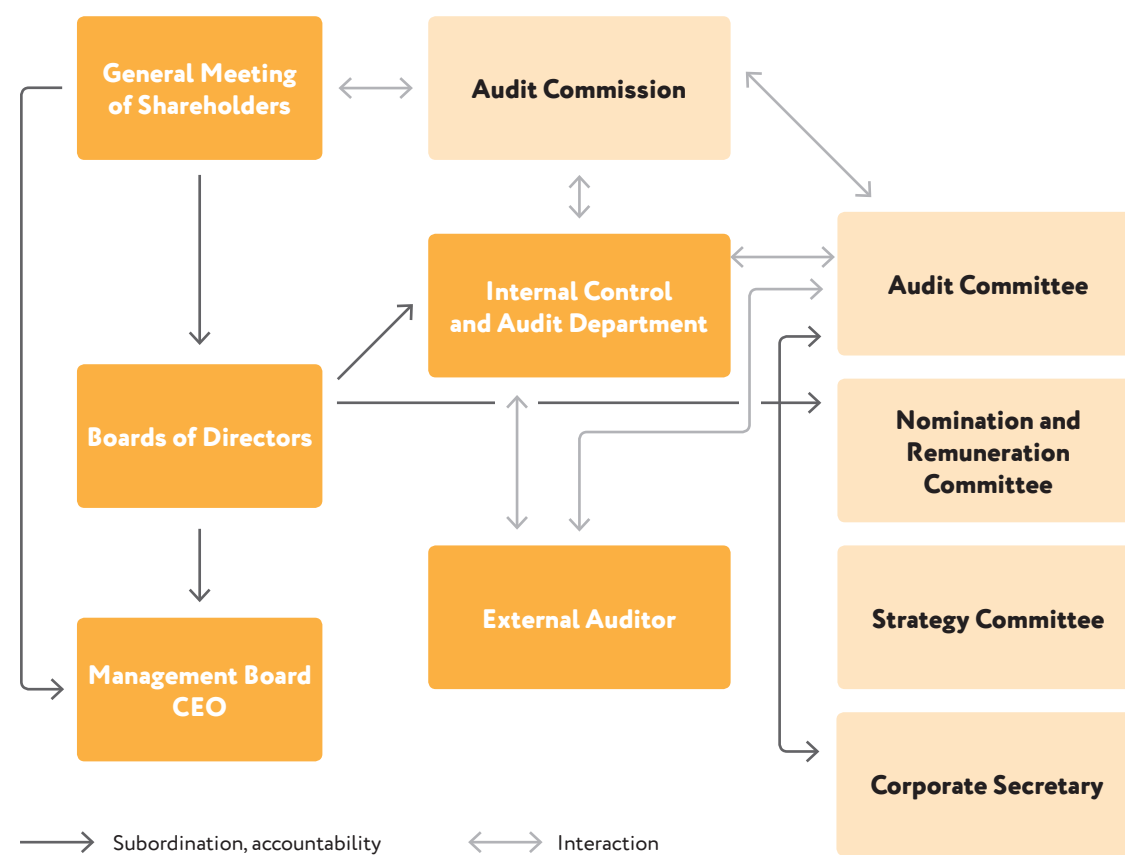
2.2. Corporate Governance Bodies

PJSC Detsky Mir's corporate governance system is aimed at creating and maintaining reliable and honest shareholder and investor relations to promote further enhancement of our investment appeal.

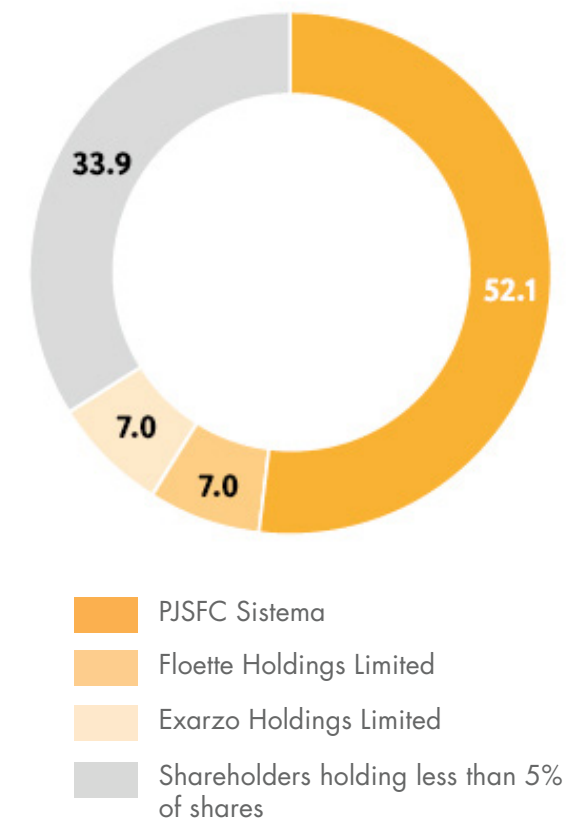
General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body acting pursuant to PJSC Detsky Mir's Charter, internal documents approved by the General Meeting of Shareholders, and the Russian legislation.

Each year, PJSC Detsky Mir holds an Annual (Ordinary) General Meeting of Shareholders which makes decisions on the election of the Board of Directors and the Audit Commission, approves the auditor, and considers other matters reserved for the supreme governing body.



General Meeting of Shareholders



One Annual General Meeting of Shareholders and two Extraordinary Meetings were held in 2018, at which the following decisions were made:

- Approval of PJSC Detsky Mir Draft 2017 Annual Report
- Approval of the 2017 annual accounting (financial) statements
- Distribution of profits and losses (including dividend payout) for FY2017 and 9M 2018
- Early termination of the powers of the Board of Directors
- Election of the Board of Directors and the Audit Commission
- Approval of the auditor for 2018
- Approval of the new version of the Charter and other internal documents

Board of Directors

The Board of Directors is PJSC Detsky Mir's collegial governing body responsible for general management of the Company's operations, except for the matters reserved for the General Meeting of Shareholders. It is guided by the Russian legislation, PJSC Detsky Mir's Charter, decisions made by the General Meetings of Shareholders, the Regulations on the Board of Directors, and other internal regulations.

The Board of Directors has expanded powers and plays the key role in the governance of PJSC Detsky Mir. The key matters reserved for the Board of Directors are as follows: strategic business development, control over the implementation of financial and budget plans, risk management, personnel and top management incentive and remuneration, internal audit, major and material transactions.

The Board of Directors has three committees:

- Audit Committee
- Nomination and Remuneration Committee
- Strategy Committee

The internal audit function is assigned to a separate business unit, the Internal Control Department. The department head reports to the Board of Directors and is appointed or removed by the Board.

The Nomination and Remuneration Committee considers the nominee for the position of Corporate Secretary, and the CEO makes the appointment based on the decision of the Board of Directors. The primary responsibility of the Corporate Secretary is to ensure effective day-to-day interaction with PJSC Detsky Mir's shareholders, coordinate the Company's actions aimed at protecting its shareholders' rights and interests, and support the efficient work of the Board of Directors.

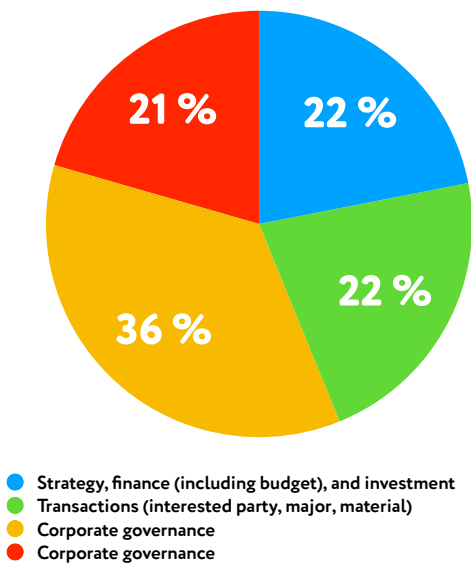


The composition of the Board of Directors is established by the General Meeting of Shareholders. Currently the Board has ten members.

PJSC Detsky Mir’s Board of Directors held 14 meetings in 2018 (including meetings in the form of absentee voting) to consider 73 matters. The meetings of the Board of Directors were preceded by 9 meetings held by the Committees of the Board of Directors to consider 38 matters.

The current Board of Directors has ten members, including three independent directors, six non-executive directors, and one executive director.

Matters Considered by the Board of Directors in 2018



PJSC Detsky Mir’s Board of Directors in 2018

Directors Elected on 28 June 2017	Directors Elected on 18 May 2018	Directors Elected on 20 September 2018
1. Christopher Alan Baxter	1. Christopher Alan Baxter	1. Pavel Boyarinov
2. Vitaly Vavilov	2. Vitaly Vavilov	2. Alexey Katkov
3. Alexander Gorbunov	3. Alexey Katkov	3. Stanislav Kotomkin
4. Artem Zasursky	4. Tony Maher	4. Evgeniy Madorskiy
5. Andrey Kamensky	5. James McArthur	5. Tony Maher
6. James McArthur	6. Olga Ryzhkova	6. Olga Ryzhkova
7. Christopher Allan Parks	7. Gevork Sarkisyan	7. Vyacheslav Khvan
8. Olga Ryzhkova	8. Vladimir Chirakhov	8. Vladimir Chirakhov
9. Gevork Sarkisyan	9. Alexander Shevchuk	9. Alexander Shevchuk
10. Vladimir Chirakhov	10. Alexander Shulgin	10. Alexander Shulgin

Personal Information About the Members of the Board of Directors



Alexey Katkov born in 1972.
Chairman of the Board of Directors, Non-Executive Director, member of the Strategy Committee
Percentage ownership in the Company: 0.0%
Percentage of the Company’s ordinary shares held: 0.00%
Attendance at meetings (presence/absence): 9/0
Membership in governing bodies of other organizations: President at Sistema Venture Capital, Managing Partner at PJSFC Sistema, member of the Board of Directors at MTS, member of the Board of Directors at OZON Holding (OZON.ru online store)

In 1999, he graduated from the Academy of National Economy under the Government of the Russian Federation, and in 2008, he completed an Executive MBA program at Harvard Business School. Since 2016, he has served as CEO and President at Sistema Venture Capital, PJSFC Sistema’s fund. In April 2018, he was appointed Managing Partner at PJSFC Sistema responsible for the Digital segment. Prior to that, he had worked in Russia’s largest IT company, Mail.Ru Group, where he had started his career in 2000 as an account manager. In 2007, he was appointed head of the holding’s retail business as Commercial Director and Vice President and was responsible, in particular, for increasing the Company’s sales and finding new revenue sources.



Vladimir Chirakhov born in 1974.
Executive Director, member of the Strategy Committee
Percentage ownership in the Company: 1.7%
Percentage of the Company’s ordinary shares held: 1.7%
Attendance at meetings (presence/absence): 14/0
Membership in governing bodies of other organizations: member of the Board of Directors at PROGRESS (FrutoNyanya label), member of the Board of Directors at Internet Solutions (OZON.ru online store)

He has been employed by Detsky Mir since 2012. Prior to that, he had worked in Korablik since 2009, where he had been promoted from Commercial Director to CEO. In 2009, he served as Commercial Director at Lindex (the management company of the Expert chain, one of the biggest retail chains in the home appliances segment). From 2001 to 2009, he worked in leading retail companies, Partiya Elektronika and M.Video.

In 1996, he graduated with honors from the Academy of the Federal Security Service of Russia as an engineering mathematics specialist, majoring in Applied Mathematics. In 2000, he received additional education at Moscow International Higher Business School MIRBIS under the System Analysis and Project Management in Business program. In 2001, he graduated with honors from the Academy of National Economy under the Government of the Russian Federation majoring in Management. In 2013, he completed an Executive MBA program at Moscow School of Management SKOLKOVO.



Stanislav Kotomkin born in 1973.
Independent Director, member of the Nomination and Remuneration Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 5/0
Membership in governing bodies of other organizations: co owner of AMF International Flower Delivery Network

In 1996, he graduated from Bauman Moscow State Technical University as a specialist in mechanical engineering majoring in Special Machine Building. From 2007 to 2008, he attended an MBA course at Synergy Business School. In 2013, he completed an Executive MBA program at the Moscow School of Management SKOLKOVO. In 2014, he completed the IoD Chartered Director international qualification program.

Since 1999, he has been a co-founder of AMF International Flower Delivery Network, where he served as CEO and Managing Owner, and was a member of the Board of Directors. Since 2013, he has been a private investor. Prior to that, from 1996 to 1998, he had been a co-founder and co-manager of the Unishop online store.



Pavel Boyarinov born in 1986.
Independent Director, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 5/0
Membership in governing bodies of other organizations: CEO at Production Company ORION (Matras.ru online store)

In 2009, he graduated from Bauman Moscow State Technical University majoring in IT and Management Systems. Since 2005, he has been engaged in website promotion and online marketing.

From 2005 to 2006, he was responsible for search engine optimization for corporate clients in BDBD (RBS Corporation). In 2006, he founded the Yunigrafik design studio.

In 2009, together with partners, he founded the Koroli Matrasov shop. He is the founder and owner of the largest multi-brand mattress shop Matras.ru.



Evgeniy Madorskiy born in 1975.
Deputy Chairman of the Board of Directors, Non-Executive Director, member of the Audit Committee, member of the Nomination and Remuneration Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 5/0
Membership in governing bodies of other organizations: Executive Vice President at PJSFC Sistema, member of the Board of Directors at MTS Bank

He has been employed by PJSFC Sistema since 2006 and has been promoted from Executive Director for Corporate Development to Executive Vice President (appointed in 2011). In June 2014, he was appointed Deputy Chairman of MTS Bank’s Board of Directors.

He has a long track record in corporate governance. Since 2012, he has served on the boards of directors at Stream, Kosmos-TV, SG-Trading, Sistema Venture Capital, and EAST-WEST UNITED BANK S.A.

In 1996, he graduated from the Saint Petersburg University of Economics and Finance as an economist majoring in Global Economy and from Universite Paris-Dauphine majoring in Management.

In 2004, he graduated from HEC Paris School of Management majoring in MBA Management.

Ph.D. in Economics.



Alexander Shevchuk born in 1983.
Independent Director, Member of the Audit Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 9/0
Membership in governing bodies of other organizations: executive director at the Association of Institutional Investors

He graduated from the Financial University under the Government of the Russian Federation majoring in Finance.

He serves as executive director at the Association of Professional Investors (API). Since 2002, he has been representing investors’ interests before state authorities, public companies, and majority shareholders in Russia. He has over 15 years of experience in corporate governance, starting from his membership on the Board of Directors at Bryansk Energy Management Company, and has been a member of the Board of Directors at the Bank of Russia, the Listing Committee of the Moscow Exchange (MOEX), the IFC team, etc. In the last ten years, he has served as independent director at 17 public companies, including TsentTelecom, Mostotrest, Ulyanovsk Automobile Plant (UAZ), OGC-2, and IDGC of Center and Volga Region.

He has been responsible for strategy development, top management incentive program development, internal audit, and dividend policy at public companies.



Alexander Shulgin born in 1977.
Independent Director, member of the Strategy Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 9/1
Membership in governing bodies of other organizations: CEO at Internet Solutions (OZON.ru online store)

In 2017, he was appointed CEO at OZON.ru. Prior to that, he had worked at Yandex having joined it as CFO in 2007.

From 2014 to 2017, he had served as CEO at Yandex, and in 2011, he had been involved in preparing the company’s IPO at the NASDAQ.

He graduated from Rostov State University majoring in Management. Since 1997, he has been working in Coca-Cola’s representative office in Russia, holding various positions in finance.

In 2007, he was appointed CFO at Coca-Cola Hellenic in Russia.



Tony Maher born in 1956.
Non-Executive Director, member of the Strategy Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 9/1
Membership in governing bodies of other organizations: Chairman of the Board of Directors at PROGRESS (FrutoNyanya label)

Born in Ireland where he also received higher education. He started his career at Coca-Cola’s plant in Dublin and worked at the company for 30 years. In 1996, he was appointed head of Coca-Cola’s operations in Russia. In December 2000, he was appointed General Manager in Russia, Belarus, Ukraine, and Armenia at Coca-Cola Hellenic Bottling Company, Coca-Cola’s largest bottler in Europe. In January 2006, he left his position at Coca-Cola and joined Wimm-Bill-Dann where he was responsible for the Company’s operations in 11 countries across Eastern and Western Europe, including Russia.

In April 2006, he was appointed Chairman of the Management Board. From 2013 to 2015, he served as CEO at LLC O’KEY, and in 2012, he was appointed Chairman of the Board of Directors at PROGRESS. He currently serves as director at LPQ Russia Limited UK, Da Vinci Capital Group, Denton Holdings SPC, and B2B. In 2018, he joined PJSC Detsky Mir and is currently a member of the Board of Directors.



Olga Ryzhkova born in 1977.
Non-Executive Director, member of the Strategy Committee
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 14/7
Membership in governing bodies of other organizations: Senior Vice President at RDIF Investment Management, member of the Board of Directors at PROGRESS (FrutoNyanya label)

In June 2015, she joined the Moscow team of the Russian Direct Investment Fund (RDIF) as its Senior Vice President.

Financial instruments: IPO, Private Equity, M&A. From 2010, before joining RDIF, she had worked in the Investment Banking Department at Sberbank CIB, one of Russia’s largest investment and commercial banks.

From 2008 to 2010, she worked as Investment Manager at UFG Private Equity. Prior to that, she had been Senior Expert in the Corporate Finance Department at KPMG.

She graduated from the Financial University under the Government of the Russian Federation majoring in Public Administration and Municipal Management.



Vyacheslav Khvan born in 1983
Non-Executive Director
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%
Attendance at meetings (presence/absence): 5/1
Membership in governing bodies of other organizations: CEO at Business Nedvizhimost, Vice President – Head of Telecommunications Assets at PJSC Sistema

In 2004, he graduated from the Moscow State Institute of Steel and Alloys (MISIS) as engineer majoring in Standardization and Specification (in Metallurgy).

He has over 13 years of experience in retail. From 2005 to 2008, he served as a purchasing manager at AM-Kommerts and Euroset Opt. From 2008 to 2011, he was Deputy CEO and CEO at Irina and Saime companies. After that, he served as an executive director at Korado for two years.

In November 2013, he became a member of the Management Board and was appointed Deputy CEO for Business Development at PJSC Detsky Mir. He currently serves as CEO at Business Nedvizhimost. He has been working in the company since he left MC LandProfit where he had served as Managing Director from February to November 2017.



Pursuant to the Federal Law On Joint Stock Companies, the Board of Directors plays an important role in protecting shareholder rights, preparing and implementing the Company’s development strategy, as well as ensuring strong financial and business performance.

The activities of PJSC Detsky Mir’s Board of Directors followed the approved action plan, and the execution of the Board’s decisions was monitored on a regular basis.

When exercising their powers, all members of the Board of Directors acted reasonably and in good faith in the best interests of Detsky Mir, and participated actively in the meetings of the Board of Directors and its Committees.

In the years to come, PJSC Detsky Mir’s Board of Directors will place a particular emphasis on improving the quality of business management, increasing the value of Detsky Mir shares, as well as strengthening the financial stability and competitive edge.

Board of Directors’ self-assessment results:

Self-Assessment Criteria	Average Score ²³
Composition and structure of the Board of Directors and its Committees	3.1
Procedure, planning, and management of activities of the Board of Directors and its Committees	3.4
Functional areas of the Board of Directors’ and its Committees’ activities	3.4
The Board of Directors’ performance assessment	3.4

²⁴ 1 = Low; 2 = Needs improvement; 3 = Acceptable; 4 = High.

Executive Bodies

PJSC Detsky Mir’s sole executive body, the CEO, and collective executive body, the Management Board, are charged with running its day-to-day operations, ensuring efficient performance of current tasks and implementation of the development strategy to promote the Company’s profitability and competitive edge, maintain financial and economic stability, protect shareholders’ rights, and secure employees’ social guarantees.

The scope of authority of PJSC Detsky Mir’s executive bodies covers all matters related to day-to-day operations, except for matters reserved for the General Meeting of Shareholders or the Board of Directors.

The CEO and other members of the Management Board are guided by the applicable laws, PJSC Detsky Mir’s Charter, and other internal regulations.

Appointment of the Chairman of the Management Board and early termination of their powers is reserved for the Board of Directors.

The Chairman and other members of the Management Board are accountable to the Board of Directors and regularly report on their performance.

Personal Information About the Members of the Management Board



Vladimir Chirakhov born in 1974.
Chairman of the Management Board
Percentage ownership in the Company: 1.7%
Percentage of the Company’s ordinary shares held: 1.7%

He has been employed by PJSC Detsky Mir since 2012. Prior to that, he had worked in Korablik since 2009, where he had been promoted from Commercial Director to CEO. In 2009, he served as Commercial Director at Lindex (the management company of the Expert chain, one of the biggest retail chains in the home appliances segment). From 2001 to 2009, he worked in leading retail companies, Partiya Elektronika and M.Video. In 1996, he graduated with honors from the Academy of the Federal Security Service of Russia as an engineering mathematics specialist, majoring in Applied Mathematics. In 2000, he received additional education at Moscow International Higher Business School MIRBIS under the System Analysis and Project Management in Business program. In 2001, he graduated with honors from the Academy of National Economy under the Government of the Russian Federation majoring in Management. In 2013, he completed an Executive MBA program at the Moscow School of Management SKOLKOVO.



Tatyana Mudretsova born in 1973.
Marketing Director
Percentage ownership in the Company: 0.006%
Percentage of the Company’s ordinary shares held: 0.006%

From 2012 to 2014, prior to joining Detsky Mir Group, she served as Director of Marketing in Russia at Osnova Telecom. From 2005 to 2011, she worked at Beeline, where she was promoted from Marketing Manager for the Moscow region to Director for Mass Market Marketing in Russia. From 1999 to 2005, she worked in DDB and Publicis creative agencies, where she was promoted from an account manager to Group Account Director. In 1995, she graduated from the International Economic Relations Department of the State University of Management majoring in Information Technologies in Management.



Maria Davydova born in 1974.
Deputy CEO for Commercial Activities
Percentage ownership in the Company: 0.017%
Percentage of the Company’s ordinary shares held: 0.017%

In 1998, she graduated from the Institute of Humanities majoring in Economics. From 2006 to 2011, she was Commercial Director for Exclusive Contracts and Private Labels at NTS Gradient. From 2011 to 2013, she served as Commercial Director for Home and Recreation Products at Enter – Svyaznoy. Since 2013, she has been working in Detsky Mir Group.



Maria Volodina born in 1973
Commercial Director for Apparel and Footwear
Percentage ownership in the Company: 0.012%
Percentage of the Company’s ordinary shares held: 0.012%

Since 2011, she has been working in Detsky Mir Group.

From 2010 to 2011, she was Head of Assortment Planning Department at SELA Corporation. From 2007 to 2010, she acted as Head of Product Department at Kira Plastinina Style. From 2005 to 2007, she served as Head of Apparel and Accessories at Sport and Fashion Group (exclusive distributor of Reebok products in the CIS). From 2000 to 2005, she was Head of Apparel Wholesale and Retail at TJ Retail.

She graduated from the Moscow State University of Design and Technology majoring in Fashion Design, and from National Research University Higher School of Economics majoring in Brand Management in Fashion Industry. She received an MBA in Strategic Management at Integral Plekhanov Business School.



Anna Garmanova born in 1976
CFO
Percentage ownership in the Company: 0.008%
Percentage of the Company’s ordinary shares held: 0.008%

In 1998, she graduated from Lomonosov Moscow State University. In 2002, she graduated with honors from the Plekhanov Russian University of Economics majoring in Economics (Accounting, Analysis, and Audit).

After graduation, she worked in a number of commercial entities and an audit company. She was Deputy Head of Finance and Economics at the Foundation for Mutual Understanding and Reconciliation established by the Government of the Russian Federation.

Since 2007, she has been working in retail, starting as Chief Accountant in the Podruzhka retail chain.

Since April 2008, she has been working in Detsky Mir Group. Throughout the years, she was responsible for accounting methodology development, business process introduction and automation, and tax and accounting statements preparation. In 2014, she was appointed Head of Corporate Accounting. From March 2015, she served as Acting CFO until she was appointed CFO in October 2015.



Farid Kamalov born in 1976
COO
Percentage ownership in the Company: 0.05%
Percentage of the Company’s ordinary shares held: 0.05%

In 2012, he joined Detsky Mir Group as Head of Trade Department; in March 2014, he was appointed Chief Operating Officer of the Detsky Mir retail chain.

He has over 10 years of experience in retail. From 2003 to 2010, he worked in the M.Video consumer electronics hypermarket chain, where he was promoted from sales assistant to director of the flagship hypermarket.

From 2010 to 2012, he served as Head of Retail Sales in the Korablik retail chain (children’s goods). In 2003, he graduated with honors from the National Research University of Electronic Technology. He obtained an MBA from Moscow International Higher Business School MIRBIS under the Strategic Management and Organization Management program.



Artem Gubanov born in 1983.
Director for Real Estate and Development
Percentage ownership in the Company: 0,0%
Percentage of the Company’s ordinary shares held: 0,0%

He graduated from the Departments of Law and Linguistics of Ulyanovsk State University.

Since 2005, he has been working in retail. Throughout the years, he held various positions in real estate and development in Ramstore, Walmart International, and Korablik.

Overall, he has six years of experience with Detsky Mir Group. From 2014 to 2015, he acted as Deputy Director until he was appointed Director for Real Estate and Development.



Anastasia Yaroshevskaya born in 1980.
HR Director
Percentage ownership in the Company: 0%
Percentage of the Company’s ordinary shares held: 0%

In 2006, she graduated from the Moscow State University of Psychology and Education majoring in Social Psychology. From 2004 to 2007, she worked in retail and consulting companies as a training manager and development manager. From 2008 to 2016, she worked in the Hoff furniture and home accessories retail chain where she was responsible for training and development, recruitment and onboarding, as well as compensations and benefits. She was promoted from training manager to Deputy Head of HR. From 2015 to 2016, she was also engaged in a number of consulting projects with Talent Code. Since 2016, she has served as HR Director of Detsky Mir Group.



Pavel Pishchikov born in 1976.
Director for E-Commerce
Percentage ownership in the Company: 0.0002%
Percentage of the Company's ordinary shares held: 0.0002%

In 1996, he graduated from the Department of Chemistry of Dnepropetrovsk State University. Since February 2017, he has been working in Detsky Mir.

From 2011 to 2017, he served as Director for E Commerce in the Dochki-Sinochki retail chain (children's goods). Under his leadership, the chain's online store was launched and later included in Russia's Top 100 online stores.

From 2009 to 2011, he served as Commercial Director of the www.003.ru online store (X5 Retail Group).

From 1996 to 2011, he held various managerial positions in wholesale and retail companies specializing in electronics.



Vladimir Ilmetov born in 1958.
Security Director
Percentage ownership in the Company: 0.011%
Percentage of the Company's ordinary shares held: 0.011%

He has been with Detsky Mir Group since 2014. Prior to that, from 2010 to 2014, he had served as Senior Vice President – Head of Security at Moscow Bank for Reconstruction and Development.

In 2009, he was Deputy Director at OGK-3.

In 2008, he worked for the Presidential Executive Office of the President at the executive office of the Presidential Plenipotentiary Envoy to the Far Eastern Federal District, and later served as Deputy Presidential Plenipotentiary Envoy to the Far Eastern Federal District.

From 2005 to 2008, he was Vice President at Novikombank.

He also worked for Russian embassies in Costa Rica, Cuba, and Brazil.

In 2018, PJSC Detsky Mir's Management Board held 49 meetings and considered 192 matters.

2.3. Remuneration

Remuneration System for the CEO and Members of the Management Board

The CEO and members of the Management Board of PJSC Detsky Mir are full-time employees, and their remuneration consists of a salary and an annual bonus for the achievement of key performance indicators set by the Board of Directors (see the Personnel section for more details).

The size of the salary is determined in the staffing list. The size of other payments – additional payments, compensations, and bonuses – is subject to the Regulations on Remuneration, the Regulations on Bonus System,

and the Regulations on Procurement. In 2018, remuneration paid to members of PJSC Detsky Mir's Management Board totaled RUB 836.2 million (salary: RUB 409.0 million, bonuses: RUB 427.2 million), and compensations totaled RUB 5.9 million.

Detsky Mir has in place two long-term incentive programs for key employees (Long-Term Incentives, LTI). Both programs are aimed at increasing Detsky Mir's market capitalization.

The programs cover employees in managerial positions and the CEO.

LTI from 2016 to 2018

Objective: to prepare for the IPO and increase Detsky Mir's value during the program.

- Participants: 16 key employees of Detsky Mir
- The program's budget was calculated as 3% of the difference between the IPO price and the share price paid by a Chinese investment fund in 2015
- 50% is payable in cash, and the other 50% - in Detsky Mir shares (through buying shares in the open market)

In the early 2017, Detsky Mir launched its IPO. Payments under the program will be made from 2018 to 2020.

LTI from 2017 to 2020

Objective: to increase Detsky Mir's post-IPO market capitalisation.

- The program spans three years until February 2020
- Participants: 21 key employees of Detsky Mir
- The program's budget was calculated as 4.6% of Detsky Mir's market value growth (including dividend payout) during the program
- 100% is payable in Detsky Mir shares (through buying shares in the open market)
- Additional RUB 500 million worth of payouts (exclusive of unified social tax), of which about RUB 250 million were paid in January 2018. The remaining amount may be paid in 2019 pursuant to a separate decision of the Board of Directors



2.4. Anti-Corruption Efforts

The absence of corruption is an important driver in improving PJSC Detsky Mir’s performance. With this in mind, we regularly assess risks associated with corruption, screen our partners and full-time job applicants, adopt standards and procedures to ensure the Group’s integrity, and monitor their implementation.

To prevent problems, we develop training programs for employees on anti-corruption standards and regulations, and monitor the efficiency of the measures taken.

A digital memo for employees on compliance with the anti-corruption principles is circulated quarterly. Detsky Mir holds training workshops on anti-corruption procedure compliance both in person and via teleconference, including with the involvement of external consultants.

The legal department employees consult personnel and counterparties on the use of anti-corruption documents adopted by Detsky Mir.

Existing documents are updated and new anti-corruption documents are introduced as needed.

Key Regulations on Anti-Corruption Processes:

- Anti-Corruption Policy
- Code of Ethics
- Policy on Managing Conflicts of Interest
- Anti-Fraud Policy
- Procurement Policy
- Policy on Material, Technical, and Information Support to Employees
- Information Security Policy
- Procedures for Procurement of Goods, Works, and Services
- Anti-Corruption Concept

In order to enhance the efficiency of risk prevention, counteract abuse, identify possible instances of corruption, fraud or other violations in the operations of PJSC Detsky Mir and its non-public subsidiaries in a timely manner, the “Workforce Watch” corporate whistleblowing program has been developed and launched at <http://corp.detmir.ru/about/the-staff-warned>

Channels and means (anonymous) of notification:

- Email address: report@detmir.ru
- Telephone: +7 495 781 0830 (voicemail) or +7 800 250 0000 using the key phrase “Workforce Watch”
- Letter: 3 Nizhnelikhoborskiy Proezd, Bld. 6, Moscow, 127238, Russia for the attention of Head of the Legal Department, and/or Head of the Internal Control and Audit Department, and/or Head of the Corporate Security Department marked “Confidential – “Workforce Watch”

KPMG analysed PJSC Detsky Mir’s anti-corruption system in 2018.

During the year, Detsky Mir implemented several initiatives aimed at developing the anti-corruption system.

1. The following documents were updated:

- Code of Ethics
- Policy on Managing Conflicts of Interest
- PJSC Detsky Mir’s Investment Policy
- Procedures for Investment Policy
- Procedures for Submitting and Reviewing Projects at the Finance and Investment Committee Meetings
- Procedures for Investing in PJSC Detsky Mir
- Policy on Material, Technical, and Information Support to Employees
- Regulations on Charitable Activities
- Procedures for Personnel Recruitment

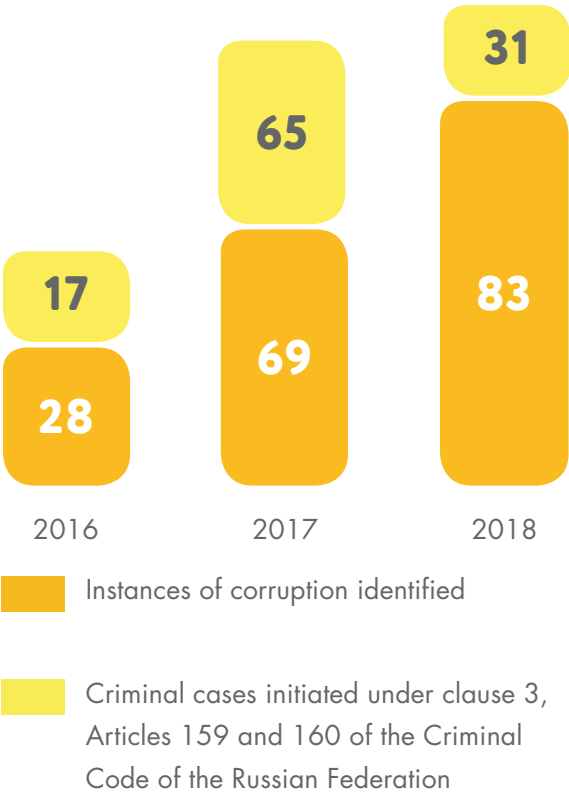
2. The Procedures for Personnel Security and the Anti-Fraud Policy were amended pursuant to the relevant Order.

3. Anti-corruption documents were monitored.

4. PJSC Detsky Mir’s business process assessment system, the so-called anti-corruption risk map, was updated (risk map modification).

On behalf of Detsky Mir, its Legal Department took part in the all-Russian event aligned with the International Anti-Corruption Day, organized by the Chamber of Commerce and Industry of the Russian Federation.

Its of Corruption Identification Initiatives





2.5. Risk Management

Detsky Mir’s risk management policy is aimed at building up a comprehensive system that helps promptly identify risks, assess their materiality, and take measures to minimize both likelihood of risks being realized and losses they can lead to.

Risk control is carried out across all management levels and functions. Risk management functions are distributed among the Board of Directors, the Management Board, the Risk Committee, and business units of PJSC Detsky Mir. Detsky Mir has in place a separate position of Risk Manager responsible for:

- overall coordination of risk management processes
- development of guidelines to ensure risk management process
- analysis of Detsky Mir’s risk portfolio and development of proposals on the response strategy and resource re-distribution to manage relevant risks
- preparation of consolidated risk reports
- day-to-day control over risk management processes in Detsky Mir’s business units
- preparation of materials and notification of Detsky Mir’s Board of Directors and executive bodies on the efficiency of the risk management process.

As part of its risk management policy, Detsky Mir identifies, assesses, monitors, and prevents actual and possible threats in order to mitigate their likelihood and potential impact on the Company’s operations. Key methods of risk management:

- Elimination of risky investments
- Rejection of unreliable partners and customers
- Insurance
- Financial planning
- Compliance with, and adherence to, applicable standards
- Coordination and alignment of management programs and processes contributing to Detsky Mir’s development

Detsky Mir Group’s policy on risk management is based on the assumption that Russia’s emerging market is exposed to significant risks in comparison with the markets of developed economies, including material economic, regulatory, tax, political, and social risks. Investors operating in Russia’s emerging market should be aware that it is exposed to more significant risks than the markets of developed economies, in particular, to material economic, regulatory, tax, political, and social risks. Investors should also bear in mind that the emerging economy of the Russian Federation undergoes rapid changes.

Key Risks

Risks	Detsky Mir’s Approach to Risk Management
Industry Risks	
Insufficient supply of high-quality selling space suitable for retail development could restrain the rapid growth of the retail chain while increasing rental rates may put pressure on the profitability of the retail business.	The Detsky Mir retail chain development plans imply both leased areas in shopping centers and stand-alone facilities. Detsky Mir regularly monitors the retail real estate market environment. According to current forecasts, restrictions on the volume of commissioned selling space are not expected.
Insufficient development of the transport infrastructure in Russian regions may create obstacles for regional development and subsequent chain store management due to increasing logistics costs.	To eliminate the negative impact of this risk on the Group’s business, Detsky Mir takes measures to increase the efficiency of logistics. These measures include boosting the operating capacity of the existing distribution centers, increasing logistics centralization, and considering options for building new warehouse facilities in Russian regions.
The unfavorable demographic situation reflected in declining birth rates in a number of Russian regions may lead to decreasing demand for children’s goods and, as a result, declining sales volume.	In order to counterbalance this risk, Detsky Mir pursues the strategy focused on the best price in the market and a wide assortment (including an expanded range of exclusive goods and private label development), which helps attract additional traffic from other retail chains while offsetting the negative impact of weak macroeconomic and social metrics in the country.
Growing competition in the children’s goods retail, including the development of modern retail formats, the emergence of new market players, and the consolidation of retail operators may lead to changes in pricing and marketing policy, a decrease in operating profit, and market share reduction.	Detsky Mir constantly monitors the market environment and analyzes its competitors’ activities – both specialized stores selling children’s goods and food retailers. Based on the data received, we adjust our commercial policy and revise store formats. Moreover, we are actively developing the omnichannel business model. In the future, the introduction of new formats will enhance Detsky Mir’s competitive edge and allow the chain to compete successfully in the market.
Changes in the price of goods purchased by Detsky Mir for resale may have an adverse effect on the Company’s operations. This factor will have a similar effect on all market players, both in the domestic and international markets.	Short-term price fluctuations should not affect Detsky Mir’s activities significantly as the Company generates sufficient reserves to reduce its dependence on short-term price fluctuations. Detsky Mir has a significant advantage to its competitors due to high purchase volumes. Procurement is mostly centralized, allowing for significant discounts from suppliers, which are not available to other market players. Private label development and switching to direct contracts enables us to offer our customers popular children’s goods at the best prices in the market, while maintaining high sales margins.



Risks	Detsky Mir’s Approach to Risk Management
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Country and Regional Risks

Deteriorating economic situation in Russia and Kazakhstan may lead to a slowdown in per capita income growth, and eventually may have a negative impact on the sales of children’s goods in Detsky Mir stores.	<p>To timely prevent this risk, Detsky Mir monitors the market on a weekly basis, analyzes LFL sales by region and federal district, and, on a yearly basis, makes up a special anti-crisis budget providing for a possible drop in consumer demand.</p> <p>At the same time, the experience of the crises in 2008, and from 2015 to 2016 shows that the children’s goods market is less sensitive to unfavorable macroeconomic environment than other non-food retail sectors, since children’s goods are an integral part of the family budget and, accordingly, are not the first item of cost reduction when disposable household income falls.</p>
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Financial Risks

Maintenance and refinancing of Detsky Mir’s debt require cash. The Company has outstanding debt, mainly represented by bank loans and bonds.	Early repayment of tranches with an increased rate. Most loan agreements do not provide for penalties for early termination.
<p>A significant portion of Detsky Mir’s debt portfolio consists of loans raised at a fixed interest rate, but the recurrence of the increase in the Central Bank’s key rate, which was observed throughout 2014, can have a direct impact on the interest rate dynamics in the market.</p> <p>In the event of a worsening macroeconomic environment and increasing interest rates, Detsky Mir may incur additional debt servicing costs, which may entail a decrease in its net profit and total cash flow.</p>	
The devaluation of the ruble may lead to a decrease in Detsky Mir’s profitability.	The Company signs forward contracts with a fixed rate for a period of three to six months to hedge the risk of the ruble devaluation.
A portion of procured goods (about 27%) is denominated in US dollars, euros, and/or other foreign currency, while Detsky Mir’s income is denominated in rubles.	
Thus, the devaluation of the ruble may have a negative impact on Detsky Mir’s performance.	

Risks	Detsky Mir’s Approach to Risk Management
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<p>Inflation may have a negative impact on Detsky Mir’s performance and cause an increase in expenses which are sensitive to the growth of the overall price level in Russia, for example, payroll expenses, transportation expenses, etc.</p> <p>High growth rate of advertising costs may lead to an increase in Detsky Mir’s marketing expenses to maintain competitive edge. In the context of growing competition, the impossibility of raising prices to maintain operational profitability in case of increasing costs may have material negative impact on Detsky Mir’s performance.</p>	<p>We are the largest player in the children’s goods market, which allows us to get the most attractive purchase prices offers from manufacturers. Thus, in the event of a price increase, we will offer goods to our customers at the best price in the market.</p> <p>In our opinion, the inflation values at which we may face difficulties meeting our obligations are significantly above the value set in the Russian federal budget for the current year (the inflation of about 35–40% per year can be deemed critical). If actual inflation is significantly above the forecasts of the Russian Government, and inflation becomes critical, Detsky Mir plans to take necessary measures to cap expenses and reduce receivables.</p>
<p>A banking crisis may significantly limit Detsky Mir’s liquidity. In Russia, crises have led to a decrease in liquidity and an increase in the debt financing cost.</p> <p>Borrowers have experienced a reduction in available financing both in the interbank and short-term borrowed funds markets, and in the long-term capital market and the market for bank financial instruments. Banking crisis, bankruptcy or financial insolvency of the banks from which Detsky Mir receives borrowed funds may have significant negative consequences for our business, performance, and financial position.</p>	<p>Diversification of banks (getting additional credit limits) and credit instruments.</p>
Reputational Risk	
<p>Detsky Mir has a reputation of the leader in the children’s goods market. According to polls, Detsky Mir brand awareness is close to 100%. Detsky Mir’s image and its perception by the population play a huge role in the children’s goods sector.</p> <p>Baby food, diapers, baby care products, and other similar goods are normally purchased only in reputable retail chains with an established reputation in the market.</p> <p>The loss of business reputation may adversely affect Detsky Mir’s financial performance, as it directly affects customer traffic in our stores.</p>	<p>In Detsky Mir Group, the safety and goods quality control is carried out throughout the entire lifecycle: from sourcing and ordering to shelving and getting feedback from customers.</p> <p>To reduce possible risks from unreliable suppliers, manufacturers were required to tighten product quality control. In case of serious complaints about product quality and safety, the entire batch is returned to the supplier and cooperation is terminated.</p>



Risks	Detsky Mir's Approach to Risk Management
Strategic Risk	
Potential limited growth after the saturation of the children's goods market by 2027 and the achievement of the children's goods consumption level on par with developed economies. In this case, the development of the retail chain may slow down, and Detsky Mir will have to explore new niches and markets for growth and development.	Expansion to new markets in terms of category (for example, the market for pet supplies) and geographical expansion in the CIS and Eastern Europe.

2.6. Dividends

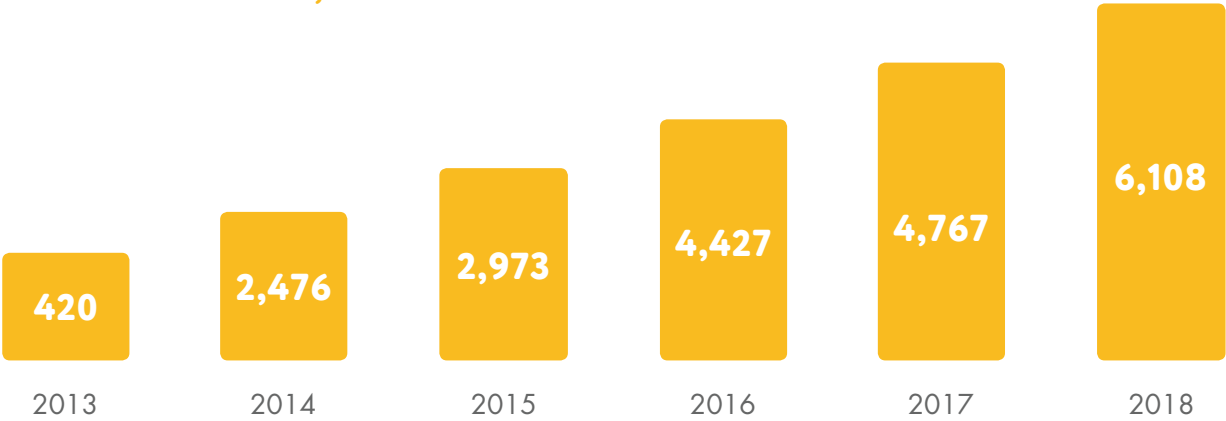
PJSC Detsky Mir's Board of Directors and top management are aware that consistent dividends are an integral part of our investment appeal and shareholder value.

Detsky Mir has in place a Dividend Policy developed and approved by the Board of Directors, which sets out clear indications of financial (economic) circumstances under which the Company should / should not pay dividends.

The decision on the dividend payout (including the dividend amount and payout procedure) is made by PJSC Detsky Mir's General Meeting of Shareholders based on the Board of Directors' recommendations.

The Dividend Policy envisages the dividend payout ratio of not less than 50% of the consolidated IFRS net profit for the previous year. Historically, Detsky Mir paid up to 100% of its RAS net profit. Dividends are usually paid twice a year: an interim payment for nine months and then for the full year (the balance due after the interim dividend payout).

Declared Dividends, RUB m ¹⁴



¹⁴ Declared dividends to PJSC Sistema in the amount of RUB 1,143,488,146.68 were paid in February 2018 due to a judicial decision restricting the receipt of income from the issuer's shares held by PJSC Sistema. The shareholding comprised 2,956 shares in 2013.



Sustainable Development

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3.1. Sustainable Development Approach and Cooperation with Stakeholders

Responsible business activity is a basic element of the Company’s strategy, as well as a key to sustainable development and strengthening leading positions in the market of children’s goods and in the field of social responsibility. Issues of responsible business activities are discussed at meetings of the Board of Directors, including strategic areas of development and key performance indicators.



The main goal of Detsky Mir Group in the field of sustainable development and corporate social responsibility is to provide the younger generation with high-quality and healthy products at reasonable prices.

The Company’s corporate social responsibility activities, on the one hand, reflect its core business that is trading children’s goods, on the other hand, are associated with the broad international context of sustainable development and the challenges facing humanity.

Detsky Mir supports the sustainable development agenda adopted by UN member states in September 2015. Of the 17 goals identified, the Company singled out for itself three objectives the achievement of which can make the greatest contribution based on the specific character of its activities: decent work and economic growth (see HR section for more information), responsible consumption and manufacturing (see Environmental Responsibility section for more information), high-quality education.

Toys and creativity products account for the majority of products to be found in Detsky Mir store. The Company is confident that they stimulate the imagination of children, help them to learn about the world and develop to grow

into active members of society with great potential. Children development begins at birth, and the knowledge and skills acquired in early childhood lay the foundation for further education.

By offering parents and children various high-quality goods, the Company contributes to the achievement of this goal. Implementing its charity programs, Detsky Mir helps develop disadvantaged children (children from low-income families, orphanages, etc.) (see Charitable Activities section).

Detsky Mir also pays special attention to the protection of the rights of children in all aspects of their activities.



Support for the Child Rights and Business Principles Initiative of the United Nations Children’s Fund (UNICEF)

Comply with the requirements on compliance with the rights of the child and assume the obligations to protect their rights	The Company supports the UN Convention on the Rights of the Child ratified by the Russian Federation.	—
Promote elimination of child labor in all kinds of business activities and business relations inclusive	The Company does not approve of the use of child labor in any activities.	—
Ensure decent work to young workers, parents and guardians	The HR policy of the Company includes the most significant issues of labor relations, such as workplace safety, decent wages, social guarantees (including parental leave and flexible hours for young mothers).	HR Section



Guarantee protection and safety to children in all types of business activities and at all facilities	The Company takes care of the safety of children when they visit its stores. The new concept of the stores implies an increase in the width of aisles for the convenience of customers, and all interactive zones were developed in cooperation with the leading global manufacturers and meet all safety requirements.	—
Guarantee the safety of products and services and also aim to protect them with the help of the child's right	Safety and quality of children's products are of priority for the Company. All products have the appropriate certificates. Safety control and quality of goods is carried out at all stages of their life cycle.	Goods Safety Section
Use marketing and advertising respecting and protecting the rights of children	The Company is responsible as to its marketing communications which fully comply with all legal requirements and do not violate the rights of the child.	Brand Management and Services Quality Section
Respect and protect the rights of children when using the environment, as well as when purchasing and using land plots	The Company seeks to reduce its impact on the environment, as well as instill understanding of the importance of nature and the need to protect it in children.	Environmental Responsibility Section
Respect and protect the rights of children during measures to ensure safety	The Company respects the rights of children in all security processes as part of its activities.	—
Promote the protection of children who are in emergency situations	As part of its charitable activities, the Company provides support to children in emergency situations.	Charitable Activities Section
Strengthen the efforts of local community and the government to protect and comply with children's rights	A significant part of the Company's activities are charitable and volunteer programs aimed at helping children in difficult life situations. Such programs draw public attention to children's issues.	Charitable Activities Section

Achieving these goals is impossible without developing a dialogue with the key stakeholders which Detsky Mir pays a lot of attention to.

Cooperation with Key Stakeholder

Suppliers

Purchase high-quality goods, create a favorable competitive environment and minimize the risks of supply failure

- Joint projects on assortment planning and merchandising
- Industry conferences
- Supplier exhibitions

Employees

Form their involvement in the core business of the Group of Companies so that they make innovative proposals to improve its internal processes and increase the level of customer service

- Assessment of professional knowledge
- Intranet portal
- Webtutor Training Portal
- Study of the involvement level
- Hotline

Consumers

Understand their preferences and expectations regarding the further development of the Group of Companies

- Satisfaction studies
- Consumers focus groups
- Feedback system
- Sending information about promotions and special offers via SMS and e-mail

Industry organizations

Share experiences with experts and understand market development prospects.

- Industry conferences
- Round tables

Local communities

Promote the improvement of the standard of living in the regions and the availability of the Company's products for children and their parents

- Corporate volunteering programs



3. 2. CSR Strategy

Logical continuation of the active socially responsible activities of the Company was the development and adoption of the Corporate Social Responsibility Strategy by Detsky Mir Group in 2016.

This document will be fundamental in the development of the Company’s social activity in the coming years. The CSR strategy involves an increase in the scope of charitable activities and the involvement of more employees in volunteer programs.

This document will be fundamental in the development of the Company’s social activity in the coming years. The CSR strategy involves an increase in the scope of charitable activities and the involvement of more employees in volunteer programs.

The following principles underlie the CSR Strategy:

- Openness of social programs and mechanisms to be implemented, implying the inadmissibility of information concealing or falsifying.
- Interaction with stakeholders: dialogue, social programs recipients’ feedback.
- Consistency:
 - Consistency, responsibility for current and past activities, as well as for the future impact of activities on the environment;
 - Regularity, long term;
 - Integration of CSR principles into all management processes.
- Significance, urgency and relevance of projects. Large scale, considerable reach. Regular evaluation of program effectiveness.
- Avoidance of conflict of interests, renunciation of political engagement, of the support of individual denominations, nationalist movements.

Priority Areas of CSR of Detsky Mir Group

Basic Indicators	Comments
Corporate citizen responsibility	
Contribution to economic development of the country	Revenue made RUB 110.9 billion in 2018. Tax liabilities amounted to RUB 4.4 billion in 2018.
Tax liabilities	The number of jobs created amounted to 5.5 thousand in 2016-2018.
Job creation	Projects on the separate collection of cardboard, eco-bags, energy-saving lighting.
Minimization of harmful environmental impact	For more details, see sections Financial Review, HR, Environmental Responsibility
Responsibility to Business Partners and Customers	
Fair business practice	Transparency of ownership structure, financial and operational indicators, structure of the Board of Directors.
Professional standards	Goods quality control and “Hot Line” for consumers.
Public reporting subject to international standards	Establishment and participation in the work of the Association of children’s goods industry: opposition to counterfeit products, uncivilized trade.
Compliance with legal and ethical standards	Accession to the Anti-Corruption Charter of the Russian Business.
Compliance with corporate governance standards	Compliance with the legislation on advertising, consumer protection, application of ethical methods of promotion.
	Availability of the Code of Corporate Conduct and the Code of Ethics.
	Disclosure of financial results on a quarterly basis. Issue of the Annual Report.
	Since 2015, an annual audit of the consolidated financial statements has been performed subject to IFRS.
	The Sustainable Development Report is integrated into the Company’s Annual Report.
Employer Responsibility	
Equitable remuneration and motivation	The Company undertakes to comply with the labor laws of the countries of operation, respect human rights and individual freedom, and avoid any form of discrimination and harassment.
Expenses for professional staff development	The Company has established a time-bonus remuneration system, it takes into account not only individual performance, but also the financial performance of the entire Group of Companies or a specific store operations for the year.
Amount of investments in the activities of HR occupational safety and health protection	The cost of labor protection in Detsky Mir, PJSC amounted to RUB 25 million in 2018. For more details, see HR Section.
Social Responsibility (Charity)	
Social and charity projects	The Company takes care of 450 thousand disadvantaged children from 987 social institutions in Russia and Kazakhstan. For more details, see Charitable Activities Section



3.3. HR Policy

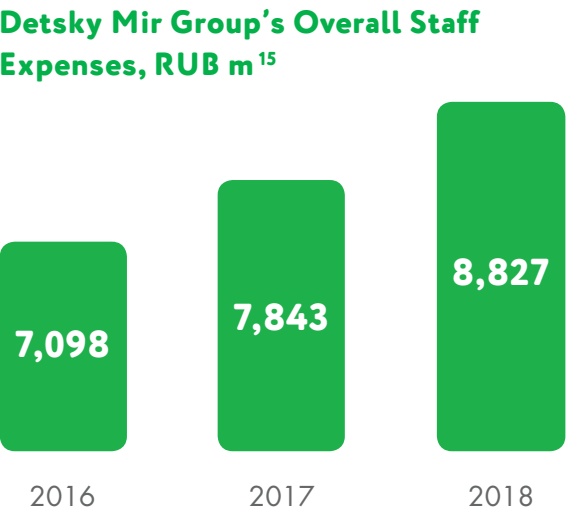
HR Management

Our employees are key to our stability and further growth as a company.

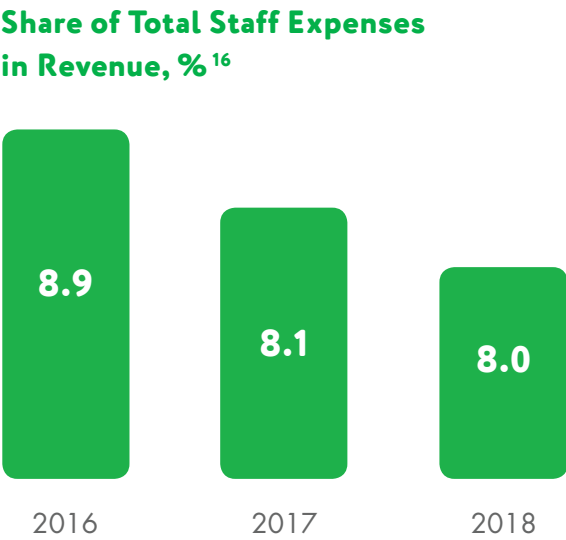
Since its inception, Detsky Mir has been placing a particular focus on HR management. We aim to build a team of professionals who are committed to excelling in their work. All our employees are united by one goal – to make a tangible contribution to Detsky Mir’s development and be useful to its customers.

The number of employees required for the stable and smooth operation of a single Detsky Mir store decreased from 26 people in 2013 to 17 people in 2018. We achieved a boost in productivity by automating our business processes and adopting advanced software, resulting in reduced time and effort per transaction.

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¹⁵ Overall staff expenses include payroll, insurance premiums, training and staffing, healthcare, outsourcing, and other expenses. The total amount of overall expenses is adjusted for bonus payments to the management under our Long-Term Incentive (LTI) plan.



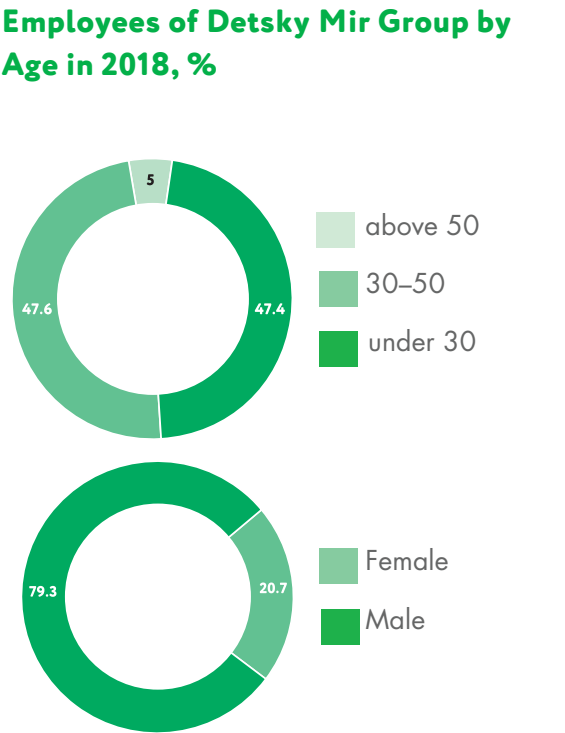
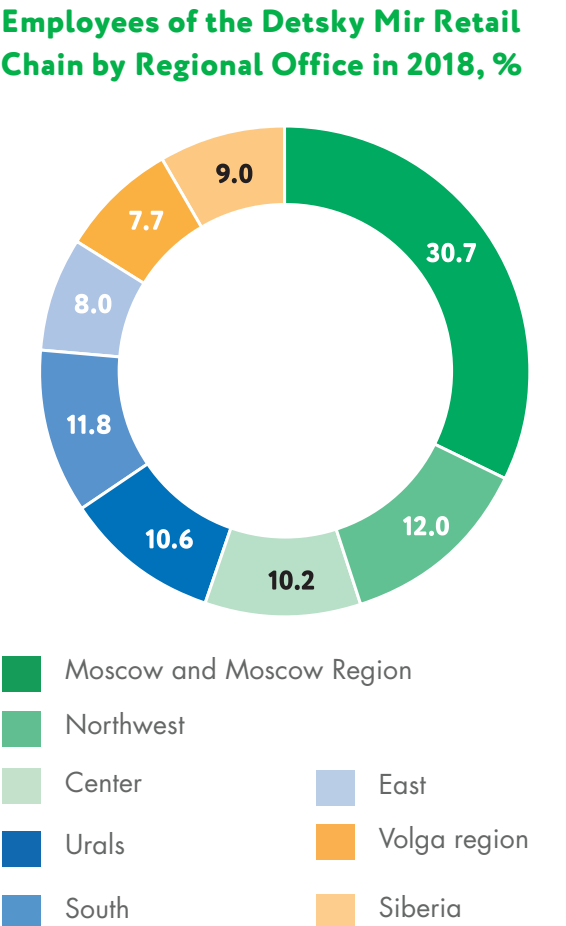
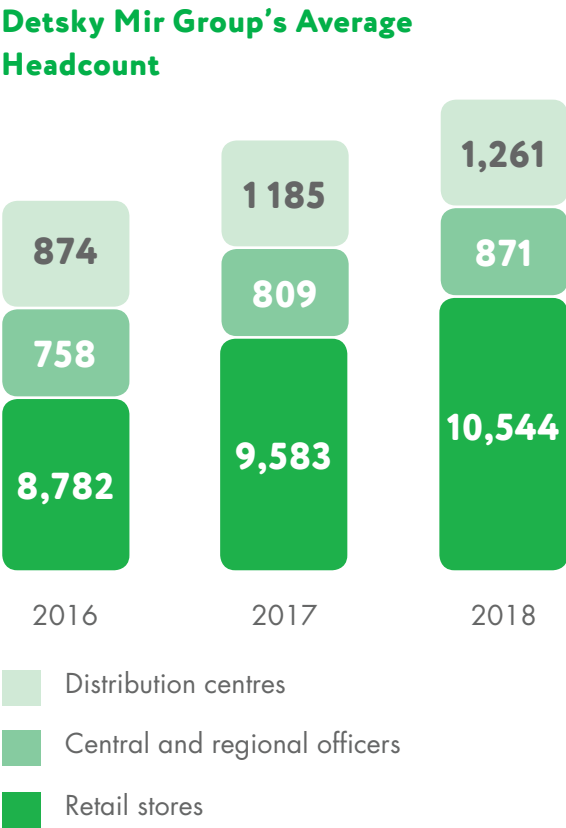
Headcount

The average headcount of Detsky Mir Group in 2018 reached 12,700 people. Our retail chain continues its steady expansion both in Russia and in Kazakhstan each year, and our average headcount grew by 9.5% in 2018. Despite the clear growth in the number of our retail stores, management personnel numbers in our central and regional offices have grown insignificantly.

In 2018, the average age of our employees was 31.8 years. Approximately 95.0% of employees were aged under 50, with women accounting for about three quarters of the total workforce.

They are all accomplished professionals at the peak of their career, committed to doing their work responsibly.

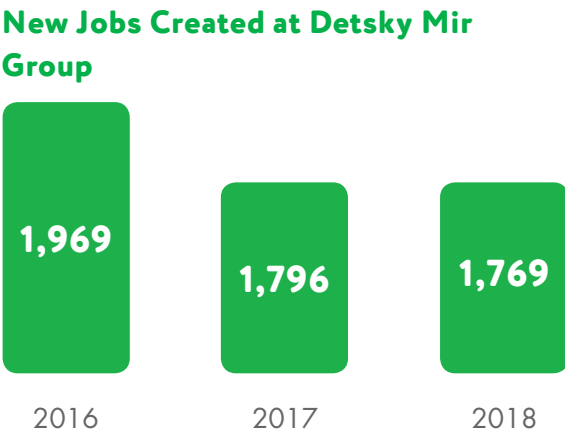
¹⁶ The total amount of overall expenses is adjusted for bonus payments to the management under our Long-Term Incentive (LTI) plan.



Incentives and Remuneration

Ensuring a high level of motivation and decent pay for employees is the most important aspect of our HR policy.

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Between 2016 and 2018 Detsky Mir Group in Russia created more than 5,500 new jobs.



We have a mixed time-based and performance-based remuneration system. All employees are paid a base salary as per their employment contracts, as well as additional bonuses for combining positions, working overtime and/or at night, on weekends, or on holidays. Our remuneration system reflects not only each employee’s individual performance, but also the financial performance of the entire Company for the full year.

We systematically benchmark our employee remuneration against the labor market and revise the remuneration system and income targets on a regular basis.

A quarterly or annual bonus is available to central office employees, the size of which depends on personal performance against financial and functional KPIs.

Our remuneration system aims to engage employees in achieving Detsky Mir’s goals. An important part of motivating our people is the availability of clear, specific goals for each reporting period and the Company’s willingness to reward the team for contributing to the achievement of the overall result.

Each category of employees has their own incentives reflecting their job profiles based on a number of various key performance indicators (KPIs). The KPI set may vary depending on the employee category. The Company applies both financial and functional KPIs (project activities, supervisor’s assessment, (lack of) disciplinary issues).

136 **Annual Remuneration of Management at Detsky Mir Group**

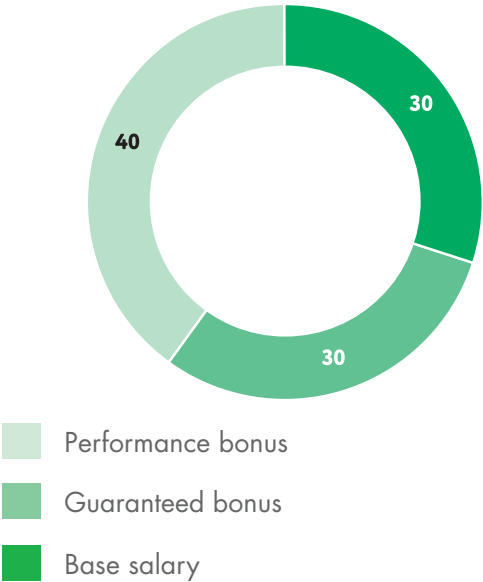
	CEO	CEO-1	CEO-2
Fixed	50%	50%–80%	70%–85%
Variable			
Total	25%	20%–50%	15%–30%
including Financial KPIs ¹⁷	25%	4%–15%	3%–9%
including Functional KPIs ¹⁸	25%	14%–40%	10.5%–24%

Retail chain employees are eligible for a monthly performance bonus set as a percentage of the store’s actual sales. The size of the performance bonus payable to the administrative and managerial staff of the store also reflects their performance against KPIs. Experienced employees coaching new recruits on the basic skills of the job are paid an additional bonus for mentoring.

In 2018, we continued to improve upon how we motivate retail staff to increase their productivity and

¹⁷ Financial KPIs: EBITDA, net profit, revenue.
¹⁸ Functional KPIs: role-specific operational KPIs.

Remuneration of Retail Staff at Detsky Mir, %



perform against targets. The KPIs for some roles were revised and motivational contests were held.

To support Detsky Mir’s omnichannel growth strategy, the Online Order Manager position and corresponding KPIs were introduced at retail stores.

We improved our approaches to store staffing and adopted a new flexible time management system.

The HR management system was redesigned and rolled out across Zoozavr stores after the new pet supplies business segment had been launched.

We review remuneration levels annually, based on the market average and individual performance of each employee.

We have two Long-Term Incentive plans for our key employees (21 in total, including the CEO), both of which aim to increase Detsky Mir’s market capitalization (see the Remuneration section for more details).

Social Guarantees

Our sophisticated corporate benefits system remains a key motivator. Alongside free corporate training, we provide our employees a number of benefits:

- A discount in our retail stores and corporate discounts offered by our partners from the very first day of employment at Detsky Mir
- Free rides home by company transport or to convenient public transit nodes for those working at stores which close at 11 p.m. and are located far from public transport stops
- Corporate shuttles to work as well as free meals at the logistics center for warehouse employees
- Various events for employees’ children
- Access to corporate mobile services for business purposes
- Opportunities to undertake full-time classroom trainings or distance education courses
- Membership in our voluntary health insurance (VHI) program following six months of service at Detsky Mir for all employees of the central and regional offices, store directors, and warehouse managers

Our effective cost management system has allowed us to reduce the cost of VHI while increasing the number of employees participating in the program.

Our policy also provides financial assistance to employees who are in a difficult life situation.

Corporate Culture

We make great efforts to ensure that employees of the central office, retail stores, and warehouse feel like a single team working towards common goals.

To support the team spirit among our



employees, we regularly hold sports, volunteering, and charitable events, as well as corporate cleanup days and the Labor Landing initiative. We also celebrate national, corporate, and personal holidays within our teams.

We promote a healthy lifestyle among our employees, including through sports events such as the annual sports competition organized by PJSFC Sistema, and offer professional training opportunities to employees participating in industry and cross-sectoral sports events. We also lease training rooms for them and provide players with team uniforms. Our employees can take advantage of corporate benefits and discounts at major fitness centers.

Twice a year (on the eve of 1 September and the New Year), we hold our Labor Landing initiative, where all employees of the central office – from CEO to ordinary managers – work for one day at a Detsky Mir retail store as a sales assistant or a warehouse operator. The initiative provides office employees an opportunity to see the actual operation of a Detsky Mir store from within, assess the real workload on personnel, identify bottlenecks in existing business processes and offer solutions to remove them, as well as assess the effectiveness of innovations. Throughout the workday, store employees also have an opportunity to informally communicate with management and share their concerns.

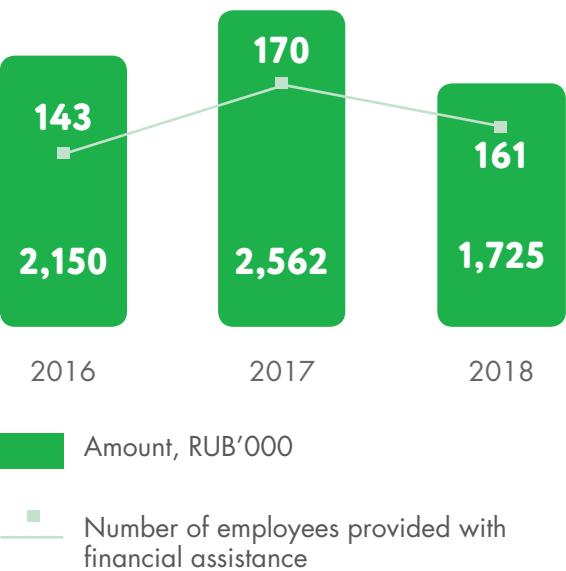
Our New Year corporate event for central office employees and heads of regional offices includes an awards ceremony for employees who made an outstanding contribution to the success of our business.

Voluntary Health Insurance at Detsky Mir Group¹⁹



We have an effective corporate-wide hotline, "WORKFORCE WATCH" that can be used by any Detsky Mir employee, customer, counterparty, or partner to ask a question or raise a concern. See the Anti-Corruption Efforts section for more details.

Financial Assistance Provided to Detsky Mir Group Employees



¹⁹ No VHI is offered at LLP Detsky Mir – Kazakhstan as it is not provided for by the legislation of the Republic of Kazakhstan.

The "Co-Financing" program at Detsky Mir enables each employee to donate a part of his or her salary to our Charitable Foundation. The proceeds are used to help the underprivileged children of employees who are in a difficult life situation (see the Charitable Activities section for more details).

Training and Development

We are convinced that Detsky Mir's strategic goals can be achieved through the personal contribution of each employee. Our investment in human capital is driving ongoing improvements in the Group's financial performance.

One of our achievements in the training and development of our people is our system of continuous training which heavily relies on distance learning. We pay special attention to building core skills and upskilling for our retail employees, which is key to improving service level and driving sales growth.

We organize regular, free-of-charge upskilling courses for each category of our retail employees based on a compulsory training matrix. The matrix includes training courses both on technical skills for frontline employees (such as SAP. Stock Movement) and managerial skills improvement for administrative staff (such as "Basic Manager Skills" and "Staff Recruitment and Development").

The training center, which is the Group's structural unit, provides training and professional development for retail store employees and territory managers. Central office employees are trained on different topics by external service providers. Training is provided in line with individual development plans or upon request of heads of functional units, and guarantees a high level of additional professional education.

Types of training provided for central office staff:

- Short-term training (one-day or two-day courses)
- Short-term refresher courses on specific subjects such as finance, law, IT, and personnel management

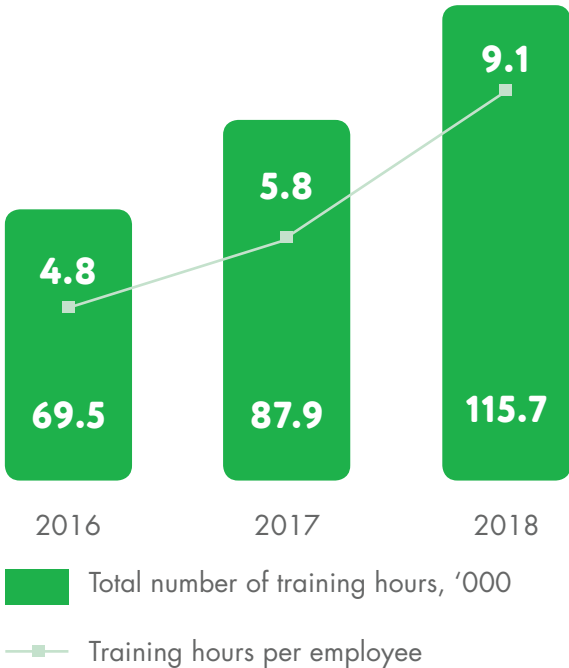
Our continuous training of employees and regular assessment of their professional knowledge are in line with our employee categorization concept (in effect since 2014).

The proportion of employees who have received training (percentage of training) is a significant performance metric for stores, regional offices, or the Company in general.

Employee Performance Assessments

We see individual performance as an important tool for promoting our corporate culture and enhancing our business processes.

Number of Training Hours for Detsky Mir Group Employees





We assess the professional knowledge of our retail employees twice a year. Based on the assessment results, an employee is assigned one of two categories:

- “Specialist” — after passing the professional knowledge assessment
- “Expert” — for reaching target KPIs and outstanding results in the professional knowledge assessment

“Expert” employees are prioritized for inclusion in Detsky Mir’s talent pool and further consideration as candidates to fill vacant managerial positions in retail. Central office employees undergo an annual performance assessment against their approved KPIs.

Occupational Health

Occupational health and safety is a point of great focus for Detsky Mir Group. Comfortable and safe working conditions are a key factor affecting the recruitment and retention of skilled employees. The occupational health system at Detsky Mir is fully in line with the applicable legislation of Russia and Kazakhstan.

Managers and specialists responsible for occupational health are appointed by the CEO after completing a 40-hour training program. The training is mainly provided in-house at the licensed Training Center of PJSC Detsky Mir.

In line with labor legislation requirements, all our employees are given an occupational health and safety briefing when first hired and then on an ongoing basis. Warehouse operators are additionally trained in electrical safety. Occupational health briefings are held not only for Detsky Mir employees, but also for our contractors’ staff.

Training Hours for Detsky Mir Group Employees

	2016	2017	2018
Training hours by gender			
Men	8,402	13,607	18,271
Women	61,138	77,638	97,399
Training hours by employee category			
Sales staff	68,880	90,403	112,680
Office staff	660	842	2,990

Number of Promotions in 2018

Promotions	Russia	Kazakhstan
From sales assistant/ cashier to Deputy Store Manager	501	21
From Deputy Store Manager to Store Manager	129	10
From Store Manager to Territory Manager	18	1
From Sales Manager to Senior Sales Manager	—	12

Employees Responsible for Occupational Health

- Central office**
Heads of structural units and departments
- Retail**
Store directors and their deputies
- Warehouse**
Shift leaders
Warehouse heads and their deputies

The duties of those responsible for occupational safety include, among other things, performing audits to identify potential breaches.

Compliance with occupational health requirements at our retail stores is monitored as part of comprehensive audits for compliance with the Group’s standards, which include a section on occupational health. Retail chain audits are supervised by territory managers in line with the approved schedule and without prior notice to store management. If any breaches are identified, recommendations are made to remedy them, with a follow-up audit later conducted.

Even though the nature of our activities is not associated with any hazardous technology, we do make efforts to minimize the potential risk of employee injury or occupational disease.

Key measures and initiatives minimizing injury rates at offices, retail stores, and warehouses:

- Special assessments of working conditions – workplaces are assessed by independent accredited organizations for class 2.0 working conditions (acceptable working conditions); at the end of 2017, Detsky Mir conducted a special assessment of the working conditions at 100% of its workplaces
- Introductory, primary, and refresher (at least twice a year) training on occupational, fire, and electrical safety
- Scheduled training and retraining of heads of departments and responsible employees under the in-house Occupational Health and Safety program at the corporate Training Center, involving specialized training centers and state labor inspectors where necessary
- Commissions set up to examine employees for their knowledge of occupational safety requirements

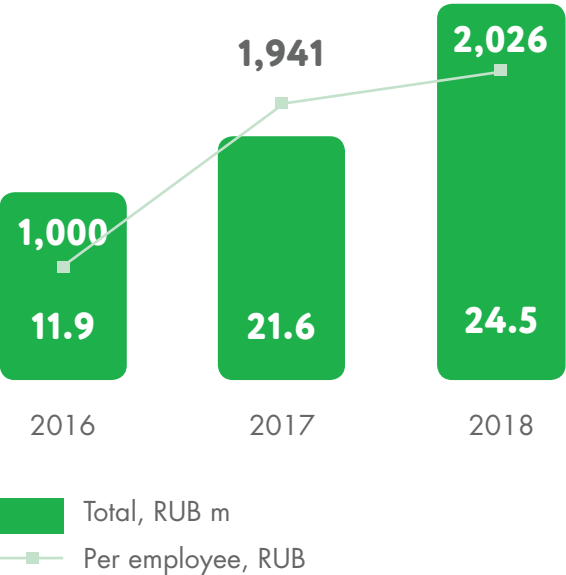
- Monitoring of compliance with the Internal Rules of Conduct and Fire Safety
- Drafting occupational safety regulations, guidelines, instructions, and programs for structural units and departments of the Company. All related documents are published on the corporate portal for use by employees in their work

During the year, these measures helped us prevent the occurrence of occupational diseases and maintain the injury rate at Detsky Mir Group at a sufficiently low level.

Total occupational health expenses in 2018:

- PJSC Detsky Mir – RUB 24.5 million; RUB 2,026 per employee
- LLC Kub-Market – RUB 386.4 thousand, or RUB 1,868 per employee
- Detsky Mir Kazakhstan – RUB 37.0 thousand; RUB 94,28 per employee

Occupational Health Expenses at PJSC Detsky Mir





3.4. Charitable Activities

Detsky Mir Group sees its social responsibility to society in having a positive impact on the quality of life of children, including those in difficult life situations.

By implementing social and charitable projects, the Company seeks to improve living conditions in children’s social institutions, increase the level of socialization and realize the creative potential of young Russians.

Detsky Mir also invites its employees to help implement these projects, thereby increasing their involvement. Increase in the level of corporate volunteering is one of the Company’s objectives in the framework of implementing the CSR Strategy (for more details, see the CSR Strategy Section).

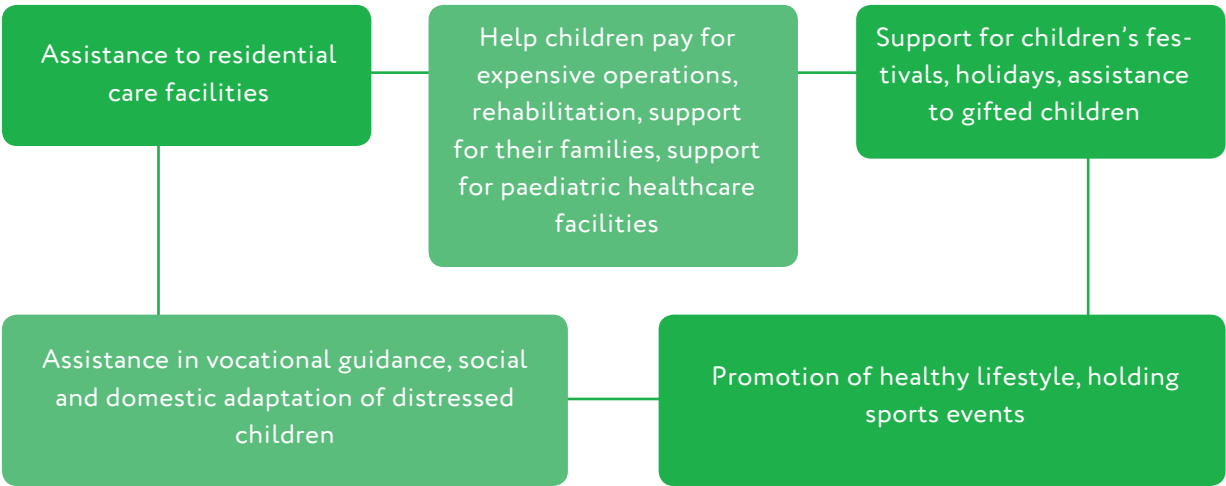
The goals of the charitable activities of Detsky Mir Group:

- Promoting spiritual development of the personality, strengthening the prestige and the role of family in society;
- Promoting protection of childhood, motherhood and fatherhood;
- Promotion of activities as to diseases prevention and healthcare for children and citizens;
- Promotion of sports and healthy lifestyle;
- Promotion of activities in the field of education, science, culture, art, education;
- Promotion of social support to low-income families with children, social rehabilitation of children and adults with disabilities;
- Promoting prevention of social orphanhood, promoting foster placement of children left without parental care;
- Promotion of socialization of graduates of residential care facilities in order to ensure their economic independence, personal and professional self-determination, including through vocational guidance activities in the field of competitive professions.

Charity Fund

The social activity of Detsky Mir Group is implemented by the Detsky Mir Charity Fund (www.bfdetmir.ru) established in 2004 and operating in accordance with the Articles of Association and the Charity Policy of Detsky Mir, PJSC.

Priority Charity Areas

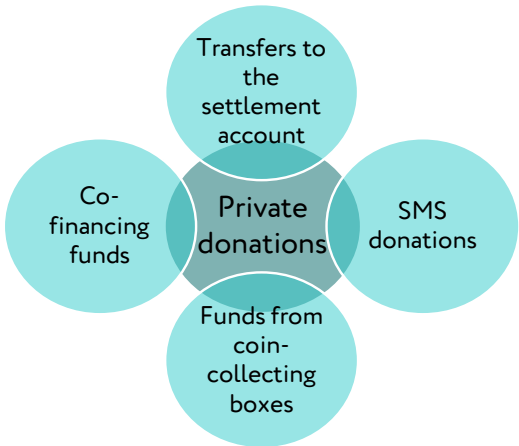


Detsky Mir Group takes care of more than 450 thousand disadvantaged children from 987 social institutions in Russia and Kazakhstan.

Forms of Charitable Activities:

- Charity events: “Participate!”, New Year and other events;
- Social programs: “Together We Can Do More”, “Our Children”, “Art without Borders”;
- Volunteer activities: Volunteer Puppet Theater, arranging charitable volunteer clean-ups and fairs, public events.

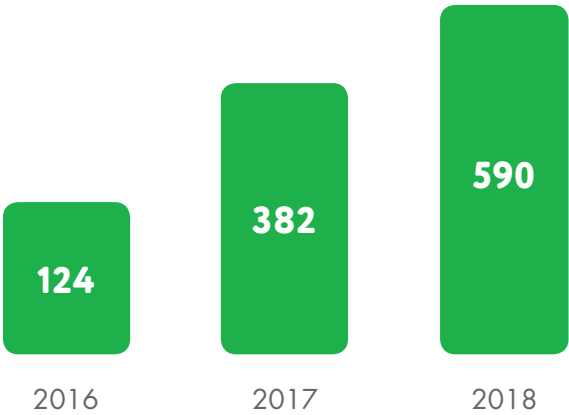
Sources of Private Donations



Sources for charitable activities financing are the funds allocated from the Company’s budget, as well as voluntary donations received by Detsky Mir Charity Fund.

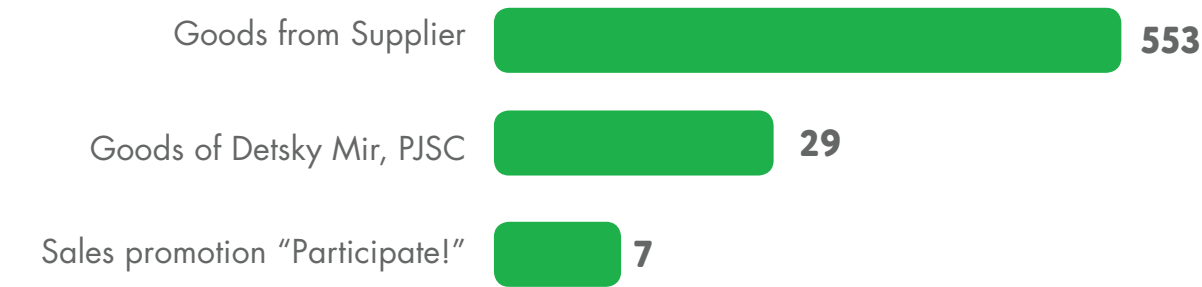
The total amount of goods received by Detsky Mir Charity Fund in the form of donations in monetary terms in 2018 amounted to RUB 590 million. At the same time, Detsky Mir Charity Fund received donations worth RUB 40 million, half of which were made by Detsky Mir, PJSC. In total, the fund spent RUB 630 million on charity events and rendering assistance in 2018.

The Total Amount of Goods Received by Detsky Mir Charity Fund in the Form of Donations, RUB m





The structure of Donations in Commodity Terms in 2018, RUB m



Charity Event "Participate!"

The purpose of the event is to collect gifts for orphans and children left without parental care, living in social institutions; children from low-income families; children with disabilities.

The Company has been holding events to collect gifts for disadvantaged children for more than 14 years. Since 2017, Detsky Mir Charity Fund has been organizing "Participate!" event throughout the year. When you make purchases in any Detsky Mir store, you may render support to at-risk children as well.

To take part in the event, you shall put a gift in a special portacot located next to the box of- fice. Such gifts may be toys, play sets, clothing, footwear, stationery, goods for outdoor activi- ties, etc.

You can help children not only by leaving gifts, but also by sending a donation via SMS to the

short number 7715 with the text "Participation" and indicating the amount.

"Charity Instead of Gifts" Campaign

Since 2013, Detsky Mir GC employees have been offering their partners to make a dona- tion to the Fund for disadvantaged children on the eve of New Year's holidays instead of traditional corporate souvenirs.

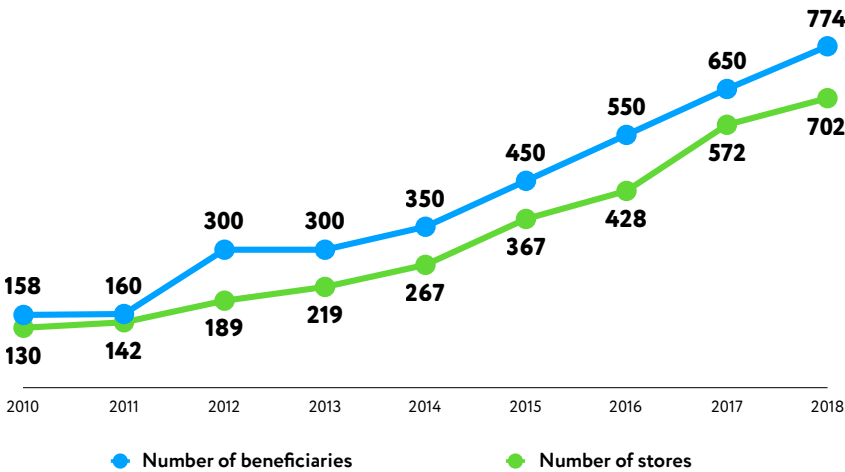
In 2018, more than 30 partners supported the Company's call. The partners donated not only money but also toys, clothes, car seats, home appliances, hygiene products, station- ary products, books, makeup, creativity sets, bed linen and dishes.

This year, 280 cities of Russia and Kazakhstan have taken part in the campaign. More than 9.6 million gifts amounting to RUB 553 million have been collected and transferred.

Key Results of "Participate!" Event

	2015	2016	2017	2018
number of stores participating in the campaign	367	428	572	702
number of beneficiaries	450	550	650	774
cost of gifts collected in the scope of the campaign, RUB mln.	85	112	352	553

Dynamics of Joining "Participate!" Campaign



"Together We Can Do More" Program

The program is aimed at financial and organi- zational support for low-income families with children, as well as children from residential care facilities.

Forms of assistance:

- Targeted assistance to families with children,
- Arranging playrooms in healthcare and social institutions.

"Our Children" Project

The project is aimed at providing targeted assis- tance to low-income families with disabled chil- dren, orphans and children left without parental care.

The Company has the "Co-financing" program, subject to which each employee can transfer a part of his/her salary to the Company's Charity Fund for the treatment of seriously ill children. In 2018, 280 people took part in the "Our Children" Project. As part of the "Co- financing" program, RUB 2.6 million was received from employees of Detsky Mir Group. In general, the project provided assistance to 45 children for a total amount of RUB 10.8 million in 2018. Detsky Mir spent RUB 5 million for the implementation of "Our Children" Project.

"Toys Campaign" Project

Since 2013, Detsky Mir Charity Fund has been implementing the "Toys Campaign" Project to organize children's playrooms in healthcare facilities. Its goal is to make children feel com- fortable in the hospitals and thus speed up the recovery process.

Humanitarian Aid

Detsky Mir Group Charity Fund sent assistance for disadvantaged children to the Vladimir Region in February 2018 and to the Smolensk Region in August 2018.

The humanitarian "package" includes toys, clothes, shoes, strollers, car seats, beds, baby food, hygiene products and much more. The total amount of aid transferred is five trucks and is estimated as almost RUB 22.6 million.

Humanitarian "packages" were delivered by Detsky Mir Fund to the distressed families of Vladimir and Smolensk Regions.



Waiting for youngest patients in their new playrooms were dolls, strollers, designer sets, cars, brain games, role-playing game sets and much more. A bit older children can enjoy sports games: table football, air hockey, and bowling. The collection of donated items also includes books on musical instruments, developing speech, memory, thinking and attention skills, dictionaries on different topics.

In 2018, Detsky Mir opened 110 playrooms in 38 medical and social institutions of the country. New playrooms appeared in 34 cities across the country: Irkutsk, Ulan-Ude,

Kaliningrad, Voronezh, Penza, Saransk, Nizhny Novgorod, Petrozavodsk, Yessentuki, Rostov-on-Don, Smolensk, Chermal, Choya, Gorno-Altai (Altai Republic) and many others. Within a year, the investments in the project exceeded RUB 15.1 million, which is 1.5 times more than those of 2017.

Detsky Mir Charity Fund not only provides toys, decorates rooms, but also, where necessary, acquires furniture and medical equipment.

In 2019, the project for opening playrooms in healthcare facilities will be continued.

The Largest Projects Implemented in the Reporting Period:

- Arranging a trip for 150 children from five residential care facilities of Kaluga, Ryazan, Smolensk and Moscow Regions to see the performance named "Sleeping Beauty";
- Arranging charity fairs in the Central District (February, November);
- Support for cinema forums held by Detsky Mir Charity Fund in Smolensk, Nizhny Novgorod, Rostov-on-Don, St. Petersburg, Luxembourg and the Republic of Karelia;
- Support for the big festival Yeralash in the Moscow Region;
- Arranging a trip for 517 children from 17 residential care facilities of Vladimir, Nizhny Novgorod, Tver, Kaluga, Kostroma, Ryazan, Yaroslavl, Moscow Regions and the city of Moscow to Moskvarium in Moscow;
- Arranging charity New Year event "New Year Among Friends" for 700 children from 22 residential care facilities in Nizhny Novgorod, Smolensk, Ryazan, Moscow Regions and Moscow (together with Detsky Mir Charity Fund);
- Support for the New Year's play "Chuk and Gek", arranged by Gusenok, Center for Family Education, and arranging a trip for 80 children from five residential care facilities in Moscow and the Moscow Region.

Subject to the Strategic Cooperation Agreement between the Ministry of Economic Development of the Perm Krai and Detsky Mir Group, signed in February 2015, Detsky Mir GC will invest up to RUB 150 million in the regional economy and create up to 100 permanent workplaces in the Perm Krai.

The agreement expired in 2016, however, Detsky Mir Group continues to develop its business and implement social projects in the region. In 2017, Detsky Mir opened three new supermarkets in the region: two stores in Perm and one in Solikamsk, which became the first shopping center in this city. The first ELC store was also opened in Perm.

In addition, in the scope of the Agreement, Detsky Mir in cooperation with regional authorities is implementing programs to support childhood and motherhood. In particular, social and financial support is provided to children and adolescents left without parental care, children in difficult life situations: with serious illnesses, children with disabilities, children from large families, residential care facilities and orphanages of the Perm Krai.

Detsky Mir provides assistance to Perm residential care facility for children with visual impairment, regional children's sanatoriums for patients with tuberculosis No. 4 and No. 6 "Malysh", social rehabilitation center for juveniles, clinical physiopulmonary medical center, as well as centers helping children who are deprived of parental care of Solikamsk, Chaykovsky, Dobryanka and Krasnokamsk, Nytva residential care facility, Votkinsk orphanage. During the reporting period, the Company transferred necessities for the amount of RUB 12 million to disadvantaged children (twice more than in 2017).

"Art without Borders" Program

The program is aimed at developing creative potential, morality and aesthetic taste of the younger generation.

Target groups for the program implementation: gifted children, children involved in creative activities, children's creativity centers.

Forms of assistance:

- Support for creative festivals;
- Support for unique techniques in the field of art;
- Arrangement of and support for exhibitions, competitions;
- Arrangement of and support for concerts and entertainment shows;
- Arrangement of and support for New Year's performances.

In 2018, RUB 3.1 million was allocated for the implementation of "Art without Borders" Program (thrice more than in 2017).

Volunteer Puppet Theater

At the end of 2014, the Volunteer Puppet Theater of Detsky Mir Group was established; the Company's employees are the actors in the Theater. The theater troupe performs in the sponsored child care centers, charity fairs and festivals. The project allowed engaging new employees in charitable projects implemented by the Company and increased the brand loyalty.

With the performances names "Leshy (Forest Spirit) and the Sofa", "Morozko", "Marviks", "How Ivan was Looking for a Bride", "About



a Sloppy King” and “Parrot’s Adventures”, the Volunteer Puppet Theater gives about 14 performances per year in social institutions and centers promoting family education, libraries and cultural centers, at various charity fairs and festivals.

Educational tales remind children of the values of friendship, the differences between the good and the bad, the need to love and take care of environment.

The cost of maintaining the Volunteer Puppet Theater (the purchase of props and scenery, transportation costs, rental of lighting and musical equipment, meals for actors during road shows) amount to about RUB 100 thousand per month.

Charity Events and Volunteer Clean-Ups

Detsky Mir Charity Fund holds charity events and parties on a regular basis.

The program of charity holidays includes creative workshops, performances by pop and circus celebrities, performances with trained animals, face painting, soap bubbles and games with animators, handing out gifts.

Representatives of the creative community respond to the Company’s proposals for participation in charity events. Thus, Honored Artists of Russia Evklid Kyurdzidis and Tatyana Yakovenko, Vladimir Demidov, popular theater and film actors Ivan Kokorin, Vitaly Abdulov, Sergey Gubanov, Sergey Koleshnya, Anna Bachalova, Anna Kurkova, Anna Snatkina, Viktor Vasilyev, Yana Leontieva, astrologer Tamara Globa, writer Anna Treskunova took part in the New Year events for children in Moscow.

New Year’s Performances

Detsky Mir Charity Fund helped disadvantaged children to attend the New Year’s shows.

New Year’s performances in Moscow were held in Moskvarium, the Theater Center at Strastny and the MAI Cultural Center. In the Tver Region, the New Year’s performance took place in a social rehabilitation center. In total, the New Year events were attended by more than 1,600 disadvantaged children. Children’s events in Moscow were visited not only by children from the capital’s orphanages, but also from Moscow, Vladimir, Nizhny Novgorod, Kaluga, Kostroma, Tver, Ryazan, Smolensk, Yaroslavl Regions.

In order to realize the dream of children – to see New Year’s tree in Moscow – Detsky Mir Charity Fund covered their travel and catering costs. And, of course, all the children received New Year’s gifts!



Generous Tuesday Promotion

Detsky Mir Group held a series of charity events as a part of the Generous Tuesday Promotion.

Orphans from social institutions in Moscow, Kostroma, Smolensk and Ryazan Regions presented works created by them: Christmas tree decorations, decorations made of felt, wooden interior design items and various souvenirs. The funds raised (RUB 300 thousand at two fairs) were spent on additional education for children with disabilities and orphans from orphanages.

In addition, the central office of Detsky Mir Group held a series of charity events “A Week of Good Deeds” for the Company’s employees from November 26 to November 30. All proceeds were used to pay for rehabilitation courses for children with disabilities.



“New Year’s Tree of Wishes” Campaign

Another good tradition of Detsky Mir was the charity event “New Year’s Tree of Wishes”, which took place in December at the Company’s Central Office. Children wrote letters about their dreams to Ded Moroz, and the staff of Detsky Mir helped them to come true. New Year greetings were received by 103 boys and girls from the Centers helping children left without parental care of Kostroma and the Kostroma Region, Rodnichok Kalyazin Orphanage (Tver Region) and Tver Social Rehabilitation Center for Minors.

Detsky Mir Charity Fund also arranges traditional spring volunteer clean-ups on landscaping after the winter season. In 2018, 41 volunteer clean-ups were held in 39 cities of Russia and Kazakhstan with the participation of 1,223 Company’s volunteers. The total amount of money spent on arranging them amounted to RUB 1.2 million.



3.5. Environmental Responsibility



Detsky Mir Group pays a lot of attention to the environment protection, to saving natural resources and the packaging recycling. The Company seeks to remind everyone once again that the environmental conditions of tomorrow for us and the future generation – our children – depend on the careful treatment of our environment today.

Reduced Resource Consumption

Introduction of modern technologies and solutions aimed at reducing the consumption of resources is important for Detsky

Energy Consumption by Detsky Mir Group

Energy resource type	2016		2017		2018	
	RUB ths	unit	RUB ths	unit	RUB ths	unit
Electricity, kWh*h, including:	590,049	114,998,368	683,934	124,575,803	686,146	116,802,577
Offices	31,708	6,179,833	31,667	5,767,999	34,926	5,945,515
Chain stores, KW*h	558,341	108,818,534	652,267	118,807,804	651,219	110,857,062
Amount of energy saved, KW*h	8,503	1,657,247	35,413	6,450,395	146,251	24,896,314
Warm-water-gas supply, Gcal	110,280	59,906	142,194	72,189	158,632	80,535

Mir, both in terms of reducing operating costs and in terms of minimizing the impact on the environment.

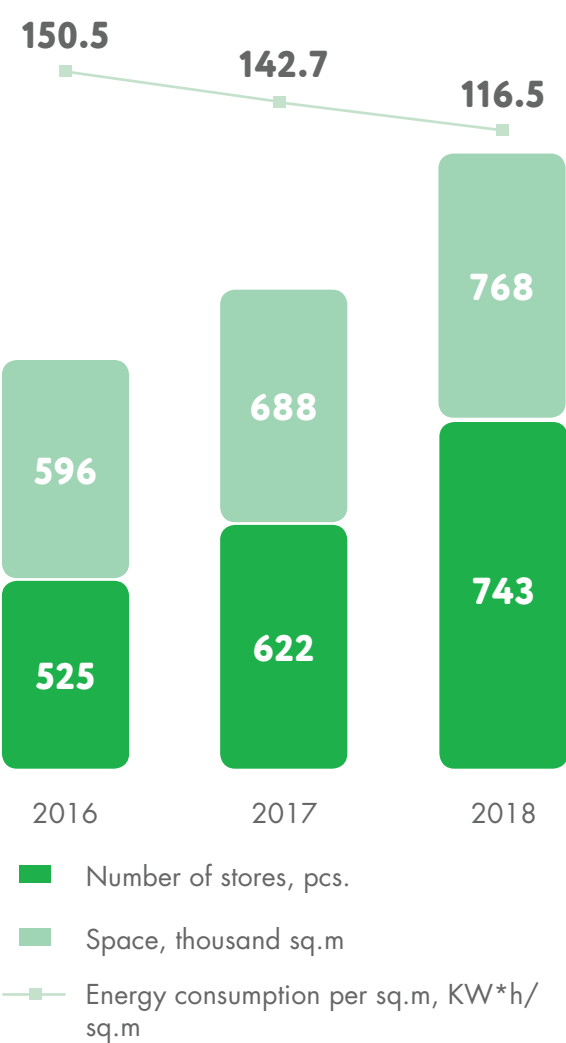
Energy Saving

The trading concept of the Detsky Mir involves the use of modern energy-saving solutions that not only to improve shopping spaces and make them more comfortable for visitors and staff, but also to significantly save energy. The total amount of energy saved in 2018 made 24,896,314 KW*h which in monetary terms amounts to RUB 146,251 thousand. Despite the growing number of stores and the increase in the total sales area, the Company managed to reduce energy consumption in 2018 by 18.3%.

In 2014, the Company started the process of equipping stores by LED lighting systems. In 2018, 278 stores were equipped with such systems. In 2019, all stores of the chain are intended to switch to the LED lighting system.

Bekasovo warehouse, opened in 2015, was equipped with energy-efficient equipment and a lighting system using motion sensors. In subsequent years, the Company plans to carry out similar modernization of all existing retail space of Detsky Mir.

Specific energy consumption by Detsky Mir stores

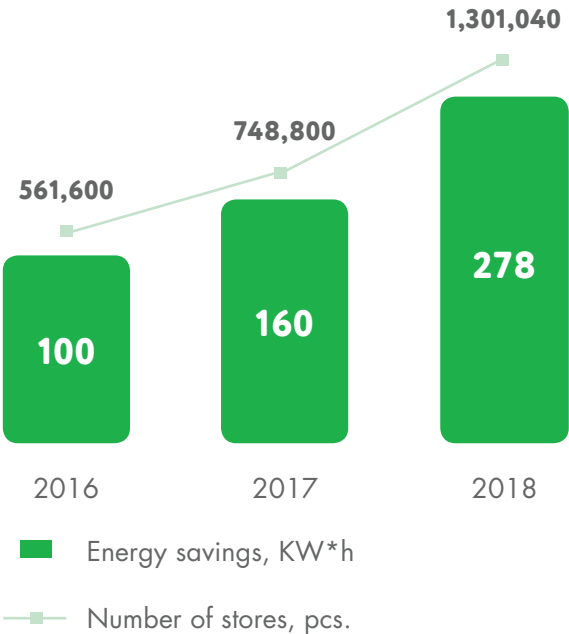


This project is focused not only on reducing current costs (a solution based on LEDs does not exceed the cost of projects based on traditional light sources), but also on reducing costs in the future. In 2018, energy savings as a result of the project implementation amounted to 1,301 thousand kW*h per month. An additional positive effect is that there is no need to dispose of mercury lamps that refer to the waste of the first hazard class.

Paper Savings

Automation of the Company's business processes, carried out within the scope of the strategy, not only led to an increase in the operations

Savings from the introduction of LED lighting in stores



efficiency, but also made it possible to keep the consumption of resources – copy paper. For example, the development and implementation of an electronic invoice format made it possible to abandon its paper form.

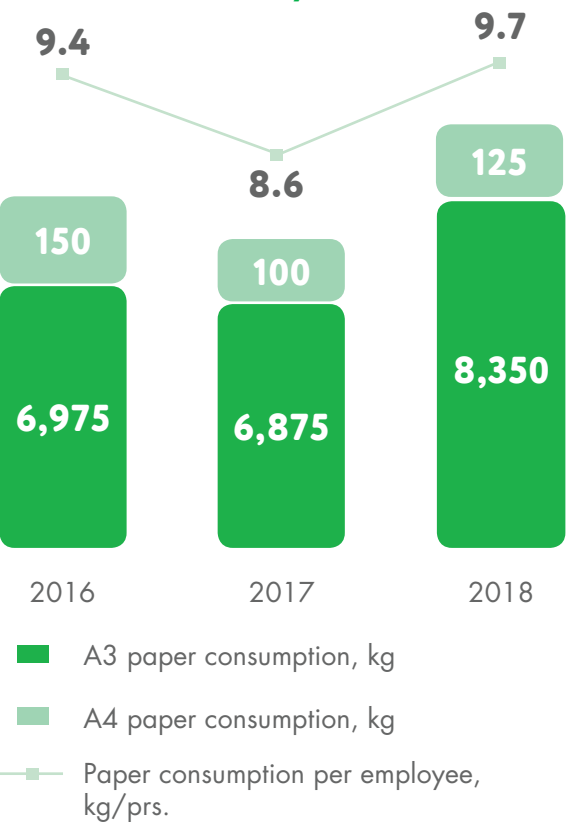
Ecological Consumer Packaging

In Detsky Mir stores, customers are offered paper bags – an environmentally friendly material that does not harm the environment during decomposition and can be easily recycled. The launch of kraft paper bags sales has become the next logical step in a series of environmental initiatives of the chain. Detsky Mir Group has become the first retailer in the segment of children's goods in Russia to offer ecological packaging to its customers.

Retail bag price is RUB 15, carrying capacity is 7 kg. The bag has the corporate style of the brand. Part of the funds from the sale of bags is transferred to support the programs of Detsky Mir Charity Fund.



Paper Consumption by the Central Office of PJSC Detsky Mir

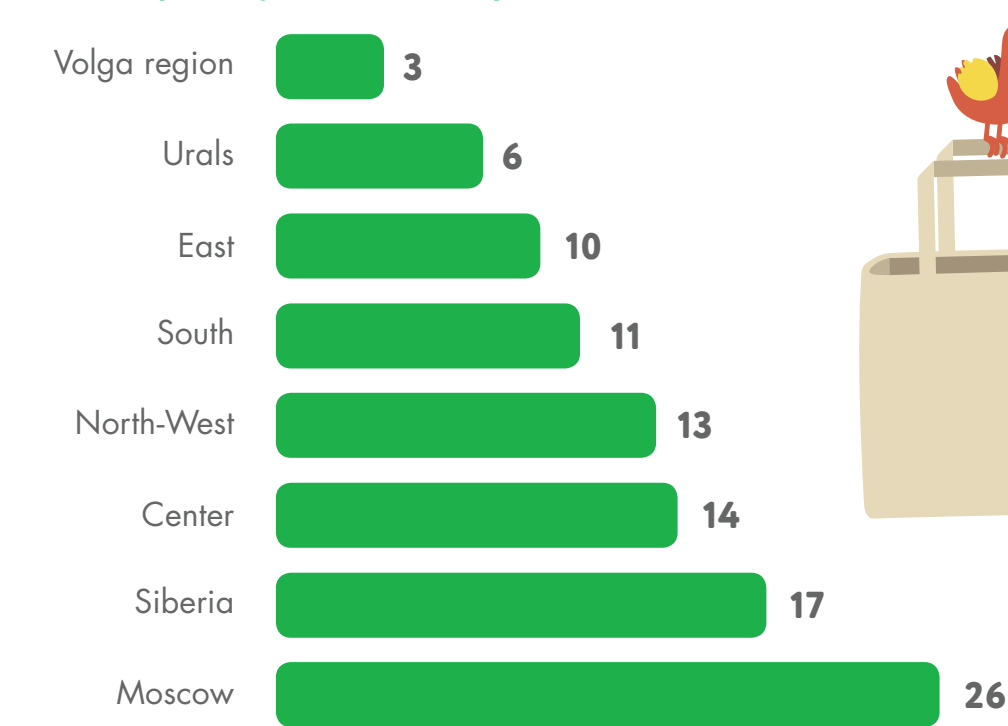


The sale of paper bags in stores in Moscow and the Moscow Region started in December 2015. In 2016, the project was scaled up across the entire chain. As for the end of 2018, 241,665 pieces of paper bags were sold (in 2017 – 230,628 pcs.). In 2018, eco-friendly bags were most popular in the Moscow Region and Siberia.

With the Green Office Project scaling to retail stores, the Company is counting on higher customer involvement in the process of abandoning plastic bags in favor of paper bags and reusable bags. Reusable bags became available for sale in December 2018.

Eco-friendly consumer packaging will gradually replace plastic bags that have become popular with the customers. Taking into account the scope of the Company’s activities, this project will contribute to a significant reduction of the adverse environmental impact and increase the eco-culture of our country’s inhabitants.

Sales of Paper Bags in 2018, ths. pieces



Full Name of the Goods	Turnover PCS	Regular Price (RUB)
“Bringing Joy to children” bag	12,610	29
“I am from Detsky Mir” bag	12,915	29

Taking into account the scope of the Company’s activities, this project will contribute to a significant reduction of the adverse environmental impact and increase the eco-culture of our country’s inhabitants.

Modernization of Waste Management System

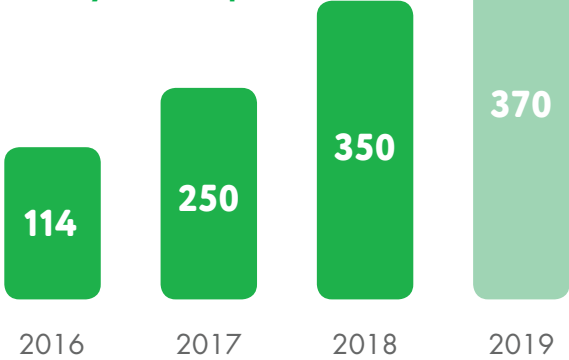
Cardboard and polyethylene film account for a substantial part of the waste generated in our warehouses and stores. Cardboard is a fine recyclable material. It is mostly used to produce waste cardboard which is considered as the most promising secondary packaging material of the near future all over the world. Polyethylene is a dangerous source of environmental pollution. According to rough estimates, its decomposition lasts for up to 300 years. At the same time, it undergoes thermal aging, gradually decomposing under the influence of sunlight, heat and oxygen, leading to harmful chemicals releasing into soil and water.

Detsky Mir Group has set itself the task of reducing its own environmental impact, so the introduction of packaging recycling projects was a logical step on this path.

Since 2014, the Company has been collecting waste paper and polyethylene packaging films in its warehouse, they are sorted separately and transferred to a specialized organization for further recycling. In 2018, about 2,190 tons of cardboard were collected in the distribution centers of Krekshino and Bekasovo.

In 2015, the Company introduced pilot projects for the collection of waste for recycling in retail facilities. As for the end of 2018, 300 stores of the chain took part in the project. In the future, Detsky Mir is planning to increase their number to 370. At the end of 2018, 1,100 tons of cardboard were recycled at the retail chain. This allowed the Company to reduce the amount of waste transferred to the contracting organization, which, in turn, reduced operating expenses.

Number of Stores Participating in the Project for the Collection of Recyclables, pcs.



Collection of Waste for Recycling at the Company in 2018, tons

2,190 t cardboard
Distribution Centers

1,100 t cardboard
Retail Chain



Green World is a new eco-project of the Company

In 2018, the Green World Eco-Project was launched at the Detsky Mir central office, which the Company launched in support of careful consumption of bio-resources.

We take care of our own health, we learned how to distinguish between healthy food and unhealthy food, we strive to have a healthy lifestyle and do sports. Why don't we take care of the house we live in? This house is our planet Earth which also needs all its inhabitants to show respect for each other and new generations. After all, few people now doubt that earth resources are depletable, and we can have influence on how quickly the inhabitants of our planet realize the need to remember about the world around us and the preservation of bio-resources every day, every hour and every second.

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Within the framework of the project, eco-initiatives aimed at the formation of careful resource consumption have been implemented in the office of the Company. In Detsky Mir stores and warehouses, lighting equipment is being replaced with energy-saving LED lighting; packaging and cardboard recycling has been introduced.

At the central office:

- Collection of used batteries has been arranged;
- Collection of waste paper for recycling has been arranged;
- Capsules from coffee makers are recycled;
- Regular newsletters that motivate employees to join the various eco-initiatives of the Company are sent out;
- The best ideas from employees that can be implemented in the office and stores are collected.

The goal of the project is to contribute to the common cause, not to stand aside from the problems associated with the preservation of natural resources!



Appendices

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Attachment:



Consolidated Financial Statement



Statement on Compliance with the Corporate Governance Code Principles

This statement on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Board of Directors of Public Joint Stock Company Detsky Mir at the meeting on April 11, 2019, Protocol No. 4 of 12.04.2019.

The Board of Directors confirms that the data in this statement provide complete and reliable information about the Company’s compliance with the principles and recommendations of the Corporate Governance Code in 2018.

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Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1 The Company ensures the fair and equitable attitude to all shareholders when they are exercising rights to participate in the Company’s management.			
1.1.1 The Company creates for shareholders the maximum favorable conditions to participate in a general meeting, the conditions to develop an evidence-based position on the general meeting agenda, coordinate their actions, as well as an opportunity to express their opinion on the issues under consideration.	1. The internal Company’s document approved by the general meeting of shareholders and regulating the procedure for holding a general meeting is in an open access. 2. The Company provides an accessible way of communicating with the public, such as a hotline, e-mail or online forum allowing shareholders to express their opinion and forward items for the agenda in the course of preparation for the general meeting. These actions were undertaken by the Company on each general meeting’s eve that took place during the reporting period.	is observed	

Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1.2 The notification procedure for holding a general meeting and submitting materials for a general meeting allows the shareholders to prepare properly for participation therein.	1. The message of holding the general meeting of shareholders is placed (published) on the website at least 30 days before such date of the general meeting holding. 2. Such message on holding the meeting specifies the meeting venue and documents required for access to the premises. 3. Shareholders were provided with access to information about who suggested the items to the agenda and who nominated candidates to the Board of Directors and the Audit Commission of the Company.	is observed	
1.1.3 In the course of a general meeting preparation and holding, the shareholders were able, easily and timely, to receive any information on a meeting and materials for the same, ask questions to the executive bodies and the Board of Directors members, and to communicate with each other.	1. During the reporting period, shareholders were given the opportunity to ask members of the executive bodies and members of the Board of Directors of the Company questions on the eve and during the annual general meeting. 2. The position of the Board of Directors (including dissenting opinions) on each item of the agenda of the general meetings held during the reporting period was included to the materials for the general meeting of shareholders. 3. The Company granted shareholders having respective rights the access to the list of persons entitled to participate in the general meeting starting from the date of its receipt by the Company in all cases of holding general meetings within the reporting period.	is observed	
1.1.4 Exercise of the shareholder’s right to demand the general meeting convening, nominate candidates to the management bodies and make suggestions to be included to the agenda of the general meeting was not associated with unjustified difficulties.	1. Within the reporting period, the shareholders had the opportunity to submit suggestion to include to the agenda of the annual general meeting within at least 60 days after the end of a corresponding calendar year. 2. Within the reporting period, the Company did not refuse to accept suggestions as to the agenda or nominees for the Company’s bodies due to misprints and other minor defects in such shareholder’s suggestions.	is observed	

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Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.1.5 Each shareholder had an opportunity to freely exercise the right to vote by the most simple and convenient way.	1. The internal document (internal policy) of the Company contains regulations subject to which each member present at the general meeting may request a copy of the ballot filled in by him/her certified by the ballot commission before a respective meeting ending.	is not observed	As provided by the Civil Code of the Russian Federation, making by the general meeting of shareholders of a public joint stock company a decision and the list of the company's members, who participated in making thereof shall be approved by a person responsible for keeping the Register of the shareholders (by the registrar) and performing the duties of the ballot commission. Due to the fact that the functions of the ballot commission are performed by another legal entity, the regulations contained in the internal documents of the Company are not binding for such registrar. This issue has no solution under the Corporate Governance Code (hereinafter CGC). In practice, members participating in the general meeting received copies of filled-in ballots this year; no participant was refused a copy of the filled-in ballot certified by the ballot commission.
1.1.6 The procedure for a general meeting holding established by the Company provides an equal opportunity to all persons present at the meeting to express their opinions and ask relevant questions.	<p>1. When holding general shareholders meetings in the form of a meeting (joint attendance of the shareholders) during the reporting period, sufficient time was provided for reports on the agenda items and time for such items discussion.</p> <p>2. Candidates to the management and control bodies of the Company were available for answering the questions asked by shareholders at the meeting at which their nominees were put to the vote.</p> <p>3. The Board of Directors, when making decisions related to general meetings of shareholders preparation and holding, considered the use of telecommunications to provide shareholders remote access for participation in the general meetings in the reporting period.</p>	is observed	

Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.2 Shareholders have an equal and fair opportunity to share the Company's profits by receiving dividends.			
1.2.1 The Company has developed and implemented a transparent and clear mechanism to determine the dividends amount and their payment.	<p>1. The Company has developed the dividend policy, it has been approved by the Board of Directors and disclosed.</p> <p>2. If the Company's dividend policy uses the Company's reporting indicators to determine the amount of dividends, then the relevant provisions of the dividend policy take into account the consolidated financial statements.</p>	is observed	
1.2.2 The Company does not make a decision on dividends payment, if such decision, while formally not violating the restrictions imposed by the law, is economically unreasonable and may result in misrepresentation of the Company's activities.	1. The Company's dividend policy contains clear indications of financial/economic circumstances under which the Company should not pay dividends.	is not observed	The amount of the dividend and its payment procedure is determined on the basis of the recommendations of the Board of Directors of the Company. The members of the Board of Directors shall act to the benefit of the Company, exercise their rights and perform obligations in relation to the Company in good faith and reasonably. Qualification of the members of the Board of Directors of the Company enables to determine the circumstances under which the Company should not pay dividends. The item of adjusting the dividend policy is considered by the Board of Directors at least once every 3 years.
1.2.3 The Company does not allow the deterioration of dividend rights of the existing shareholders.	1. In the reporting period the Company did not take any actions leading to deterioration in the dividend rights of the existing shareholders.	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
1.2.4	The Company strives to prevent the use by the shareholders of other ways to obtain income (profit) at the Company's expense, except for dividends and the liquidation value.	1. To exclude other methods of obtaining income (revenue) by the shareholders at the Company's expense, other than dividends and liquidation value, the internal documents establish monitoring mechanisms that ensure the timely identification and procedure for approving transactions with persons affiliated (associated) with the significant shareholders (persons having the right to dispose of the votes granted by the voting shares) in cases where the law does not formally recognize these transactions to be related-party transactions.	is observed	
1.3	The corporate governance framework and practices ensure fair treatment for all shareholders – owning the shares of one category (type), including minority (small) shareholders and foreign shareholders, and Company's equal attitude to them.			
1.3.1	The Company has established the conditions for fair attitude to each shareholder from the Company's management and controlling bodies, including conditions preventing any abuse by major shareholders with respect to minority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of interest of significant shareholders are effective, and the Board of Directors has paid due attention to the conflicts between shareholders, if any.	is observed	
1.3.2	The Company does not take any actions that result or may result in an artificial redistribution of the corporate control.	1. Quasi-treasury shares are excluded or did not participate in voting during the reporting period.	is observed	
1.4	Shareholders are provided with reliable and efficient methods for accounting of their rights to shares and an opportunity for free and easy disposal of shares held by them.			
1.4.1	Shareholders are provided with reliable and efficient methods for their rights to shares accounting and an opportunity for free and easy disposal of shares held by them.	1. Quality and reliability of the activities carried out by the Company's registrar in maintaining the register of securities holders meet the needs of the Company and its shareholders.	is observed	

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.1	The Board of Directors carries out the strategic management of the Company, determines the basic principles of and approaches to arrange risks management and internal control system in the Company, controls the activity of Company's executive bodies, as well as performs other key functions.			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment and dismissal of the executive bodies' members, including due to improper performance of their duties. The Board of Directors also controls for the executive bodies of the Company to act subject to the approved development strategy and primary areas of the Company's activities.	1. The Board of Directors has the authority to appoint, dismiss and determine the terms of the contracts with respect to the executive bodies' members specified in the articles of association. 2. The Board of Directors has reviewed the statement(s) made by the chief executive officer and members of the collective executive body on the implementation of the Company's strategy.	is observed	
2.1.2	The Board of Directors establishes the basic guidelines for the Company's activities for the long-term run, assesses and approves the key performance indicators and major business goals of the Company, and assesses and approves the strategy and business plans for the Company's operating activities.	1. During the reporting period, the Board of Directors has considered issues related to the strategies implementation and updating, the approval of the Company's financial and economic plan (budget), as well as the criteria and indicators reviewing (including intermediate ones) for the implementation of the Company's strategy and business plans.	is observed	
2.1.3	The Board of Directors determines the principles of and approaches to the risk management and internal control system in the Company.	1. The Board of Directors has determined the principles of and approaches to the risk management and internal control system in the Company. 2. The Board of Directors has assessed the risk management system and internal control of the Company during the reporting period.	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.1.4	The Board of Directors determines the Company's policy for remuneration and/or losses reimbursement (compensation) of the members of the Board of Directors, executives and other key executive employees of the Company.	<p>1. The Company has developed and implemented the policy (policies) for remuneration and/or losses reimbursement (compensation) of the members of the Board of Directors, executives of the Company and other key executive employees of the Company approved by the Board of Directors.</p> <p>2. During the reporting period, issues related to this policy (policies) were considered at the meetings of the Board of Directors.</p>	is partially observed	Regulations on remunerations and compensations paid to the members of the Board of Directors of the Company are approved by the General Meeting of Shareholders of the Company. Regulations on remunerations and compensations for the management bodies members and key employees of the Company (several local acts are adopted) are approved by the Board of Directors of the Company. Thus the Board of Directors of the Company annually reviews the issues related to remuneration and incentive of the Company executive bodies and other key employees, however it does not review the matters of remuneration and compensation for members of the Board of Directors, as this question is attributed to the competence of the general meeting of shareholders.
2.1.5	The Board of Directors plays a key role in prevention, identification and resolution of internal conflicts between the Company's bodies, shareholders and employees.	<p>1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts.</p> <p>2. The Company created a system for identifying transactions in connection with a conflict of interest and a system of measures aimed at such conflicts resolving</p>	is observed	
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the Company, timeliness and completeness of information disclosed by the Company, and unhindered access of the shareholders to the Company's documents.	<p>1. The Board of Directors has approved a regulation on information policy.</p> <p>2. The Company has identified persons responsible for the information policy implementation.</p>	is observed	
2.1.7	The Board of Directors controls implementation of the corporate governance practices in the Company and plays a key role in significant corporate events of the Company.	1. During the reporting period, the Board of Directors considered the issue of corporate governance practices in the Company.	is not observed	During the reporting year, the Board of Directors did not consider the issue of corporate governance practices in the Company.

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.2	The Board of Directors is accountable to the shareholders of the Company.			
2.2.1	Information on the Board of Directors performance is disclosed and made available to the shareholders.	<p>1. The Company's annual statement for the reporting period includes information on the attendance of the meetings held by the Board of Directors and committees by the directors thereof.</p> <p>2. Annual statement contains information on the main assessment results of the Board of Directors operations in the reporting period.</p>	is observed	
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. There is a transparent procedure in the Company that provides shareholders with the opportunity to send questions to the Chairman of the Board of Directors and their position as to them.	is observed	
2.3	The Board of Directors is an effective and professional Company's management body able to make objective and independent judgments and make decisions that meet the Company's and its shareholders' interests.			
2.3.1	A person who has an impeccable business and personal reputation and having the knowledge, skills and experience required to make decisions within the competence of the Board of Directors and necessary for the effective performance of its functions is elected as a member of the Board of Directors.	<p>1. The procedure for assessing the effectiveness of the work of the Board of Directors includes, inter alia, assessment of professional qualifications of the members of the Board of Directors.</p> <p>2. In the reporting period, the Board of Directors (or its nominations committee) assessed candidates for the Board of Directors in terms of the presence of the necessary experience, knowledge, business reputation, lack of conflict of interest, etc.</p>	is partially observed	<p>The Company assesses eligibility of candidates by criteria of independence established by the Moscow Exchange, PJSC and absence of the conflict of interest. Assessment of the candidates' proficiency is performed by persons who nominate candidates to the Board of Directors. Should the shareholders propose an insufficient number of candidates for the Board of Directors, the current members of the Board of Directors shall act based on their subjective opinions and the Company's needs in certain specialists.</p> <p>In 2019, the Board of Directors is not planning to implement any assessment procedures for candidates to the Board of Directors in terms of mastering specific experience or knowledge.</p>



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.3.2	Members to the Company's Board of Directors are elected using a transparent procedure that allows the shareholders to receive information on the candidates, sufficient to form an opinion on their personal and professional abilities.	1. In all cases of a general meeting of shareholders holding in the reporting period which agenda included items as to the elections to the Board of Directors, the Company provided the shareholders with the biographical data of all candidates to the Board of Directors members, the results of assessing these candidates made by the Board of Directors (or its nominations committee), as well as information on the applicant's compliance with the independence criteria, in accordance with Recommendations 102 – 107 of the Code and the written consent of the candidates to be elected to the Board of Directors.	is partially observed	<p>The Company assesses eligibility of candidates by criteria of independence established by the Moscow Exchange, PJSC and absence of the conflict of interest. Assessment of the candidates' proficiency is performed by persons who nominate candidates to the Board of Directors. Should the shareholders propose an insufficient number of candidates for the Board of Directors, the current members of the Board of Directors shall act based on their subjective opinions and the Company's needs in certain specialists.</p> <p>In 2019, the Board of Directors is not planning to implement any assessment procedures for candidates to the Board of Directors in terms of mastering specific experience or knowledge.</p>
2.3.3	The membership of the Board of Directors is balanced, including by the qualification, experience, knowledge and professional qualities of its members, and has the shareholders' trust.	1. As a part of the procedure for assessing the work of the Board of Directors during the reporting period, the Board of Directors has analyzed its own needs in the field of professional qualifications, experience and business skills.	is observed	
2.3.4	The number of the Board of Directors members provides an opportunity to arrange the Board of Directors activities in the most efficient manner, including the possibility to form the Board of Directors committees, as well as provides minor shareholders of the Company an opportunity to elect to the Board of Directors a candidate for whom they vote.	1. As part of the procedure for assessing the Board of Directors conducted during the reporting period, the Board of Directors considered the issue of the members' number of the Board of Directors compliance with the needs of the Company and the interests of shareholders.	is observed	

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.4	The Board of Directors includes a sufficient number of independent directors.			
2.4.1	A person who has sufficient professional knowledge, experience and independence to form their own opinion and is able to make objective and honest judgments, independent from the influence of the executive bodies, separate groups of shareholders or other stakeholders is recognized as an independent director. It should be noted that in the standard conditions a candidate (elected member of the Board of Directors), may not be deemed independent if such candidate is associated with the Company, its major shareholder, major contractor or competitor or associated with the state.	1. During the reporting period, all independent members of the Board of Directors met all independence criteria specified in Recommendations 102 – 107 of the Code, or were recognized as independent by the decision of the Board of Directors.	is observed	
2.4.2	Assessment of the candidates for members of the Board of Directors compliance with the criteria of independence is made, as well as a regular analysis of independent members of the Board of Directors compliance with the independence criteria. The substance of assessment shall prevail over the form of such assessment.	<p>1. In the reporting period, the Board of Directors (or the nominations committee of the Board of Directors) formed an opinion on the independence of each candidate to the Board of Directors and presented a corresponding opinion to the shareholders.</p> <p>2. During the reporting period, the Board of Directors (or the nominations committee of the Board of Directors) considered the independence of the current members of the Board of Directors the Company indicates in its annual statement as independent directors at least once.</p> <p>3. The Company has developed procedures that determine the necessary actions of a member of the Board of Directors in the event that the member ceases to be independent, including the obligation to promptly inform the Board of Directors thereof.</p>	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.4.3	Independent directors constitute at least one third of the elected members of the Board of Directors.	1. Independent directors constitute at least one third of the members of the Board of Directors.	is not observed	Three independent directors were elected to the current Board of Directors, which is less than one third. This practice complies with the requirements of the listing rules of the Moscow Exchange, PJSC.
2.4.4	Independent directors play a key role in the prevention of internal conflicts in the Company and implementation of the Company's significant corporate actions.	1. Independent directors (who have no conflict of interest) preliminarily assess significant corporate actions associated with the possible conflict of interest, and the results of this assessment are provided to the Board of Directors.	is partially observed	Opinions of the independent directors are always taken into account, but assessment of any actions of the Company is utterly subjective, is not carried out within the framework of any formalized procedure and is not binding. In 2019, the Company does not intend to introduce any formalized procedures for assessment of significant corporate actions.
2.5	The Chairman promotes the most effective implementation of the functions assigned to the Board of Directors.			
2.5.1	An independent director is elected as Chairman of the Board of Directors or among the elected independent directors a senior independent director who coordinates the activities of independent directors and communicates with the Chairman of the Board of Directors, is chosen.	<p>1. The Chairman of the Board of Directors is an independent director, or a senior independent director is chosen among the independent directors.</p> <p>2. The role, rights and obligations of the Chairman of the Board of Directors (and, if applicable, the senior independent director) are duly determined in the Company's internal documents.</p>	is partially observed	<p>The role, rights and duties of the chairperson of the Board of Directors are duly determined in the Regulation on the Company's Board of Directors. The Chairman of the Board of Directors is not an independent director. Independent members of the Board of Directors shall not elect the senior independent director for interaction with the Chairman of the Board of Directors, as all independent directors are entitled to share their opinion freely and address the Chairman for any issues related to the Supervisory Board's operations. In the Company's opinion, excessive formalization of interaction between the members of the Board of Directors complicates and prolongs the decision making processes. In 2019, the Company has no plans to change this approach.</p>
2.5.2	The Chairman of the Board of Directors ensures the constructive atmosphere during the meeting holding, free discussion of items included in the meeting agenda, control over the implementation of decisions made by the Board of Directors.	1. The performance of the Chairman of the Board of Directors was evaluated in the scope of the procedure for assessing the effectiveness of the Board of Directors in the reporting period.	is observed	

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.5.3	The Chairman of the Board of Directors takes all necessary measures for the timely provision of information to the Board of Directors members to make decisions on the agenda items.	1. The obligations of the Chairman of the Board of Directors to take measures to ensure the timely provision of materials to the members of the Board of Directors on the agenda of the meeting of the Board of Directors is specified in the Company's internal documents.	is observed	
2.6	The members of the Board of Directors act in good faith and in a reasonable manner to the benefit of the Company and its shareholders on the basis of sufficient information, with due care and diligence.			
2.6.1	The members of the Board of Directors make decisions based on all available information, without a conflict of interest, taking into account the equal attitude to all shareholders of the Company, within the normal business risk.	<p>1. The Company's internal documents have provided that a member of the Board of Directors shall notify the Board of Directors if such member has a conflict of interest with respect to any item on the agenda of a meeting of the Board of Directors or a committee of the Board of Directors before discussing the relevant agenda item.</p> <p>2. The Company's internal documents provide that a member of the Board of Directors shall refrain from voting on any item in which he/she has a conflict of interest.</p> <p>3. The Company has established a procedure that allows the Board of Directors to receive professional advice on the issues related to its competence at the expense of the Company.</p>	is observed	
2.6.2	Rights and responsibilities of the members of the Board of Directors are clearly defined and specified in the Company's internal documents.	1. The Company has adopted and published an internal document that clearly defines the rights and obligations of the members of the Board of Directors.	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.6.3	The members of the Board of Directors have enough time to perform their obligations.	<p>1. Individual attendance of the meetings of the board and committees, as well as the time dedicated to preparing for participation in the meetings have been taken into account in the procedure for assessing the Board of Directors in the reporting period.</p> <p>2. Subject to the Company's internal documents, the members of the Board of Directors shall notify the Board of Directors of their intention to join the management bodies of other organizations (besides the Company's controlled and dependent organizations), as well as of the fact of such appointment.</p>	is partially observed	The Company monitors attendance of the Board and Committee meetings, however the Company has no procedures in place to monitor the time devoted by the members of the Board of Directors to prepare for the meetings. First of all, it is due to the fact that the members of the Board of Directors are not the Company's employees and do not abide by the internal office procedures of the Company.
2.6.4	All the members of the Board of Directors have an equal access to the Company's documents and information. The newly elected members of the Board of Directors in the shortest possible time receive sufficient information on the Company and the Board of Directors operations.	<p>1. Subject to the Company's internal documents, the members of the Board of Directors have the right to access documents and make inquiries concerning the Company and organizations under its control, and the executive bodies of the Company shall provide relevant information and documents.</p> <p>2. The Company has a formalized program of getting-acquainted session for the newly elected members of the Board of Directors.</p>	is observed	
2.7	Meetings of the Board of Directors, preparation there for and participation therein of the members of the Board of Directors ensure the effective operation of the Board of Directors.			
2.7.1	The meetings of the Board of Directors are held as may be necessary, taking into account the activities scale and the challenges the Company faces in a certain period.	1. The Board of Directors held at least six meetings in the reporting year.	is observed	

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.7.2	The Company's internal documents specify the procedure for preparing and holding the meetings of the Board of Directors to allow the Board of Directors members to prepare adequately for the meeting.	1. The Company has approved an internal document determining the procedure for preparing and holding meetings of the Board of Directors, that inter alia provides that a notice of the meeting should be sent, as a rule, at least 5 days before the date of the meeting.	is observed	
2.7.3	Form of the meeting of the Board of Directors is determined taking into account the importance of the agenda items. The most important items are resolved in the meetings held by personal attendance.	1. The Articles of Association or the internal document of the Company stipulate that the most important items (subject to the list given in the recommendation 168 of the Code) should be considered at the meetings of the board held by personal attendance.	is partially observed	The content of the list given in Recommendation 168 of the Code is redundant. The Regulation on the Board of Directors of the Company provides for a shorter list of items that shall be considered only at the meetings of the Board of Directors held by personal attendance. In 2019, the Company has no plans to change this approach.
2.7.4	Decisions on the most important items of the Company are made at the meeting of the Board of Directors by a qualified majority or a majority of votes of all elected members of the Board of Directors.	1. The Articles of Association of the Company stipulates that decisions on the most important items set forth in Recommendation 170 of the Code shall be made at a meeting of the Board of Directors by a qualified majority of at least three quarters of votes or by a majority of all elected members of the Board of Directors.	is not observed	In practice, all decisions are made by the Board of Directors by the majority of votes of all elected members of the Board of Directors.
2.8	The Board of Directors establishes committees for preliminary consideration of the most important items of the Company's activity.			



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.8.1	An audit committee composed of independent directors has been established for preliminary consideration of items related to controlling the Company's financial and economic activities.	<p>1. The Board of Directors has formed an audit committee consisting entirely of independent directors.</p> <p>2. The Company's internal documents set out the tasks of the audit committee, including, inter alia, the tasks contained in Recommendation 172 of the Code.</p> <p>3. At least one member of the audit committee who is an independent director has experience and knowledge as to the preparation, review, evaluation and audit of accounting (financial) statements.</p> <p>4. The meetings of the audit committee were held at least once a quarter during the reporting period.</p>	is partially observed	The audit committee is chaired by an independent director. Most of the committee members are independent directors. This practice complies with the requirements of the listing rules of the Moscow Exchange, PJSC. The number of independent directors on the committee depends, inter alia, on the willingness and ability of independent directors to participate in the committee operations.
2.8.2	For preliminary consideration of the issues related to the development of efficient and transparent remuneration practices, a Remuneration Committee consisting of independent directors and chaired by an independent director who is not a Board of Directors Chairman has been established.	<p>1. The Board of Directors has established a Remuneration Committee which consists of independent directors only.</p> <p>2. The Chairman of the Remuneration Committee is an independent director who is not the Chairman of the Board of Directors.</p> <p>3. The Company's internal documents set out the challenges for the Remuneration Committee, including, inter alia, the tasks contained in Recommendation 180 of the Code.</p>	is partially observed	The Board of Directors has established a Remuneration and Nominations Committee. The aforementioned committee is chaired by an independent director. Most of the committee members are independent directors. This practice complies with the requirements of the listing rules of the Moscow Exchange, PJSC. The number of independent directors on the committee depends, inter alia, on the willingness and ability of independent directors to participate in the committee operations.
2.8.3	For preliminary consideration of issues related to the HR planning (succession planning), the professional structure and performance of the Board of Directors, a Nominations Committee (nominations, HR), consisting mainly of the independent directors has been established.	<p>1. The Board of Directors has established a Nominations Committee (or its goals specified in Recommendation 186 of the Code, are implemented in the scope of another committee <4>), and the majority of its members are independent directors.</p> <p>2. The Company's internal documents set out the goals of the Nominations Committee (or the corresponding committee with combined functions), including, inter alia, the goals provided by Recommendation 186 of the Code.</p>	is partially observed	The Board of Directors has established a Remuneration and Nominations Committee. The aforementioned committee is chaired by an independent director. Most of the committee members are independent directors. This practice complies with the requirements of the listing rules of the Moscow Exchange, PJSC. The number of independent directors on the committee depends, inter alia, on the willingness and ability of independent directors to participate in the committee operations.

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.8.4	Taking into account the scope of activities and the level of risk, the Board of Directors of the Company ensured that the composition of its committees fully meets the objectives of the Company's activities. The additional committees were either formed or were not deemed necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, HSE Committee, and others).	1. In the reporting period, the Board of Directors of the Company has considered the issue of the conformity of the composition of its committees with the goals of the Board of Directors and the objectives of the Company's activities. The additional committees were either formed, or were not deemed necessary.	is observed	The Strategy Committee has been formed
2.8.5	The committees' membership has been determined to allow carrying out comprehensive discussions of the issues under preliminary consideration, taking into account the different opinions.	<p>1. Committees of the Board of Directors are headed by independent directors.</p> <p>2. The Company's internal documents (policies) provide for the regulations subject to which persons who are not members of the audit committee, the nominations committee and the remuneration committee may attend committee meetings only by the invitation of the Chairman of a relevant committee.</p>	is observed	
2.8.6	Chairmen of the committees regularly inform the Board of Directors and its Chairman of their committees operations.	1. During the reporting period, the Chairmen of the committees reported on the work of the committees to the Board of Directors on a regular basis.	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
2.9	The Board of Directors ensures assessment of Board's, its committees' and Board members' operations quality.			
2.9.1	Assessment of the operations quality of the Board of Directors is aimed to determine the degree of the Board of Directors, the Board of Directors' committees and members' performance and conformity of their work to the Company's development needs, to stimulate the Board of Directors performance and identify the areas for its improvement.	<p>1. Self-assessment or external assessment of the work of the Board of Directors carried out during the reporting period included assessment of operations performed by committees, individual members of the Board of Directors and the Board of Directors in whole.</p> <p>2. Results of the self-assessment or external assessment of the Board of Directors conducted during the reporting period were considered at the meeting of the Board of Directors held by personal attendance.</p>	is partially observed	Self-assessment did not include individual assessment of the members of the Board of Directors.
2.9.2	Assessment of the Board of Directors, its committees and members performance is made on a regular basis at least once per annum. To make independent assessment of the Board operations quality, a third-party organization (consultant) is engaged at least once every three years.	1. To make independent assessment of the Board of Directors' performance, the Company engaged a third-party organization (consultant) at least once in the last three reporting periods.	is not observed	The Company did not engage consultants for independent assessment of the Board of Directors' performance. Such an item of expenditure is also not provided for in the budget for 2019.
3.1	Effective day-to-day interaction with shareholders, coordination of the Company's activities for protection of the rights and interests of shareholders, support of the effective work of the Board of Directors are ensured by the Corporate Secretary.			
3.1.1	The Corporate Secretary has the knowledge, experience and qualification sufficient to fulfill duties assumed, the impeccable reputation and the shareholders' trust.	<p>1. The Company has adopted and disclosed an internal document – Provisions about the corporate secretary.</p> <p>2. The Company's website and the annual statement contain the corporate secretary's background with the same level of detail as those applied to the members of the Board of Directors and executive management of the Company.</p>	Is partially observed	<p>Qualification requirements for the corporate secretary of the Company are in accordance with the rules of the listing of Moscow Exchange, PJSC.</p> <p>The Company did not receive the consent of a natural person to disclose his/her personal data.</p>

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
3.1.2	The Corporate Secretary has sufficient independence from the executive bodies and has the necessary powers and resources to achieve objectives.	1. The Board of Directors approves the appointment, dismissal and additional remuneration of the Corporate Secretary.	is observed	
4.1	The level of remuneration paid by the Company is sufficient to involve, motivate and retain persons with the competence and qualification necessary for the Company. Remuneration to the Board of Directors members, executive bodies and other Company's key executive employees are paid as provided by the remuneration policy adopted in the Company.			
4.1.1	The Level of remuneration paid by the Company to the members of the Board of Directors, executive bodies and other key executive employees creates a sufficient motivation for their effective operations, allowing the Company to involve and retain competent and skilled specialists. At the same time, the Company avoids the level of remuneration in excess of the necessary one, as well as unjustifiably large gap between the levels of remuneration of these officials and Company's employees.	1. The Company has adopted an internal document (documents) – policy (policies) for the remuneration of the members of the Board of Directors, executive bodies and other key executive employees, which clearly defines the approaches to remuneration of these individuals.	is observed	
4.1.2	The remuneration policy has been developed by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, with the support of the Remuneration Committee, ensures control over the introduction and implementation of the remuneration policy in the Company and, if necessary, reviews and amends such policy.	1. During the reporting period, the Remuneration Committee reviewed the remuneration policy (policies) and practices of its (their) implementation and, where applicable, submitted appropriate recommendations to the Board of Directors.	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.1.3	The remuneration policy includes clear mechanisms to determine the remuneration level of the Board of Directors members, executive bodies and other Company's key executive employees, as well as regulates all types of payments, benefits and privileges provided to such persons.	1. The remuneration policy(policies) includes(include) clear mechanisms to determine the remuneration level of the Board of Directors members, executive bodies and other Company's key executive employees, as well as regulates(regulate) all types of payments, benefits and privileges provided to such persons.	is observed	
4.1.4	The Company determines the expenses reimbursement (compensation) policy specifying the list of reimbursable expenses and the service level, that the Board of Directors members, executive bodies and other Company's key executive employees are eligible for. This policy may be part of the Company's remuneration policy.	1. The remuneration policy or other Company's internal documents provides the rules for reimbursement of expenses of the members of the Board of Directors, executive bodies and other key executive employees of the Company.	is observed	
4.2	The procedure for remuneration of the Board of Directors members ensures convergence of the financial interests of directors with the long-term financial interests of shareholders.			
4.2.1	The Company pays a fixed annual fee to the members of the Board of Directors. The Company does not pay remuneration for participation in certain meetings of the Board of Directors or its committees.	1. Fixed annual remuneration was the only monetary form of remuneration for the members of the Board of Directors for their work on the Board of Directors during the reporting period.	is observed	
	The Company does not use any form of short-term motivation and additional material incentives with respect to the Board of Directors.			

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.2.2	Long-term ownership of shares in the Company is the most stimulating factor for convergence the financial interests of the Board of Directors members with the long-term interests of shareholders. At the same time, the Company does not stipulate the right to sell shares by achievement of certain performance indicators, while the Board of Directors members do not participate in option programs.	1. If the internal document(s) – the Company's remuneration policy (policies) provide for the allocation of the Company's shares to the members of the Board of Directors, clear rules for the ownership of shares by the members of the Board of Directors should be specified and disclosed, aimed at encouraging long-term ownership of these shares.	Is not observed	At present, the Company's Remuneration Policy does not provide for the provision of shares of the Company to members of the Board of Directors.
4.2.3	The Company does not include any additional payments or compensations in a case of early termination of powers of the Board of Directors members in connection with the change of control over the Company or other circumstances.	1. The Company does not include any additional payments or compensations in a case of early termination of powers of the Board of Directors members in connection with the change of control over the Company or other circumstances.	is observed	



Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.3 The remuneration procedure for the members of the executive bodies and other Company's key executive employees provides the remuneration depends on the result of Company's activity and on their personal contribution to this result achievement.			
4.3.1 Remuneration of the members of the executive bodies and other key executive employees of the Company is determined so as to ensure a reasonable and justified ratio of fixed remuneration and variable part of remuneration depending on the result of Company's activity and the employee's personal (individual) contribution to the final result.	<p>1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable compensation for the members of the executive bodies and other key executive employees of the Company.</p> <p>2. In the course of the latest assessment of the remuneration system for the members of the executive bodies and other key executive employees of the Company, the Board of Directors (remuneration committee) ensured that an effective ratio of the fixed part of the remuneration and the variable part of the remuneration is applied in the Company.</p> <p>3. The Company provides for a procedure that ensures the return of bonuses unduly received by the members of the executive bodies and other key executive employees of the Company to the Company.</p>	partially is observed	All procedures related to incentive and remuneration of members of the executive bodies and other key executive employees of the Company are designed to prevent any unjustified bonus payments to this category of employees. The Company does not provide for a procedure that ensures the return of bonuses unduly received by the members of the executive bodies and other key executive employees of the Company to the Company. Such issues are regulated by the legislation of the Russian Federation and cannot be established by local standard acts of the Company.

Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
4.3.2 The Company has introduced the long-term incentive program for executive body members and other Company's key executive employees, using the Company's shares (options or other derivative instruments, the underlying asset of which is the Company's shares).			
	<p>1. The Company has introduced the long-term incentive program for executive body members and other Company's key executive employees, using the Company's shares (financial instruments based on the Company's shares).</p> <p>2. The long-term incentive program for the members of the executive bodies and other key executive employees of the Company provides that the right to sell shares and other financial instruments used in such a program shall be exercised not earlier than three years from the date of their granting. However, the right to sell them is due to the achievement of certain indicators of the Company's activities.</p>	is observed	
4.3.3 The Company's Board of Directors determines the principles of an arrangement approaches to the risk management and internal control system in the Company.			
	1. Functions of various management bodies and divisions of the Company in the risk management and internal control system are clearly defined in the internal documents/relevant policies of the Company approved by the Board of Directors.	is observed	
5.1 The Company has established an effective risk management and internal control system aimed to provide the reasonable assurance in achieving the Company's objectives.			
5.1.1 The Company's Board of Directors determines the principles of an arrangement approaches to the risk management and internal control system in the Company.			
	1. Functions of various management bodies and divisions of the Company in the risk management and internal control system are clearly defined in the internal documents/relevant policies of the Company approved by the Board of Directors.	is observed	
5.1.2 The Company's executive bodies ensure the effective risk management and internal control system to be created and maintained in the Company.			
	<p>1. The Company has adopted a policy on corruption prevention.</p> <p>2. An accessible way of informing the Board of Directors or the audit committee of the Board of Directors about the facts of violation of legislation, internal procedures, and the code of ethics of the Company is organized in the Company.</p>	is observed	



	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
5.1.3	Risk management and internal control system in the Company ensures an objective, fair and clear understanding of the current state and prospects of the Company, the integrity and transparency of the Company's reporting, the reasonableness and acceptability of the risks assumed by the Company.	<p>1. The Company has adopted a policy on corruption prevention.</p> <p>2. An accessible way of informing the Board of Directors or the audit committee of the Board of Directors about the facts of violation of legislation, internal procedures, and the code of ethics of the Company is organized in the Company.</p>	is observed	
5.1.4	The Board of Directors takes necessary measures to make sure the current risk management and internal control system in the Company meets certain principles and approaches to its organization established by the Board of Directors, and functions effectively.	1. During the reporting period, the Board of Directors or the audit committee of the Board of Directors assessed the effectiveness of the Company's risk management and internal control system. Information on the main results of such an assessment is included in the annual statement of the Company.	partially is observed	The annual statement of the Company does not include the results of assessing the effectiveness of the risk management and internal control system of the Company.
5.2	For a systematic independent assessment of reliability and efficiency of the risk management and internal control system and corporate governance practices, the Company conducts an internal audit.			
5.2.1	To conduct internal audit, a separate structural subdivision was created in the Company or an independent external organization was engaged. The functional and administrative accountability of the internal audit unit are delineated. The internal audit unit functionally reports to the Board of Directors.	1. To conduct internal audit, a separate internal audit unit that is functionally accountable to the Board of Directors or the audit committee has been created in the Company, or an independent third-party organization with the same principle of accountability has been engaged.	is observed	
5.2.2	The internal audit unit evaluates the effectiveness of the internal control system, evaluates the effectiveness of the risk management system, and also the corporate governance system. The Company applies generally accepted standards of activity in the field of internal audit.	<p>1. During the reporting period, within the framework of the internal audit, the effectiveness of the internal control and risk management system was assessed.</p> <p>2. The Company uses common approaches to internal control and risk management.</p>	is observed	

	Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
6.1	The Company and its activities are transparent to shareholders, investors and other stakeholders.			
6.1.1	An information policy is developed and introduced in the Company to ensure effective information interaction between the Company, shareholders, investors and other stakeholders.	<p>1. The Company's Board of Directors has approved the Company's information policy developed taking into account the recommendations of the Code.</p> <p>2. The Board of Directors (or one of its committees) considered issues related to the Company's compliance with its information policy at least once during the reporting period.</p>	is partially observed	The Board of Directors approved the Information Policy. The Board of Directors of the Company did not consider issues related to the Company's compliance with its information policy in the reporting year.
6.1.2	The Company discloses information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	<p>1. The Company discloses information on the corporate governance system in the Company and the general principles of corporate governance used in the Company, including on the Company's website on the Internet.</p> <p>2. The Company discloses information on the composition of the executive bodies and the Board of Directors, the independence of the members of the Board and their membership in the committees of the Board of Directors (in accordance with the definition of the Code).</p> <p>3. In the event that there is a person controlling the Company, the Company publishes a memorandum of the controlling person regarding the plans of such a person with respect to corporate governance in the Company.</p>	partially is observed	The Company discloses all relevant information at the Company website and in the Annual Statement. The Company publishes the memorandum of the controlling person regarding the plans of such a person with respect to corporate governance in the Company if such a document is prepared by the controlling person or the controlling person notifies the Company of its plans.



Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
6.2 The Company discloses the complete, current and accurate information on the Company in a timely manner to enable shareholders and investors to make sound decisions.			
6.2.1 The Company discloses information in accordance with the principles of regularity, consistency and efficiency, as well as the availability, accuracy, completeness and comparability of the data to be disclosed.	<p>1. The Company's information policy defines approaches and criteria for determining information that can have a significant impact on the evaluation of the Company and the value of its securities and procedures that ensure the timely disclosure of such information.</p> <p>2. If the securities of the Company are traded in foreign regulated markets, the disclosure of any substantial information in the Russian Federation and in such markets is carried out synchronously and is equivalent during the reporting year.</p> <p>3. Should the foreign shareholders own a significant number of shares in the Company, during the reporting year, information was disclosed not only in Russian, but also in one of the most common foreign languages.</p>	is observed	
6.2.2 The Company avoids a formal approach to information disclosure and discloses important information on its activities, even if the disclosure of such information is not required by the law.	<p>1. During the reporting period, the Company disclosed its annual and semi-annual financial statements prepared in accordance with the IFRS. The annual statement of the Company for the reporting period includes annual financial statements prepared in accordance with the IFRS, together with an audit report.</p> <p>2. The Company discloses full information on the Company's capital structure in accordance with Recommendation 290 of the Code in the annual statement and on the Company's website on the Internet.</p>	is observed	

Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
6.2.3 The annual statement, being one of the most important tools of the information interaction with shareholders and other stakeholders, contains information allowing to assess the results of Company's operations for the year.	<p>1. The annual statement of the Company contains information on the key aspects of the Company's operating activities and its financial performance.</p> <p>2. The annual statement of the Company contains information on the environmental and social aspects of the Company's activities.</p>	is observed	
6.3 The Company provides information and documents at the requests of the shareholders based on the equal and unhindered access.			
6.3.1 The Company provides information and documents at the requests of the shareholders based on the equal and unhindered access.	1. The Company's information policy determines an easy procedure for providing shareholders with access to information, including information on the entities controlled by the Company, at the request of shareholders.	is observed	
6.3.2 When providing information to shareholders, the Company ensures a reasonable balance between the interests of specific shareholders and the interests of the Company itself, which is interested in preserving the confidentiality of important commercial information that may have a significant impact on its competitiveness.	<p>1. During the reporting period, the Company did not refuse to satisfy the shareholders' requests for information, or such refusals were justified.</p> <p>2. In cases determined by the information policy of the Company, shareholders are warned about the confidential nature of the information and assume the responsibility to preserve its confidentiality.</p>	is observed	



Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
7.1 Actions that significantly affect or may affect the structure of the share capital and the financial position of the Company and, accordingly, the position of shareholders (significant corporate actions) are made under fair conditions that ensure observance of rights and interests of shareholders and other stakeholders.			
7.1.1 Significant corporate actions are deemed the reorganization of the Company, the acquisition of 30 percent or more of the voting shares (takeover), the Company's major transactions, the increase or decrease in the Company's share capital, the listing and delisting of the Company's shares, as well as other actions that may result in a significant change of the shareholders' rights or violation of their interests. The Company's Articles of Association specify the list (criteria) of transactions or other actions that are significant corporate actions, and assign a consideration of such actions within the Board of Directors competence.	<p>1. The Company's Articles of Association specify the list of transactions or other actions that are significant corporate actions, and criteria for determination thereof. Decision-making on significant corporate actions is within the competence of the Board of Directors. In cases where the implementation of these corporate actions is directly attributed by the law to the competence of the general meeting of shareholders, the Board of Directors provides shareholders appropriate recommendations.</p> <p>2. According to the Articles of Association, significant corporate actions are deemed to be (at least) the reorganization of the Company, the acquisition of 30 percent or more of the voting shares (takeover), the Company's major transactions, the increase or decrease in the Company's share capital, the listing and delisting of the Company's shares.</p>	is not observed	The Articles of Association of the Company do not define the notion of "significant corporate action". Members of the Board of Directors of the Company apply a responsible approach to consider all issues within their competence, regardless of their significance level.
7.1.2 The Board of Directors plays a key role in making decisions or making recommendations regarding significant corporate activities, Board of Directors is governed by the position of the Company's independent directors.	1. The Company provides for a procedure subject to which independent directors declare their position on significant corporate actions before they are approved.	is not observed	Any member of the Board of Directors of the Company, including independent directors, has the right to freely express their position on any issue within the competence of the Board of Directors, prior to voting on this issue.

Principles of the Corporate Governance	Criteria for assessing the compliance with the corporate management principle	The status of compliance with the principle of corporate governance	Explanations of deviation from the criteria assessing the observance of corporate management principles
7.1.3	When performing significant corporate actions affecting the rights and legal interests of shareholders, the equal attitude to all shareholders of the Company and, in the absence of mechanisms provided for by the law that are aimed at protecting the rights of shareholders, further measures to protect the rights and legal interests of Company's shareholders are ensured. In this case, the Company is governed not only by the compliance with the formal legal requirements, but also the corporate governance principles set out in the Code.	is partially observed	The law does not set minimum criteria for classifying transactions of the Company as significant corporate actions, therefore it is not possible to establish lower criteria.
7.2 The Company ensures the procedure for performance of significant corporate actions that allow shareholders to receive timely complete information on such actions, giving them an opportunity to influence the performance of such actions and ensure the compliance and the adequate level of protection their rights in the performance of such actions.			
7.2.1	Information on significant corporate actions is disclosed with an explanation of the reasons, conditions and consequences of such actions.	is observed	
6.3.2	The rules and procedures regarding the implementation by the Company of significant corporate actions are set forth in the Company's internal documents.	is partially observed	<p>The Company's internal documents do not provide for an extended list of grounds on which members of the Board of Directors of the Company and other persons provided for by the law are recognized as interested-party transactions of the Company.</p> <p>1. During the reporting period, the Company disclosed information on the significant corporate actions of the Company, including the grounds and timing of such actions, in a timely and detailed manner.</p> <p>2. The Company's internal documents provide for the procedure for engaging an independent appraiser to determine the value of property alienated or acquired under a major transaction or an interested-party transaction.</p> <p>3. The Company's internal documents provide for the procedure for engaging an independent appraiser to estimate the cost of acquiring the Company's shares and their redemption.</p> <p>3. The Company internal documents provide for an extended list of grounds on which members of the Board of Directors of the Company and other persons provided for by the law are recognized as interest-party transactions of the Company.</p>



Information on Major Transactions in 2018

Date of transaction	Date of transaction approval	The body of the Company that has approved the transaction	The subject of the transaction and its essential terms
05.03.18	14.12.17	Board of Directors	The Lender shall open a revolving framework credit line for the Borrower to replenish the working capital of the Borrower, as well as finance the Borrower's expenses related to the opening of retail stores, including expenses for repairing premises, acquisition of movable property. The credit facility expires on October 23, 2021 (inclusive); Parties to the transaction (Agreement): Detsky Mir, PJSC – the Borrower and Sberbank, PJSC – the Lender, the Bank; Transaction price: RUB 19,650,684,931.51 the maximum size of a lump sum payable on the Credit on any day of the term of Credit Line – no more than RUB 10,000,000,000.00 maximum amount of debt on interest is RUB 9,650,684,931.51.

Information on Related-Party Transactions in 2018

Date of transaction	Date of transaction approval	The body of the Company that has approved the transaction	The subject of the transaction and its essential terms	Information on the person(s) interested in the transaction
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Information on related-party transactions whose amount was less than 2% of the book value of assets

11.01.18	14.12.17	Board of Directors	Subject to the terms of the transactions, the Supplier shall transfer, and the Buyer shall accept and pay for the goods (children's food) in the manner and under the terms agreed by the parties to the supply agreement. Parties to the transaction: Detsky Mir, PJSC, TIN 7729355029, – the Buyer; PROGRESS, JSC, TIN 4826022365, – Supplier; The amount of the transaction is RUB 620,000,000.	Vladimir Sanasarovich Chirakhov, who is also a member of the Board of Directors of PROGRESS, JSC and a member of the Board of Directors, chairman of the board, the sole executive body of the issuer. V.S. Chirakhov (owns 1.7% of the issuer's voting shares).
19.09.18 r.	27.02.18 r.		Subject to the terms of the transactions, the Supplier shall transfer, and the Buyer shall accept and pay for the goods (children's clothing) in the manner and under the terms agreed by the parties to the supply agreement. The deadline for the fulfillment of obligations under the transaction is December 31, 2018. Parties to the transaction: Detsky Mir, PJSC, TIN 7729355029, – the Buyer; Concept Group LLC, TIN 7801506440, – Supplier; transaction amount is RUB 983,000,000.	JSFC Sistema, PJSC, is the controlling entity of Detsky Mir, PJSC and Concept Group, LLC; JSFC Sistema, PJSC, disposes of 52.1% of the voting shares of Detsky Mir, PJSC, JSFC Sistema, PJSC, indirectly controls over 50% of the votes in the registered capital of Concept Group, LLC;
17.12.18 r.	26.12.18 r.	Board of Directors	The Lender shall transfer, and the Borrower shall repay the loan amount and accrued interest, the interest rate shall be not more than 12% per annum. The deadline for the fulfillment of obligations under the transaction is December 17, 2019. Parties to the transaction: – Detsky Mir, PJSC (Lender), TIN 7729355029; – Kub Market, LLC (Borrower), TIN 7729551048; transaction amount RUB 850,000,000.	JSFC Sistema, PJSC is the controlling entity of Detsky Mir, PJSC and Kub Market, LLC; JSFC Sistema, PJSC disposes of 52.1% of the voting shares of Detsky Mir, PJSC, and indirectly controls 100% of the registered capital of Kub Market, LLC;

Date of transaction	Date of transaction approval	The body of the Company that has approved the transaction	The subject of the transaction and its essential terms	Information on the person(s) interested in the transaction
17.12.18	26.12.18	Board of Directors	The Lender shall transfer, and the Borrower shall repay the loan amount and accrued interest, the interest rate shall be not more than 12% per annum. The deadline for the fulfillment of obligations under the transaction is December 17, 2019. Parties to the transaction: - Detsky Mir, PJSC (Lender), TIN 7729355029; - DM Kapital, LLC (Borrower), TIN (INN) 7733322040. Transaction amount is RUB 500,000,000.	JSFC Sistema, PJSC controls 52.1% of the voting shares of Detsky Mir, PJSC and indirectly controls 100% of the authorized capital of DM Kapital, LLC.

Information on related-party transactions whose amount was more than 2% of the book value of assets

23.10.18 r.	05.10.18 r.	Board of Directors	Subject to the terms of the transactions, the Supplier shall transfer, and the Buyer shall accept and pay for the goods (children's food) in the manner and under the terms agreed by the parties to the supply agreement. The deadline for the fulfillment of obligations under the transaction is December 31, 2018. Parties to the transaction: Detsky Mir, PJSC, TIN 7729355029, – the Buyer; PROGRESS, JSC, TIN 4826022365, – Supplier. Transaction amount is RUB 2,720,000,000.	Vladimir Sanasarovich Chirakhov (owns 1.7% of the issuer's voting shares), Maher Tony Denis (does not own shares of the issuer), Olga Anatolyevna Ryzhkova (does not own shares of the issuer), the above persons are members of the Board of Directors of Detsky Mir, PJSC, and Progress, JSC
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Information on Transactions with the Company's Shares Completed by Members of Management Bodies in 2018

During 2018, the following transactions with ordinary registered shares of the Company were made by the members of the Board of Directors and the Management Board:

Surname, Name, Patronymic	Transaction date	Information about a transaction made with the Company's shares	Number of shares, which were a subject of the transaction
Anna Garmanova	15.07.2018	buying	42,762
Maria Volodina	15.07.2018	buying	36,545
Farid Kamalov	15.07.2018	buying	79,383
Maria Davydova	15.07.2018	buying	49,070
Vladimir Ilmetov	15.07.2018	buying	31,541
Pavel Pishchikov	28.08.2018	buying	1,000
Tatyana Mudretsova	25.10.2018	buying	35,225
Maria Volodina	12.11.2018	selling	23,000
Vyacheslav Khvan	03.12.2018	selling	46,220
Anna Garmanova	27.12.2018	selling	25,000
Tatyana Mudretsova	28.12.2018	selling	25,000

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DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2018
And Independent Auditor's Report

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC "Detsky mir" (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS 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 consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in respective jurisdictions in which the Group operates;
- 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 consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 28 February 2019.

On behalf of Management:



V.S. Chirakhov,
Chief Executive Officer
PJSC "Detsky mir"



A.S. Garmanova,
Chief Financial Officer
PJSC "Detsky mir"

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

Recognition of supplier bonuses

The Group receives significant amounts of supplier incentives, discounts, and bonuses (hereinafter "supplier bonuses").

We consider this to be a key audit matter because judgment is required to determine the commercial substance of supplier bonuses received by the Group and the period over which the reduction in cost of sales should be recognized, which necessitates thorough understanding of the contractual arrangements and complete and accurate source data.

The Group's principal accounting policy on supplier bonuses is disclosed in Note 4 on page 20.

We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the supplier bonuses recognition in the consolidated financial statements is in line with the Group's accounting policies and IFRS.

We circularized a sample of suppliers to get assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as tracing the amounts recorded to primary documents signed by suppliers confirming the Group's right to a particular bonus. In addition, for a sample of volume-based agreements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms.

We examined the commercial substance of supplier bonuses by means of a sample-based analysis of the primary documents confirming the Group's right to receive supplier bonuses and other supporting documentation. In addition to that, we recomputed management's calculation of supplier bonuses allocated to year-end inventories based on their commercial substance.

We also performed year-to-year analysis of the ratio of aggregate supplier bonuses allocated to year-end inventories to the total amount of supplier bonuses received by the Group during the reporting period.

Net realizable value of inventories

Inventories are carried at the lower of cost and net realizable value. At 31 December 2018 the value of inventories held by the Group was RUB 35,063 million (31 December 2017: RUB 26,440 million).

The valuation of inventories was identified as a key audit matter because it involves significant judgement, in particular, with respect to the estimated selling price of items held. The assessment process is subjective and includes studying the historical performance of the inventories, current operational plans as well

We obtained assurance over the appropriateness of management's assumptions applied in calculating the carrying value of inventories by:

- Understanding the Group's processes and procedures related to the measurement of inventories at the lower of cost and net realizable value;
 - Verifying the value of a sample of inventories to confirm it is held at the lower of cost and net realizable value, based on the sales prices after the reporting date;
 - Reviewing, recalculating and critically assessing the reasonableness of inventory provision considering inventory ageing, historical and post year-end performance and analysing the amount of provision as a percentage of gross inventory balance year to year.
-

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

as industry and customer specific trends.

The Group's inventory provision is disclosed in Note 13 on page 38.

Early adoption of IFRS 16 "Leases"

As disclosed in Note 3 to the consolidated financial statements the Group has early adopted IFRS 16 "Leases" as at 1 January 2018.

We consider this to be a key audit matter because the early adoption of the standard required the Group to modify existing business processes, had a material impact on the consolidated financial statements and required the Group's management to apply significant judgment, in particular, when determining the lease term and discount rates.

We obtained understanding of the Group's processes and procedures related to the identification of lease contracts and determination of the key inputs required in the assessment of right-of-use assets and lease liabilities.

Our procedures also included an analysis as to whether the Group's accounting policy was in line with IFRS 16, as well as verification of its appropriate application by means of a sample-based analysis of Group's accounting for particular lease contracts, which included analysis of:

- appropriateness of determination of lease payments;
- grounds for the choice of the discount rate;
- impact of the existing options to extend or to terminate the lease on the assessment of the lease term;
- compliance of the methods used in measurement of right-of-use asset and lease liability with the Group's accounting policy;
- the accuracy of management's calculations.

We also checked the completeness of disclosures in respect of lease agreements made in the consolidated financial statements, and assessed their conformity with the requirements of IFRS.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor's report thereon. The Annual and Quarterly reports are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

When we read the Annual and Quarterly reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are 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 judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance 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 those charged with governance, 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.


 Egor Metelkin
 Engagement partner
 28 February 2019



The Entity: PJSC "Detsky mir"

State Registration Certificate No. 869.149 issued by Moscow Registration Chamber on 03.09.1997.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 119415, Russia

Audit Firm: AO "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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018	2017
Revenue	6	110,874	97,003
Cost of sales		<u>(74,045)</u>	<u>(64,205)</u>
GROSS PROFIT		36,829	32,798
Selling, general and administrative expenses	7	(25,550)	(24,766)
Other operating expenses, net		<u>(47)</u>	<u>(8)</u>
OPERATING PROFIT		11,232	8,024
Finance income	8	10	28
Finance expenses	8	(4,427)	(1,866)
Foreign exchange gain/(loss), net		<u>106</u>	<u>(306)</u>
PROFIT BEFORE TAX		6,921	5,880
Income tax expense	9.1	<u>(1,227)</u>	<u>(1,036)</u>
PROFIT FOR THE YEAR		<u>5,694</u>	<u>4,844</u>
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		<u>(43)</u>	<u>16</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>5,651</u>	<u>4,860</u>
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	17	737,806,153	738,475,180
Earnings per share, basic and diluted (in Russian Rubles per share)		7.72	6.56

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (in millions of Russian Rubles)

	Notes	At 31 December 2018	At 31 December 2017
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	9,226	7,486
Intangible assets	11	1,255	1,362
Right-of-use assets	12	29,606	-
Deferred tax assets	9.2	1,858	1,593
Other non-current assets		133	241
Total non-current assets		42,078	10,682
CURRENT ASSETS:			
Inventories	13	35,063	26,440
Trade receivables	14	4,473	2,244
Advances paid and other receivables	15	2,038	1,215
Prepaid income tax		1	7
Cash and cash equivalents	16	3,335	3,155
Total current assets		44,910	33,061
TOTAL ASSETS		86,988	43,743
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	17	1	1
Treasury shares	17	(214)	(60)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,609)	(6,386)
Currency translation reserve		87	130
Total equity/(equity deficit)		(942)	(522)
NON-CURRENT LIABILITIES			
Lease liabilities	18	23,706	-
Long-term loans and borrowings	19	8,928	8,956
Deferred tax liabilities	9.2	152	29
Total non-current liabilities		32,786	8,985
CURRENT LIABILITIES			
Trade payables		29,747	24,388
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	12,542	4,635
Lease liabilities	18	6,840	-
Advances received, other payables and accrued expenses	21	4,938	5,404
Deferred revenue	22	720	606
Income tax payable		357	247
Total current liabilities		55,144	35,280
Total liabilities		87,930	44,265
TOTAL EQUITY AND LIABILITIES		86,988	43,743

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018 (in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2017	1	-	5,793	(6,362)	114	(454)
Profit for the year	-	-	-	4,844	-	4,844
Other comprehensive income	-	-	-	-	16	16
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	4,844	16	4,860
Share-based compensation (Note 20)	-	-	-	170	-	170
Purchase of treasury shares (Note 17)	-	(375)	-	-	-	(375)
Settlement of share-based compensation with treasury shares (Note 20)	-	272	-	(272)	-	-
Sale of treasury shares (Note 17)	-	43	-	-	-	43
Dividends (Note 17)	-	-	-	(4,766)	-	(4,766)
Balance at 31 December 2017	1	(60)	5,793	(6,386)	130	(522)
Profit for the year	-	-	-	5,694	-	5,694
Other comprehensive income	-	-	-	-	(43)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	5,694	(43)	5,651
Share-based compensation (Note 20)	-	-	-	182	-	182
Purchase of treasury shares (Note 17)	-	(195)	-	-	-	(195)
Sale of treasury shares (Note 17)	-	41	-	-	-	41
Dividends (Note 17)	-	-	-	(6,099)	-	(6,099)
Balance at 31 December 2018	1	(214)	5,793	(6,609)	87	(942)

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 (in millions of Russian Rubles)

	2018	2017
Operating activities:		
Profit for the year	5,694	4,844
Adjustments for:		
Depreciation and amortization expense	9,100	1,818
Finance expense	4,427	1,866
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,233	1,320
Income tax expense recognized in profit or loss	1,227	1,036
Impairment recognized for non-current assets	191	-
Expense on equity-settled share-based compensation	182	170
Bad debts written-off and change in allowance for doubtful accounts	8	25
(Gain)/loss on disposal of non-current assets	(1)	14
Finance income	(10)	(28)
Foreign exchange (gain)/loss, net	(106)	306
Changes in working capital:		
(Increase)/decrease in trade receivables	(2,230)	1,606
(Increase)/decrease in advances paid and other receivables	(609)	466
Increase in inventories	(9,856)	(2,964)
Increase/(decrease) in trade payables	5,034	(1,116)
Increase in advances received, other payables and accrued expenses	526	1,095
Increase/(decrease) in deferred revenue	114	(210)
Cash generated by operations	14,924	10,248
Interest paid	(4,233)	(1,658)
Interest received	5	13
Income tax paid	(1,083)	(1,523)
Net cash generated by operating activities	9,613	7,080
Investing activities:		
Payments for property, plant and equipment	(3,487)	(2,072)
Payments for intangible assets	(307)	(396)
Repayment of loans receivable	-	1,074
Proceeds from disposal of property, plant and equipment	-	24
Net cash used in investing activities	(3,794)	(1,370)
Financing activities:		
Purchase of treasury shares	(195)	(375)
Sale of treasury shares	41	43
Repayment of loans and borrowings	(44,173)	(40,666)
Dividends paid	(7,242)	(3,623)
Lease payments	(6,122)	-
Proceeds from loans and borrowings	52,052	39,621
Net cash used in financing activities	(5,639)	(5,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	180	710
CASH AND CASH EQUIVALENTS, beginning of the year	3,155	2,445
CASH AND CASH EQUIVALENTS, end of the year	3,335	3,155

The Notes on pages 11 to 52 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (in millions of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (hereinafter, the "Company") together with its subsidiaries (hereinafter, the "Group") is the largest retail chain in the children's goods market in the Russian Federation (hereinafter, "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 goods through retail stores and online store. In 2018 and as at 31 December 2018 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan, Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia. In 2018 the Group launched "Zoozavr", which is specialized in pet goods sales through branded retail stores and online store.

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 PJSC Sistema ("Sistema") remained the controlling shareholder of the Company.

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2018, %	31 December 2017, %
PJSFC Sistema and subsidiaries	52.099	52.099
Floette Holdings Limited ^{1,2}	7.016	7.016
Exarzo Holdings Limited ^{1,2}	7.016	7.016
Other shareholders	33.869	33.869
Total	100	100

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

² Including shares on the account of nominal holder.

As at 31 December 2018 and 2017 the ultimate controlling party of the Company is Mr. Vladimir Yevtushenkov.

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

	Ownership interest and proportion of voting rights	
Subsidiaries	31 December 2018, %	31 December 2017, %
Detsky mir Kazakhstan, LLP, Kazakhstan	100	100
Kub-Market LLC, RF	100	100

As at 31 December 2018 and 2017 the Group does not have non-wholly owned subsidiaries that have non-controlling interests to the Group.

These consolidated financial statements were approved by management on 28 February 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") as issued by the International Accounting Standards Board (hereinafter, "IASB").

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles (hereinafter, "RUB million", "mln Rubles") except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- IFRS 9 *Financial Instruments*;
- Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 16 *Leases* (early adoption);
- Amendments to IFRS 2 *Clarifications of classification and measurement of share based payment transactions*;
- Amendments to IAS 40 *Investment property*;
- Amendments to IFRS 1 and IAS 28 – Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

The Group has selected not to restate comparatives on initial application of IFRS 9. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, and were not recognized in the opening consolidated statement of financial position on 1 January 2018 as had been assessed by management of the Group to be immaterial for the consolidated financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets.

The adoption of IFRS 9 *Financial Instruments* from 1 January 2018 resulted in certain changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. The new accounting policies are set in Note 4.

Adoption of IFRS 9 didn't have any material impact on the classification and measurement of the Group's financial assets and liabilities. Neither it had any material impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income as well.

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IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 4 below.

In accordance with the transition provisions in IFRS 15, management performed assessment of the impact that IFRS 15 might have had on the Group's consolidated financial statements and concluded that the impact would be limited to immaterial changes to the timing of recognition of revenue related to customer loyalty program. The Group didn't apply a fully retrospective approach upon transition to IFRS 15 and didn't book cumulative impact of transition as an adjustment to accumulated deficit as at 1 January 2018 due to immaterial effect on the accumulated deficit.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit the Group from using alternative descriptions in the consolidated statement of financial position. The Group applied the term 'deferred revenue' in respect of its contract liabilities.

Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

IFRS 16 Leases

As at 1 January 2018, the Group has early adopted IFRS 16 *Leases* (as issued by the IASB in January 2016).

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 4. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied IFRS 16 using a modified retrospective approach. The comparative information for the year ended 31 December 2017 has not been restated in accordance with provisions of IFRS 16 *Leases*.

Impact of the new definition of a lease

The Group used the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). When preparing for the first-time application of IFRS 16, the Group carried out an implementation project. The project results presented that the new definition in IFRS 16 would not change significantly the scope of contracts that meet the definition of a lease for the Group.

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Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- (b) Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Financial impact of initial application of IFRS 16

At the date of transition to IFRS 16 *Leases* the Group recognized lease liabilities (short-term and long-term) in amount of RUB 33,822 million. Previously the Group did not recognize any lease liabilities because all lease contracts entered into by the Group were classified as operating leases according to IAS 17 *Leases*. The amount of lease liabilities recognized was determined based on the present value of the future minimum lease payments at the transition date. The Group used incremental borrowing rate in determining the present value of future payments.

The weighted average incremental borrowing rate at 1 January 2018 was 9.48% per annum.

As at 1 January 2018 the Group also recognized right-of-use assets in amount of RUB 33,886 million. Right-of-use assets are depreciated on a straight-line basis over the lease term within the range from 1 to 10 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

The result of the transition is represented as follows:

Future minimum lease payments as at 31 December 2017 as disclosed in the consolidated financial statements for the year-ended 31 December 2017

During one year	9,188
More than one year, but no more than 5 years	47,200
More than 5 years	13,708
Total	70,096
Reassessment of options to extend and cancel lease contracts	(26,074)
Impact of discounting	(10,200)
Lease liabilities recognized as at 1 January 2018	33,822
Lease prepayments	64
Right-of-use assets recognized as at 1 January 2018	33,886
Net result as at 1 January 2018	-

Had the Group not applied IFRS 16 in 2018, the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and consolidated statement of financial position as at 31 December 2018 would have been as follows:

	2018 as if IAS 17 still applied	IFRS 16 adjustments	2018 as presented
Revenue	110,874	-	110,874
Cost of sales	(74,045)	-	(74,045)
GROSS PROFIT	36,829	-	36,829
Selling, general and administrative expenses	(27,011)	1,461	(25,550)
Other operating expenses, net	(48)	1	(47)
OPERATING PROFIT	9,770	1,462	11,232
Finance income	5	5	10
Finance expenses	(1,824)	(2,603)	(4,427)
Foreign exchange gain, net	106	-	106
PROFIT BEFORE TAX	8,057	(1,136)	6,921
Income tax expense	(1,454)	227	(1,227)
PROFIT FOR THE YEAR	6,603	(909)	5,694
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency	(10)	(33)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,593	(942)	5,651
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	737,806,153	-	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)	8.94	(1.22)	7.72

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

	At 31 December 2018 as if IAS 17 still applied	IFRS 16 adjustments	At 31 December 2018 as presented
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	9,226	-	9,226
Intangible assets	1,255	-	1,255
Right-of-use assets	-	29,606	29,606
Deferred tax assets	1,630	228	1,858
Other non-current assets	227	(94)	133
Total non-current assets	12,338	29,740	42,078
CURRENT ASSETS:			
Inventories	35,063	-	35,063
Trade receivables	4,473	-	4,473
Advances paid and other receivables	2,328	(290)	2,038
Prepaid income tax	1	-	1
Cash and cash equivalents	3,335	-	3,335
Total current assets	45,200	(290)	44,910
TOTAL ASSETS	57,538	29,450	86,988
EQUITY AND LIABILITIES			
SHAREHOLDERS' DEFICIT:			
Share capital	1	-	1
Treasury shares	(214)	-	(214)
Additional paid-in capital	5,793	-	5,793
Accumulated deficit	(5,700)	(909)	(6,609)
Currency translation reserve	118	(31)	87
Total deficit	(2)	(940)	(942)
NON-CURRENT LIABILITIES			
Lease liabilities	-	23,706	23,706
Long-term loans and borrowings	8,928	-	8,928
Deferred tax liabilities	152	-	152
Total non-current liabilities	9,080	23,706	32,786
CURRENT LIABILITIES			
Trade payables	29,747	-	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	12,542	-	12,542
Lease liabilities	-	6,840	6,840
Advances received, other payables and accrued expenses	5,094	(156)	4,938
Deferred revenue	720	-	720
Current income tax liability	357	-	357
Total current liabilities	48,460	6,684	55,144
Total liabilities	57,540	30,390	87,930
TOTAL EQUITY AND LIABILITIES	57,538	29,450	86,988

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability as operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include the interest paid as part of operating activities); and;
- Cash payments for the principal portion of lease liability as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 has no impact on net cash flows.

All other new and revised IFRSs adopted in 2018 do not have a material impact on the consolidated financial statements of the Group for the year ended 31 December 2018.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts²;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*¹;
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*³;
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*¹;
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*¹;
- Amendments to IAS 19 Employee Benefits¹;
- Annual Improvements to IFRSs 2015-2017 Cycle¹.

¹ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

³ Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's entities maintain their accounting records in compliance with the local legislation on accounting and reporting adopted in jurisdictions of the countries in which they were founded and registered. The accounting principles and reporting procedures in these jurisdictions may differ from generally accepted IFRS principles. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2018 as well as comparative information presented in these financial statements, except for lease accounting under IFRS 16.

Going concern principle

These consolidated financial statements have been prepared on Management's assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Presentation currency and functional currency

Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble (hereinafter, "RUB"). The functional currencies of the Company's Kazakhstan subsidiaries is Tenge.

These consolidated financial statements are presented in millions of Russian Rubles. Management believes that the Russian Ruble is the most convenient presentation currency for users of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over an entity;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company reassesses 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 listed above.

The Company controls an entity without the majority of voting rights if existing voting rights give the possibility to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights under the agreements; any additional facts and circumstances that indicate whether the Company has the ability to direct the significant activities at the time that decisions need to be made, including voting patterns at previous shareholder's meetings.

Consolidation of subsidiaries begins since the acquisition and ends with the loss of the control.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Segment information

Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has two operating segments pursuant to the IFRS 8 Segment Reporting, being retail and online sales; however online sales are below the quantitative thresholds, for being separately reportable segments and as such are aggregated with the retail segment. The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Customer base of the Group is diversified; therefore transactions with a single external customer do not exceed 10% of the Group's revenue.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets and liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Additional interests in subsidiaries acquired from non-controlling interests are accounted for as transactions between shareholders. Differences in the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired from the Group's non-controlling interests and the amount of consideration are recognized directly in retained earnings. Profit and losses, arising from the disposal of non-controlling interests in the subsidiaries of the Group are recognized in the consolidated statement of profit or loss and other comprehensive income.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**
(in millions of Russian Rubles)

Revenue recognition

The revenue is recognized by the Group in such a way to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognized on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognized only when the Group satisfies a performance obligation.

The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Bonuses and allowances received from suppliers

The Group receives bonuses and allowances for various programs, primarily volume incentives and reimbursements for specific arrangements such as markdowns and advertising. The Group has agreements in place with each supplier setting forth the specific conditions for each bonus or payment. Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonable assured the Group will reach these volumes.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. Substantially all payments from suppliers are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

Markdown reimbursements related to merchandise that has been sold are negotiated and documented by the Group's buying teams and are credited directly to cost of goods sold in the period received. Supplier allowances received prior to merchandise being sold are deferred and recognized as a reduction of merchandise cost.

Customer Loyalty Program

The Group runs a customer loyalty program which allows customers to earn points for each purchase made in any of the Group's retail stores and via Internet in the online store. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. This amount is deferred and recognized as revenue when the points are redeemed. Expected breakage is recognized as revenue at the time of initial sale as it is excluded from the amount allocated to loyalty points. Other administrative costs of the customer loyalty program are recorded in Selling, general and administrative expenses as incurred.

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Finance income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currency transactions

In preparing the financial statements of each subsidiary of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2018	At 31 December 2017
Closing exchange rates at the year-end – RUB		
1 EUR	79.4605	68.8668
1 Tenge	0.1806	0.1733
1 USD	69.4706	57.6002
	2018	2017
Average exchange rates for the year ended – RUB		
1 EUR	73.9546	65.9014
1 Tenge	0.1817	0.1790
1 USD	62.7078	58.3529

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Buildings, leasehold improvements and equipment are stated in the consolidated statement of financial position at their cost that includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of profit or loss and other comprehensive income as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	15-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office and warehouse equipment and other fixed assets	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when the Group has a right to renew and it is highly probable that the Group will exercise its right.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recognized within profits and losses for the period.

Leases (accounting policies applied for the year ended 31 December 2018 under IFRS 16)

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. This rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the estimated period of lease term, which is calculated based on lease term stated in lease agreements, periods covered by an option to extend or terminate the lease, and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Selling, general and administrative expenses" in the statement of profit or loss (see Note 7).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Leases (accounting policies applied for the year ended 31 December 2017 under IAS 17)

The Group has not entered in any finance leases, although enters into operating leases in the normal course of business, particularly relating to rental of retail store premises.

Operating lease payments are recognized as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are activated.

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Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Amortization is recognized on a straight-line basis over their estimated useful lives, presented below.

Purchased software	2-10 years
Other intangible assets	2-10 years

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment losses is immediately recognized in profit or loss.

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Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is determined on the average cost basis and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location (retail shops and distribution warehouses) and condition. Supplier allowances that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

At the end of each reporting period, the Group provides for estimated shrinkage, obsolete and slow-moving inventory.

Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: prices on similar assets and liabilities determined in active markets (unadjusted);
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost.

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The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The major part of the Group's debt instruments are presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets that are measured at amortised cost (represented by cash and cash equivalents, trade and other receivables). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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On derecognition of a financial asset other than in its entirety (e.g. when an entity retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the control is retained), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilitiesClassification as debt or equity

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. Otherwise financial liabilities are measured subsequently at amortised cost using the effective interest method.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at fair value through profit or loss. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

Cash-settled share-based compensation

In 2014-2017, certain Company's employees of managerial positions were entitled to share-based compensation ("phantom" shares). The Group's liabilities related to such payments are recognized as "cash-settled share-based compensation" and initially measured at the fair value of such liabilities. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

Equity-settled share-based compensation are accounted for at fair value determined on the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

Dividends

Dividends and the related taxes are recognized as a liability in the period in which they have been declared and become legally payable. Dividends can be paid out in accordance with laws of the jurisdictions in which the Group's entities are incorporated and registered.

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 profit or loss 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 "Significant Accounting Policies", management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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Lease terms determination

In determining the amount of lease liability relating to new or modified leases, judgment is required when assessing the lease term. The Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the residual useful life of the related major leasehold improvements, the Group's investment strategy and relevant investment decisions, as well as length of time until the extension or termination option under consideration.

Taxation

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income tax and other taxes as there are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of various matters is different from the amounts that were recorded, such difference will impact the amounts of current and deferred income tax in the period in which such determination is made.

Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns and advertising. Management has concluded that a significant portion of payments from suppliers is accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

From time to time, the Group agrees with a supplier to promote a specific product through a temporary price reduction. The supplier often compensates the Group for any pieces of the specific SKU (stock keeping unit) which is held in stock and is included in the program which is referred to as markdown compensation. These bonuses are treated as a reduction of the cost of goods sold in the period when the respective merchandise has been sold. Prior to 1 October 2017 the Group's accounts management team could not provide a reliable estimate of the markdown compensations for each SKU and as such treated them as volume bonuses subject to allocation to respective suppliers' stock on an aggregate basis. In 2017 the Group implemented new systems and processes to improve the identification of markdown compensations and as a result has been able to strip these out and account for them separately on an SKU-by-SKU basis in line with the Group's accounting policy. The estimated effect of the change in estimate is not considered to be material.

Measuring inventories

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories and obsolete inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory as well as industry and customer specific trends. Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as at reporting date is based on the average historical actual shrinkage results, net of surpluses, in stores of the Group.

DETSKY MIR GROUP

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Revenue attributed to loyalty program

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

The Group's revenue for the year ended 31 December 2018 and 2017 was as follows:

	2018	2017
Retail	102,014	92,297
Online store	8,771	4,637
Other	89	69
Total	110,874	97,003

Revenue from sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 5,071 million and RUB 2,570 million for the years ended 31 December 2018 and 2017 is included within online store revenue.

Revenue from ELC-branded stores, presented within retail revenue line, for the years ended 31 December 2018 and 2017 amounted to RUB 933 million and RUB 919 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 2,513 million and RUB 1,350 million for the years ended 31 December 2018 and 2017, respectively.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the year ended 31 December 2018 and 2017 were as follows:

	2018	2017
Payroll	9,609	8,664
Depreciation and amortization	9,100	1,818
Rent and utilities	1,595	9,538
Advertising and marketing expenses	1,494	1,552
Banking services	1,036	852
Repair and maintenance	501	448
Security expenses	400	350
Promotional materials	396	389
Software maintenance	320	310
Consulting services	193	208
Impairment of right-of-use assets	143	-
Taxes (other than income tax)	136	75
Stationery and office equipment	133	93
Communication expense	121	113
Travel expenses	99	96
Impairment of property, plant and equipment	48	-
Stationery and other materials	37	31
Bad debt expense	8	25
Other	181	204
Total	25,550	24,766

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

Payroll expenses for the year ended 31 December 2018 include RUB 783 million (for the year ended 31 December 2017: RUB 821 million) relating to long-term incentive plans (Note 20). Payroll expenses for the year ended 31 December 2018 also include contributions to state pension fund in amount of RUB 1,748 million (for the year ended 31 December 2017: RUB 1,589 million).

Starting from 1 January 2018, the Group applies IFRS 16, which affected the change in the amount of expenses presented in the line items Depreciation and amortization, Rent and utilities and the amount of interest expense on lease liabilities stated in the line item Finance expenses of the consolidated statement of profit or loss and other comprehensive income (Note 8).

8. FINANCE INCOME AND EXPENSES

The Group's finance income and expenses for the year ended 31 December 2018 and 2017 were as follows:

Finance income

	2018	2017
Interest income on bank deposits, cash and cash equivalents	5	14
Interest income from refundable lease advances paid	5	-
Interest income on loans issued to related parties	-	14
Total	10	28

Finance expenses

	2018	2017
Interest expense on lease liabilities	2,603	-
Interest expense on bank loans	1,539	1,657
Interest expense on bonds	285	209
Total	4,427	1,866

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of jurisdictions where major Group's subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

DETSKY MIR GROUP

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The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF and Kazakhstan on taxable profits (as defined) under tax law in these jurisdictions.

	2018	2017
Current tax		
In respect of the current year	(1,539)	(1,380)
In respect of prior years	170	419
	(1,369)	(961)
Deferred tax		
In respect of the current year	142	(75)
	142	(75)
Total income tax expense recognized in profit or loss	(1,227)	(1,036)

Below is a reconciliation of income tax calculated using the income tax rate effective in RF and Kazakhstan where the Group has its main operating entities to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017:

	2018	2017
Profit before tax	6,921	5,880
Income tax expense calculated at 20% (2017: 20%)	(1,384)	(1,176)
Non-deductible expenses, including non-deductible inventory losses	(109)	(266)
Deferred tax assets not recognized in respect of tax losses	-	(116)
Prior period current income tax adjustment	170	419
Effect from the application of preferential rates (other than 20%)	96	103
Income tax expense recognized in profit or loss	(1,227)	(1,036)

9.2. Deferred tax balances

Deferred tax assets and liabilities of the Group comprise differences resulting from differences between the tax and accounting bases for the following assets and liabilities:

2018	Opening balance	Recognized in profit or loss	Closing balance
Deferred tax assets in relation to:			
Inventories	4,380	(240)	4,140
Accrued expenses and other deductible temporary differences	2,838	454	3,292
Lease liabilities and right-of-use assets	-	1,135	1,135
Deferred revenue	606	114	720
Losses carried forward	140	(140)	-
Total temporary differences	7,964	1,323	9,287
Deferred tax assets	1,593	265	1,858
Deferred tax liabilities in relation to:			
Forward contracts	-	(396)	(396)
Property, plant and equipment	(145)	(68)	(213)
Trade receivables	-	(150)	(150)
Total temporary differences	(145)	(614)	(759)
Deferred tax liabilities	(29)	(123)	(152)
Net deferred tax assets	1,564	142	1,706

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

2017	Opening balance	Recognized in profit or loss	Closing balance
Deferred tax assets in relation to:			
Inventories	5,132	(752)	4,380
Accrued expenses and other deductible temporary differences	2,144	694	2,838
Deferred revenue	816	(210)	606
Losses carried forward	448	(308)	140
Total temporary differences	8,540	(576)	7,964
Deferred tax assets	1,708	(115)	1,593
Deferred tax liabilities in relation to:			
Property, plant and equipment	(345)	200	(145)
Total temporary differences	(345)	200	(145)
Deferred tax liabilities	(69)	40	(29)
Net deferred tax assets	1,639	(75)	1,564

As at 31 December 2018 and 31 December 2017 the Group had unrecognized deferred tax assets in respect of its subsidiaries' unused tax losses carry forward. Starting from 1 January 2017 the Group can offset not more than 50% of the annual taxable profit of each Russian subsidiary against tax loss carry forwards accumulated by the subsidiary and the Group' tax loss carry forwards have no expiration date (after the amendments to the Russian Tax Code).

The above-mentioned deferred tax assets may be recognized by the Group when there is certainty over their recoverability.

As at 31 December 2018 and 2017 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences.

10. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and leasehold improve- ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Cost					
At 1 January 2017	6,892	2,243	2,080	119	11,334
Additions	98	59	7	1,941	2,105
Transfers	560	385	472	(1,417)	-
Disposals	(248)	(33)	(100)	-	(381)
At 31 December 2017	7,302	2,654	2,459	643	13,058
Additions	57	39	10	3,415	3,521
Transfers	1,244	453	376	(2,073)	-
Disposals	(97)	(57)	(109)	-	(263)
At 31 December 2018	8,506	3,089	2,736	1,985	16,316

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

	Buildings and leasehold improve- ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construction in-progress	Total
Accumulated depreciation and impairment					
At 1 January 2017	2,322	1,078	991	-	4,391
Depreciation expense	688	262	532	-	1,482
Disposals	(184)	(30)	(87)	-	(301)
At 31 December 2017	2,826	1,310	1,436	-	5,572
Depreciation expense	787	371	542	-	1,700
Impairment	48	-	-	-	48
Disposals	(86)	(45)	(99)	-	(230)
At 31 December 2018	3,575	1,636	1,879	-	7,090
Carrying amount / net book value					
Balance at 1 January 2017	4,570	1,165	1,089	119	6,943
Balance at 31 December 2017	4,476	1,344	1,023	643	7,486
Balance at 31 December 2018	4,931	1,453	857	1,985	9,226

Most of the Group's additions of items of property, plant and equipment relate to launch of new retail stores and construction of a new warehouse.

As at 31 December 2018 construction in progress line was represented by costs related to warehouse construction in amount of RUB 1,706 million. The warehouse was put into operation in January 2019.

As at 31 December 2017 Construction in progress line was represented by advances paid for purchase of property, plant and equipment in the amount of RUB 440 million (Note 23).

Impairment of property, plant and equipment of RUB 48 million was recognized for the year ended 31 December 2018 in relation to leasehold improvements in stores expected to be closed in 2019. No impairment was recognized in 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2017	2,117	4	53	2,174
Additions	374	-	22	396
At 31 December 2017	2,491	4	75	2,570
Additions	302	-	4	306
At 31 December 2018	2,793	4	79	2,876
Accumulated amortization				
At 1 January 2017	873	-	-	873
Amortization expense	320	-	15	335
At 31 December 2017	1,193	-	15	1,208
Amortization expense	388	-	25	413
Balance at 31 December 2018	1,581	-	40	1,621
Carrying amount				
Balance at 1 January 2017	1,244	4	53	1,301
Balance at 31 December 2017	1,298	4	60	1,362
Balance at 31 December 2018	1,212	4	39	1,255

Additions of software in 2018 and 2017 relate primarily to licenses acquired for ERP system (system "SAP") and capitalized implementation costs. In 2018, the Group completed implementation of some improvements of SAP ERP and SAP EWM projects. In 2017, the Group completed implementation of SAP Hybris e-commerce platform.

12. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses (hereinafter "leased premises and buildings") with average lease term of 6 years. Movements in the carrying amount of right-of-use assets were as follows:

	Leased premises and buildings
Cost	
At 1 January 2018	33,886
New lease contracts and modification of existing lease contracts	2 846
Lease prepayments	34
Disposals	(71)
At 31 December 2018	36,695

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

	Leased premises and buildings
Accumulated depreciation and impairment	
At 1 January 2018	-
Depreciation expense	6,987
Disposals	(41)
Impairment	143
At 31 December 2018	7,089
Balance at 1 January 2018	33,886
Balance at 31 December 2018	29,606
	2018
Amounts recognized in profit and loss	
Depreciation expense on right-of-use assets	6,987
Interest expense on lease liabilities	2,603
Impairment	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	795

Impairment of right-of-use assets of RUB 143 million was recognized in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2018.

Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased retail stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost. Overall the variable payments constitute up to 8.5% of the Group's entire lease payments. The variable payments depend on sales and consequently on the overall economic development over the next few years. The Group expects that variable rent expenses are expected to continue to present a similar proportion of retail store sales in future years.

The total cash outflow for leases accounted for under IFRS 16 in the consolidated financial statements amount to RUB 8,725 million for the year ended 31 December 2018.

13. INVENTORIES

Inventories as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Merchandise inventories	34,866	26,287
Materials	197	153
Total	35,063	26,440

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 net realizable value in the amount of RUB 1,233 million and RUB 1,320 million for the years ended 31 December 2018 and 2017, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018 and 2017 no inventories were pledged.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

14. TRADE RECEIVABLES

Trade receivables as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Trade receivables	4,474	2,245
Less: allowance for doubtful trade receivables	(1)	(1)
Total	4,473	2,244

Trade receivables are generally represented by amounts receivable from suppliers in relation to volume bonuses, marketing and other bonuses and compensation for goods returned to suppliers.

15. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Value added tax receivable	1,208	556
Advances paid to suppliers	292	255
Other advances paid	76	103
Prepaid expenses	29	33
Other taxes receivable	5	70
Other receivables	500	263
Less: allowance for doubtful other receivables	(72)	(65)
Total	2,038	1,215

The following table summarizes the changes in the allowance for doubtful trade receivables and other receivables:

	2018	2017
Balance at beginning of the year	(65)	(45)
Additional allowance recognized on other receivables	(7)	(29)
Write-offs against allowance for doubtful receivables on advances paid and other receivables	-	9
Balance at the end of the year	(72)	(65)

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the credit quality of debtors from the date of receivables origination up to the reporting date. The details about concentration of credit risk and related risk management activities are described in Note 25.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Cash in transit	2,156	2,671
Cash on hand	363	251
Cash in bank accounts	816	233
Total	3,335	3,155

Cash in transit comprises cash collected from the Group's stores and not yet placed into the Group's bank accounts at the year-end.

17. EQUITY

Ordinary shares

As at 31 December 2018 and 2017 the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 1 January 2017	739,000,000	739,000,000	739,000,000
Purchase of treasury shares	(3,680,480)	-	-
Disposals of treasury shares	3,059,007	-	-
At 31 December 2017	738,378,527	739,000,000	739,000,000
Purchase of treasury shares	(2,127,840)	-	-
Disposals of treasury shares	443,310	-	-
At 31 December 2018	736,693,997	739,000,000	739,000,000

All ordinary shares have a par value of RUB 0.0004 per share.

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 (hereinafter, "RAS"), and if certain other requirements of Russian legislation are met. If statutory undistributed earnings are negative as at 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.

As at 31 December 2018, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2018 was RUB 6,538 million (for the year ended 31 December 2017: RUB 5,063 million).

On 15 December 2018 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2018 year in the amount of RUB 3,235 million or RUB 4.38 per share. These dividends were fully paid by the Group in December 2018.

On 22 May 2018 annual General meeting of shareholders approved the dividend payment for the year 2017 in the amount of RUB 2,864 million or RUB 3.88 per share. These dividends were fully paid by the Group in May 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

On 1 December 2017 at the extraordinary general meeting of shareholders a dividend payment for 9 months 2017 was approved in an amount of RUB 2,194 million or RUB 2.97 per share.

The dividends were partially paid by the Group in December 2017 in the amount of RUB 1,051 million, whereas the residual amount of RUB 1,143 (Note 21) was paid in February 2018.

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. These dividends were fully paid by the Group in July 2017.

Treasury shares

During the year ended 31 December 2018, the Group purchased 2,127,840 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 195 million. In the same year, 443,310 treasury shares were sold to management of the Group. During the year ended 31 December 2017, the Group purchased 3,680,480 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 375 million. In the same year, 2,629,472 treasury shares were used to settle a share-based arrangement (see Note 20), and 429,535 treasury shares were sold to management of the Group.

As at 31 December 2018 the Group had 2,306,003 treasury shares with cost of RUB 214 million. As at 31 December 2017 the Group had 621,473 treasury shares with cost of RUB 60 million.

18. LEASE LIABILITIES

As at 31 December 2018 lease liabilities comprised the following:

	31 December 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	7,415
More than 1 to 5 years	24,492
Over 5 years	7,170
Total minimum lease payments	39,077
Less amount representing interest	(8,531)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	6,840
More than 1 to 5 years	19,211
Over 5 years	4,495
Total present value of net minimum lease payments	30,546
Less current portion of lease obligations	(6,840)
Non-current portion of lease obligations	23,706

The following table summarizes the changes in the lease liabilities:

Balance as at 1 January 2018	33,822
Interest expense on lease liabilities	2,603
Lease payments	(8,725)
New lease contracts and modification of existing lease contracts	2,846
Balance as at 31 December 2018	30,546

Group's lease contracts include typical restrictions and covenants common for local business practice such as responsibility of the Group for regular maintenance and repair of the lease assets and its insurance, redesign and conduction of permanent improvements only with consent of the lessor, use of leased asset in accordance with current legislation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

In determining the fair value of lease liabilities management of the Group relied on the assumption that the carrying amount of lease liabilities approximates their fair value as at 31 December 2018, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Bank loans		
Unsecured bank loans in rubles	18,470	10,591
Bonds	3,000	3,000
	21,470	13,591
Less current portion of long-term debt	(12,542)	(4,635)
Loans and borrowings, non-current	8,928	8,956

Bank loans in rubles

At 31 December 2018 and 2017 the loans in rubles were provided to the Group by 7 and 5 Russian banks respectively.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2018 and 2017 was RUB 18,483 million and 10,852 million, respectively. The carrying amount of this debt was RUB 18,470 million and RUB 10,591 million, respectively. 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 bonds. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 31 December 2018 valuation was determined by reference to the Group's traded bonds yield of 9.4%, Level 2 input (31 December 2017: 9.0%, Level 2 input).

Bonds

In April 2017, the Group issued and placed 3,000,000 documentary exchange non-convertible bonds (Series BO 04) with a nominal value of 1 thousand rubles each at PJSC "Moscow Stock exchange". The coupon interest rate was set at 9.5% per annum. The bonds mature on 29 March 2024 with the pull offer date on 7 April 2020.

As at 31 December 2018 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding outstanding coupon income of RUB 68 million. As at 31 December 2017 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding outstanding coupon income of RUB 67 million.

The fair value of exchange-traded bonds, including the amounts due for payment within one year, as at 31 December 2018, amounted to RUB 3,111 million with the carrying amount equal to RUB 3,000 million (31 December 2017: RUB 3,034 million with the carrying amount equal to RUB 3,000 million).

Unused credit line facilities

As at 31 December 2018 and 2017, the total amount of undrawn credit lines of the Group was RUB 23,203 million and RUB 17,967 million, respectively, including RUB 20,067 million and RUB 12,532 million relating to long-term credit lines, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED) (in millions of Russian Rubles)

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 or demand early repayment of outstanding debt.

Management believes that as at 31 December 2018 and 31 December 2017 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Collateral

As at 31 December 2018 and 2017 the Group had no assets or securities transferred as collateral for loans and borrowings granted to the Group.

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the principal outstanding for the bank loans and bonds as at 31 December 2018:

As at 31 December 2018

Within the first month	629
From one to three months	135
From three months to one year	11,778
From one year to two years	6,999
From two year to five year	1,929
Total	21,470

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2018 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Long-term incentive plan adopted in 2014

The initial public offering completed by the Company in February 2017 triggered the full vesting of all outstanding phantom shares granted to certain employees in August 2014 under the Incentive Plan.

Phantom shares granted by the Group to the participants of the Incentive Plan as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	Weighted average exercise price
Outstanding at 1 January 2017	1,498,478	-
Forfeited / canceled during the period	(511,042)	-
Exercised during the period	(987,436)	-
Outstanding at 31 December 2017	-	-
Forfeited / canceled during the period	-	-
Exercised during the period	-	-
Outstanding at 31 December 2018	-	-
Exercisable at 31 December 2018	-	-

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Long-term incentive plan adopted in 2016

In September 2016, the Group's Board of Directors approved another 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 the period 2016-2018. The phantom shares vest on 31 December 2018, although are 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 at 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.

In February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 vested. They will become exercisable in portions during 2018-2020.

Phantom shares granted by the Group to the participants of the Incentive Plan 2 as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	Weighted average exercise price
Outstanding at 1 January 2017	1,848,874	-
Granted during the period	1,138,672	-
Forfeited / canceled during the period	(293,310)	-
Outstanding at 31 December 2017	2,694,236	-
Granted during the period	-	-
Forfeited / canceled during the period	-	-
Outstanding at 31 December 2018	2,694,236	-
Exercisable at 31 December 2018	-	-

Long-term incentive plans 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 vesting conditions are 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 redemption of phantom shares, a participant receives the awards partly in the form of a respective number of shares in the Company and partly in the form of cash consideration computed on the basis of the market value of one ordinary share of the Company. Accordingly, the Incentive Plan 2 for the General Director is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

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 and were exercised in full before the end of 2017.

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In August 2017, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 3"). Under the Incentive Plan 3, which covers a three-year period to 2020, the third anniversary of the Company's initial public offering, senior management in continuing employment as of that anniversary will be awarded with the Company's ordinary shares. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 2% of the appreciation in the Company's stock market value from the time of the initial public offering (being measured based on RUB 85 per one ordinary share) till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2017 the Group granted individual awards to senior management team in the aggregate amount being the equivalent to 1.8% of the appreciation in the Company's stock market value.

The fair value of this award was assessed on the assumption that all of the employees participating in the Incentive Plan 3 will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming no dividend payments. The fair value of the awards, which are equivalent to 13,302,000 of such share options, on the grant date amounted to RUB 423 million, or RUB 32 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the IPO. Inputs into the model are as follows:

Grant date share price	RUB 100
Exercise price	RUB 85
Expected volatility	9.0%
Option life	2.5 years
Dividend yield	none
Risk-free interest rate	7.5%

Long-term incentive plans amended in 2018

In October 2018, the Group's Board of Directors approved an amendment to the "Incentive Plan 3" for a number of employees participating in the plan. As per the Board of Directors resolution, the additional number of awards is granted to these employees. The additional number is equivalent of up to 2.6% of the appreciation in the Company's stock market value from the time of the amendment till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2018 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration computed on the basis of dividends paid. Accordingly, the amendment to the Incentive Plan 3 for the participants is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The fair value of the additional part of the award that is equity-settled was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming a fixed dividend payment. The fair value of the additional equity-settled part of the award, which is equivalent to 19,214,000 of such share options, on the grant date amounted to RUB 171 million, or RUB 9 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the amendment date. Inputs into the model are as follows:

Grant date share price	RUB 90
Exercise price	RUB 85
Expected volatility	4.9%
Option life	1.5 years
Dividend yield	4.4%
Risk-free interest rate	7.7%

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Liabilities recognized in relation to long-term incentive plans

As at 31 December 2018, the Group recognized liabilities of RUB 43 million in relation to the cash-settled share-based payment arrangements (at 31 December 2017: RUB 93 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 6 million (as at 31 December 2017: RUB 12 million). When estimating these liabilities the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 90.44 per share as at 31 December 2018 and RUB 96 per share as at 31 December 2017), and that all of the participants will stay employed by the Group until their rights vest.

Also as at 31 December 2018, the Group recognized liabilities of RUB 240 million in relation to the cash-settled share-based payment arrangements (at 31 December 2017: RUB 0 million), calculated as the share of dividends paid.

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2018, expenses totaling RUB 783 million (year ended 31 December 2017: RUB 821 million) incurred by the Group in relation to Incentive Plan 2, Incentive Plan 2 for the General Director, Incentive Plan 3 and amendment to Incentive Plan 3 were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including RUB 182 million (year ended 31 December 2017: RUB 525 million) arising from share-based payment transactions. These expenses, RUB 182 million, were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements in 2018 (2017: RUB 170 million). Certain equity-settled share-based awards were settled in the year ended 31 December 2017 by means of the Company's treasury shares with a carrying value of RUB 272 million.

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2018 and 2017 comprised the following:

	31 December 2018	31 December 2017
Accrued expenses and other current liabilities	2,894	2,695
Payables to employees	975	861
Advances received	541	466
Taxes payable other than income tax	423	152
Interest payable from bonds	68	67
Interest payable from bank loans	37	20
Dividends payable (Note 17)	-	1,143
Total	4,938	5,404

During the year ended 31 December 2018 the Group changed the presentation of accrued liabilities for rent expenses. Advances paid in the amount of RUB 859 million and 672 million were netted of with accrued expenses as at 31 December 2018 and at 31 December 2017, retrospectively.

22. DEFERRED REVENUE

Deferred revenue relating to the Group's customer loyalty program as at 31 December 2018 and 2017 was as follows:

	2018	2017
As at 1 January	606	816
Revenue deferred during the period	3,308	4,219
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(3,194)	(4,429)
As at 31 December	720	606

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During 2018 the Group recognized revenue in amount of RUB 606 million that was deferred as at 31 December 2017 (during 2017: RUB 816 million).

23. 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 and other related parties:

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	257	-	227	-
Trade receivables	1	-	-	-
Advances paid for purchase of property, plant and equipment (Note 10)	-	-	440	-
Other receivables /(payables)	10	(19)	22	(66)
Dividends payable	-	-	-	(1,143)

Outstanding balances with related parties are unsecured and will be settled in cash.

The Group's transactions with subsidiaries of PJSFC Sistema and other related parties for the year ended 31 December 2018 and 2017, as follows:

Related party	Type of transaction	2018	2017
MTS (i)	Communication costs	30	32
MTS (i)	Advertising and marketing expenses	87	150
MTS – Bank (i)	Bank commission	1	10
MTS – Bank (i)	Interest income	3	1
JSC PA-Maxima (ii)	Marketing expenses	50	3
CJSC "NVision group" (i)	Acquisition of fixed assets	71	50
CJSC "NVision group" (i)	Software maintenance	14	4
CJSC "DM-Finance" (i)	Repayment of loans receivable	-	1,060
CJSC "DM-Finance" (i)	Interest income	-	14
LLC "Concept Group" (ii)	Acquisition of goods	593	736
JSC "Progress" (iii)	Acquisition of goods	1,927	508
	Acquisition of property, plant and equipment	466	-
LLC "UK LandProfit" (i)	Rent	13	13
JSC "Reestr" (i)	Consulting and information services	1	1

(i) subsidiary of PJSFC "Sistema";

(ii) associate of PJSFC "Sistema";

(iii) other related parties, not included in PJSFC "Sistema" Group.

The information about dividends declared and paid is disclosed in Note 17.

Remuneration of key management personnel of the Group

During 2018 and 2017, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 1,264 million (including RUB 917 million of short-term non-share-based benefits, RUB 168 million of accrued short-term share-based compensation and RUB 179 million of accrued long-term share-based compensation) and RUB 1,014 million (including RUB 579 million of short-term non-share-based benefits, RUB 386 million of accrued short-term share-based compensation and RUB 49 million of accrued long-term share-based compensation), respectively.

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24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and cash equivalents as detailed in Note 16) and equity of the Group.

The Group's management periodically reviews the capital structure of the Group. As part of this review, management considers the cost of capital, risks associated with each class of capital and the level of debt-to-equity ratio.

Categories of financial instruments as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Financial assets at amortized cost		
Cash and cash equivalents	3,335	3,155
Trade accounts receivable	4,473	2,244
Other receivables	106	263
Security deposits	132	-
	8,046	5,662
Financial liabilities at amortized cost		
Lease liabilities	(30,546)	-
Trade payables	(29,747)	(24,388)
Loans and borrowings	(21,470)	(13,591)
Other payables	(3,974)	(4,786)
	(85,737)	(42,765)
Net financial liabilities	(77,691)	(37,103)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	New lease contracts and modification of existing lease contracts	Financing cash flows (i)	31 December 2018
Bank loans	10,591	-	7,879	18,470
Bonds	3,000	-	-	3,000
Lease liabilities	33,822	2,846	(6,122)	30,546
Total	47,413	2,846	1,757	52,016

	1 January 2017	Financing cash flows (i)	31 December 2017
Bank loans	14,638	(4,047)	10,591
Bonds	-	3,000	3,000
Total	14,638	(1,047)	13,591

- (i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows. The cash flows for lease liabilities comprise lease payments.

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25. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, foreign currency risk and interest rate risk. A description of the Group's risks and management policies in relation to those risks is described below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group thoroughly controls and manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of merchandise inventories is 3 to 5 months. No interest is charged on the trade payables.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include principal cash flows except for lease liabilities.

	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2018					
Fixed rate borrowings					
Loan principal	21,006	313	11,765	8,928	-
Interest	103	103	-	-	-
	21,109	416	11,765	8,928	-
Floating rate borrowings					
Loan principal (bank overdraft)	464	451	13	-	-
Interest	2	2	-	-	-
	466	453	13	-	-
Lease liabilities					
Lease liabilities with interest	39,077	1,969	5,446	24,492	7,170
	39,077	1,969	5,446	24,492	7,170
Other financial liabilities					
Trade payables	29,747	-	29,747	-	-
Other non-interest bearing liabilities	3,869	3,869	-	-	-
	33,616	3,869	29,747	-	-
Total	94,268	6,707	46,971	33,420	7,170

	Total	Less than 3 months	3 months to 1 year	1-5 years
At 31 December 2017				
Fixed rate borrowings				
Loan principal	13,591	3,088	1,547	8,956
Interest	87	87	-	-
	13,678	3,175	1,547	8,956
Other financial liabilities				
Trade payables	24,388	-	24,388	-
Other non-interest bearing liabilities	4,700	4,700	-	-
	29,088	4,700	24,388	-
Total	42,766	7,875	25,935	8,956

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The weighted average effective interest rate for borrowings as at 31 December 2018 was 9.28% (as at 31 December 2017: 10.19%).

The weighted average effective interest rate for bonds as at 31 December 2018 was 9.72% (as at 31 December 2017: 10.19%).

The weighted average effective interest rate for lease liabilities as at 31 December 2018 was 8.63%.

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables as well as cash in current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable where legal right of offset exists or paid in cash. At 31 December 2018 trade receivables from three major suppliers comprised 32% of the Group's consolidated trade receivables (31 December 2017: 44%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury function. Management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The table below shows the balances that the Group has with 5 of its major banks as at the balance sheet date:

Bank	Rating	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
Sberbank	Ba2 (Moody's)	2,038	1,991
Alfa-Bank	Ba2 (Moody's)	265	259
MTS bank	BB- (Fitch)	257	227
Raiffeisenbank	Ba2 (Moody's)	250	259
VTB	Ba2 (Moody's)	137	157
Total		2,947	2,893

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2018 and 2017.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

During the year ended 31 December 2018 the Group entered into foreign currency forward contracts to economically hedge the USD merchandise purchases from its suppliers. The Group entered into these contracts in order to reduce its exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. The Group's foreign exchange forward contracts typically matured within 12 months and did not require the Group to post collateral.

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As at 31 December 2018 outstanding receivables from forward contracts amounted to RUB 396 million and were included in advances paid and other receivables line item (Note 15). As at 31 December 2017 outstanding payables from forward contracts amounted to RUB 95 million and were included in advances received, other payables and accrued expenses line item (Note 21). During 2018 gains from foreign exchange forward contracts amounted to RUB 491 million and were included in the foreign exchange gain line item in the consolidated statement of profit and loss and other comprehensive income (2017: RUB 18 million).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	31 December 2018		31 December 2017	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	1	5	1	-
Trade and other receivables	4	140	1	139
Total assets	5	145	2	139
Liabilities				
Trade and other payables	(217)	(7,189)	(150)	(4,308)
Lease liabilities	(112)	(295)	-	-
Total liabilities	(329)	(7,484)	(150)	(4,308)
Total net position	(324)	(7,339)	(148)	(4,169)

Foreign currency sensitivity analysis

The tables below detail the Group's sensitivity to a strengthening/weakening of the RUB against the primary foreign currencies of the Group by 20%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	USD		Euro	
	Change in currency exchange rate, %	Impact on profit before tax	Change in currency exchange rate, %	Impact on profit before tax
2018	+20%	(1,468)	+20%	(65)
	-20%	1,468	-20%	65

	USD		Euro	
	Change in currency exchange rate, %	Impact on profit before tax	Change in currency exchange rate, %	Impact on profit before tax
2017	+20%	(834)	+20%	(30)
	-20%	834	-20%	30

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2018 the Group has only 2 credit overdrafts amounted of RUB 464 million bearing floating interest rates. One of the overdrafts amounted to RUB 451 million was fully repaid in January 2019. As at 31 December 2017 the Group did not have borrowings or other financial liabilities bearing floating rates.

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26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to RUB 79 million, which relate to equipment for the new warehouse (31 December 2017: there were no material contractual commitments).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements 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 then in the first 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.

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.

27. SUBSEQUENT EVENTS

In February 2019 the Group opened its first retail store under "Detsky Mir" brand in the Republic of Belarus.