

# **DETSKY MIR GROUP**

**Interim Condensed Consolidated  
Financial Information (Unaudited)**  
Half-Year Ended 30 June 2016

# DETSKY MIR GROUP

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## DETSKY MIR GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED)

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Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of Public Joint Stock Company "Detsky Mir" (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the consolidated results of its operations, cash flows and changes in equity for the half-year then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

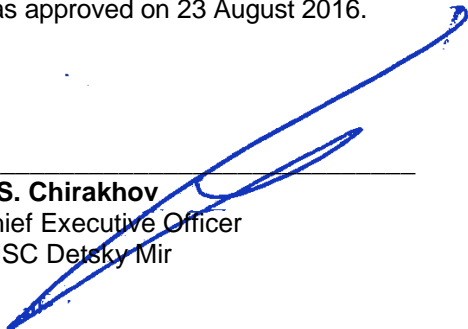
In preparing the interim condensed consolidated financial information, management is responsible for:

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

Management is also responsible for:


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

The interim condensed consolidated financial information of the Group for the half-year ended 30 June 2016 was approved on 23 August 2016.



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**V.S. Chirakhov**  
Chief Executive Officer  
PJSC Detsky Mir



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**A.S. Garmanova**  
Chief Financial Officer  
PJSC Detsky Mir

## **INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

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

### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company "Detsky Mir" (the "Company") and its subsidiaries (the "Group") as at 30 June 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the half-year then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### **Scope of Review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information of the Group for the half-year ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE & TOUCHE

Moscow  
23 August 2016

## DETSKY MIR GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles, except earnings per share)

	Notes	For the half-year ended	
		30 June 2016	30 June 2015
REVENUE	3	33,736	24,744
COST OF SALES		<u>(22,529)</u>	<u>(16,305)</u>
GROSS PROFIT		11,207	8,439
Selling, general and administrative expenses	4	(9,562)	(7,533)
Interest in earnings of associates, net of tax		9	-
Other operating (expenses) and income, net		<u>(14)</u>	<u>1</u>
OPERATING PROFIT		1,640	907
Finance income	14	117	329
Finance expense	5	(965)	(675)
Foreign exchange gain (loss)		<u>44</u>	<u>(52)</u>
PROFIT BEFORE INCOME TAX EXPENSE		836	509
Income tax expense		<u>(209)</u>	<u>(141)</u>
<b>NET PROFIT FOR THE PERIOD</b>		<b><u>627</u></b>	<b><u>368</u></b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		<u>62</u>	<u>12</u>
<b>TOTAL COMPREHENSIVE INCOME for the period</b>		<b><u>689</u></b>	<b><u>380</u></b>
<b>Earnings per share</b>			
Weighted average number of shares outstanding, basic and diluted		739,000,000	739,000,000
Earnings per share, basic and diluted (in Russian Rubles per share)		0,85	0,50

The Notes on pages 7 to 15 form an integral part of this interim condensed consolidated financial information.

# DETSKY MIR GROUP

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

	Notes	30 June 2016	31 December 2015
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	6	6,578	6,791
Other intangible assets		1,317	1,300
Investment in associate		56	56
Long-term loans receivable	7	1,024	5,807
Deferred tax assets, net		1,273	1,151
Other non-current assets		271	247
<b>Total non-current assets</b>		<b>10,519</b>	<b>15,352</b>
<b>CURRENT ASSETS:</b>			
Inventories	8	18,837	17,346
Trade receivables		1,843	2,710
Advances paid and other receivables		1,910	1,850
Other taxes receivable		3	2
Cash and cash equivalents	9	612	1,934
<b>Total current assets</b>		<b>23,205</b>	<b>23,842</b>
<b>TOTAL ASSETS</b>		<b>33,724</b>	<b>39,194</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital		1	1
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,429)	(5,448)
Currency translation reserve		112	49
<b>Total equity</b>		<b>(523)</b>	<b>395</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans and borrowings	11	4,665	5,465
Deferred tax liabilities		42	63
<b>Total non-current liabilities</b>		<b>4,707</b>	<b>5,528</b>
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable		15,701	16,718
Short-term loans and borrowings and current portion of long-term loans and borrowings	11	8,937	12,894
Advances received, other payables and accrued expenses	12	4,426	2,952
Deferred revenue		362	278
Income tax payable		114	429
<b>Total current liabilities</b>		<b>29,540</b>	<b>33,271</b>
<b>Total liabilities</b>		<b>34,247</b>	<b>38,799</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>33,724</b>	<b>39,194</b>

The Notes on pages 7 to 15 form an integral part of this interim condensed consolidated financial information.

## DETSKY MIR GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
<b>Balance as at 1 January 2015</b>		<b>1</b>	<b>6,536</b>	<b>(3,878)</b>	<b>(13)</b>	<b>2,646</b>
Dividends declared		-	-	(839)	-	(839)
Total comprehensive income for the period		-	-	368	12	380
<b>Balance as at 30 June 2015</b>		<b>1</b>	<b>6,536</b>	<b>(4,349)</b>	<b>(1)</b>	<b>2,187</b>
<b>Balance as at 1 January 2016</b>		<b>1</b>	<b>5,793</b>	<b>(5,448)</b>	<b>49</b>	<b>395</b>
Dividends declared	10	-	-	(1,308)	-	<b>(1,308)</b>
Exercise of share based payments	13	-	-	(307)	-	(307)
Other movements in equity		-	-	7	-	7
Total comprehensive income for the period		-	-	627	63	690
<b>Balance as at 30 June 2016</b>		<b>1</b>	<b>5,793</b>	<b>(6,429)</b>	<b>112</b>	<b>(523)</b>

The Notes on pages 7 to 15 form an integral part of this interim condensed consolidated financial information.

# DETSKY MIR GROUP

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

	For the half-year ended	
	30 June 2016	30 June 2015
<b>OPERATING ACTIVITIES:</b>		
Total comprehensive income for the period	627	368
<i>Adjustments for:</i>		
Income tax expense	209	141
Share based compensation	-	28
Finance income	(117)	(329)
Finance expenses	965	675
Loss on disposal of fixed assets and intangible assets	2	43
Bad debts written-off and change in allowance for doubtful accounts	12	(31)
Shrinkage and merchandise inventories obsolescence expenses	785	490
Depreciation and amortization	771	410
(Gain)/loss on foreign exchange	(45)	52
Interest in earnings of associates, net of tax	(9)	-
<i>Changes in working capital:</i>		
Decrease/(increase) in trade receivables	860	(415)
Increase in other receivables and advances paid	(89)	(49)
Increase in inventories	(2,275)	(2,415)
Decrease in trade accounts payable	(908)	(90)
Decrease in advances received, other accounts payable and accrued expenses	(388)	(1,076)
Increase in deferred revenue	84	-
<b>Cash received from / (used in) operations</b>	<b>1,092</b>	<b>(2,198)</b>
Interest paid	(977)	(766)
Interest received	22	-
Income taxes paid	(697)	(76)
<b>Net cash used in operating activities</b>	<b>(560)</b>	<b>(3,040)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(431)	(933)
Purchase of intangible assets	(151)	(745)
Dividends received from associates	9	-
Proceeds from repayment of loans issued	4,876	-
<b>Net cash received from / (used in) investing activities</b>	<b>4,303</b>	<b>(1,678)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from loans and borrowings	8,686	12,927
Repayment of loans and borrowings	(13,444)	(9,346)
Share-based payments	(307)	-
<b>Net cash cash (used in) / received from financing activities</b>	<b>(5,064)</b>	<b>3,581</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,321)</b>	<b>(1,137)</b>
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>	<b>1,934</b>	<b>1,670</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>612</b>	<b>533</b>

The Notes on pages 7 to 15 form an integral part of this interim condensed consolidated financial information.



# DETSKY MIR GROUP

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

### 1. GENERAL INFORMATION

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

The primary activity of the Group is the sale of children’s clothing and products through retail stores. During the six months ended 30 June 2016 and as at 30 June 2016 the Group operated “Detsky Mir” branded stores in Russia and Kazakhstan and Early Learning Centre (hereinafter, the “ELC”) branded retail stores in Russia. See below a full listing of Group entities.

The controlling shareholder of the Company is JSFC Sistema (“Sistema”). The ultimate controlling owner of the Company is Mr. Vladimir Yevtushenkov.

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

	<u>30 June 2016</u>	<u>31 December 2015</u>
JSFC Sistema and its subsidiaries	72.63%	75.82%
Floette Holdings Limited <sup>1</sup>	11.55%	11.55%
Eksapzo Holdings Limited <sup>1</sup>	11.55%	11.55%
Mr. V.S. Chirakhov	1.79%	1.08%
Other individuals	2.48%	-
<b>Total</b>	<b><u>100%</u></b>	<b><u>100%</u></b>

<sup>1</sup> Represent the interests of the “Russian-Chinese investment Fund” (note 16).

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

<b>Subsidiaries</b>	<b>Ownership interest and proportion of voting power</b>	
	<u>30 June 2016</u>	<u>31 December 2015</u>
Detsky Mir Kazakhstan, LLP, Kazakhstan	100%	100%
Kub-Market LLC, RF	100%	100%
Spartema Limited, Cyprus	100%	100%
Detsky Mir GMBH, Germany	100%	100%

As at 31 December 2015 and 2014, the Group has no subsidiaries with significant non-controlling interests.

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### ***Basis of Preparation***

The annual consolidated financial statements of PJSC “Detsky Mir” and its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”). This interim condensed consolidated financial information for the half-year ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015.

# DETSKY MIR GROUP

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

The previous interim condensed consolidated financial information for six months ended 30 June 2015 was issued in accordance with US GAAP. As disclosed in the annual Group's financial statements for the year ended 31 December 2015, adoption of IFRS did not have material effect on the indicators of financial position, financial performance and cash flows. Thus, the comparatives included in this interim condensed consolidated financial information are based on the interim condensed consolidated financial information for the six months ended 30 June 2015 prepared in accordance with US GAAP with no adjustments.

**Functional and presentation currency** – The amounts in the interim condensed consolidated financial information are presented in Russian Rubles ("RUB"), which is functional currency of the Group's entities and the Group's presentation currency, unless expressly indicated otherwise.

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

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

### Significant accounting policies

#### Adoption of New Standards and Interpretations

The accounting policies applied by the Group are consistent with those of the financial year ended as at 31 December 2015, except for the adoption of the new standards and interpretations described below.

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

- *Disclosure Initiative* (Amendments to IAS 1);
- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38);
- Annual Improvements 2012-2014 Cycle.

The adoption of these standards and interpretations has not had a significant impact on interim condensed consolidated financial information of the Group for the half-year ended 30 June 2016.

### 3. REVENUE

The Group's revenue for the six months ended 30 June 2016 and 2015 was as follows:

	For the half-year ended	
	30 June 2016	30 June 2015
Retail, excluding luxury and the online store	32,951	24,280
Online store	732	312
Luxury	-	106
Other	53	46
<b>Total</b>	<b>33,736</b>	<b>24,744</b>

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

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

Revenue from "ELC-branded stores", reflected within retail sales, for the six months ended 30 June 2016, and 2015 was RUB 439 million and RUB 391 million, respectively.

#### 4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the six months ended 30 June 2016 and 2015 were as follows:

	For the half-year ended	
	30 June 2016	30 June 2015
Rent and utility	3,963	3,348
Payroll	3,124	2,557
Depreciation of fixed assets and intangible assets	771	410
Advertising and marketing expenses	471	369
Banking services	317	196
Support of software	165	47
Repair and maintenance	155	127
Security expenses	115	112
Promotional materials	102	80
Taxes (other than income tax)	70	25
Consulting services	62	60
Communication expenses	54	39
Travel expenses	37	28
Stationary and other materials	15	40
Other	141	95
<b>Total</b>	<b>9,562</b>	<b>7,533</b>

#### 5. FINANCE EXPENSES

	For the half-year ended	
	30 June 2016	30 June 2015
Interest expense on bonds	-	39
Interest expense on bank loans	965	636
<b>Total</b>	<b>965</b>	<b>675</b>

#### 6. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2016, the Group incurred capital expenditures in the amount of RUB 426 million (for the half year ended 30 June 2015: RUB 933 million), which mainly comprised leasehold improvements and trade equipment.

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

#### 7. LOANS RECEIVABLE

Long-term loans issued on 30 June 2016 and 31 December 2015 were as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
A loan granted to CJSC DM-Finance, a related party, on 3 July 2013 denominated in Rubles at 10.55% per annum maturing in September 2018	764	4,553
Accrued interest	<u>260</u>	<u>1,254</u>
<b>Total</b>	<b><u>1,024</u></b>	<b><u>5,807</u></b>

In January-February 2016 CJSC "DM-Finance" has partially repaid the loan previously issued by the Group in the amount of RUB 4,875 million, including interest.

#### 8. INVENTORIES

Inventories as at 30 June 2016 and 31 December 2015 were as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Goods for resale	18,726	17,275
Materials	<u>111</u>	<u>71</u>
<b>Total</b>	<b><u>18,837</u></b>	<b><u>17,346</u></b>

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

Write-offs of merchandise inventories relating to shrinkage and write-down to market in the amount of RUB 785 million and RUB 490 million for the six months ended 30 June 2016 and 2015, (respectively) were recorded within cost of sales in profit or loss.

#### 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2016 and 31 December 2015 consisted of the following:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Cash in current bank accounts	340	317
Cash in transit	198	758
Bank deposits in rubles	-	690
Cash on hand	<u>74</u>	<u>169</u>
<b>Total</b>	<b><u>612</u></b>	<b><u>1,934</u></b>

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

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

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#### 10. DIVIDENDS

In accordance with the Russian legislation, earnings available for distribution as dividends are limited to retained earnings of the Company, calculated in accordance with Russian statutory rules, and expressed in local currency. On 28 June 2016 annual General meeting of shareholders approved the dividend payment for the year 2015 in the amount of RUB 1,308 million or RUB 1.77 per share.

#### 11. LOANS AND BORROWINGS

Loans and borrowings as at 30 June 2016 and 31 December 2015 comprise:

	<u>30 June 2016</u>	<u>31 December 2015</u>
<b>Bank loans</b>		
Secured bank loans in rubles	3,200	3,200
Unsecured bank loans in rubles	10,402	15,159
	<u>13,602</u>	<u>18,359</u>
Less current portion of long-term debt	(8,937)	(12,894)
<b>Loans and borrowings less short-term part</b>	<u><u>4,665</u></u>	<u><u>5,465</u></u>

##### **Bank loans in rubles**

As of June 30, 2016 the loans in rubles were provided to the Group by 4 russian banks (31 December 2015 – 6 banks).

##### **Unused credit lines**

As at 30 June 2016 and 31 December 2015, the total amount of undrawn credit lines of the Group amounted to RUB 13,014 million and RUB 7,217 million, including RUB 2,559 million and RUB 3,610 million long-term credit lines.

##### **Restrictive covenants**

Some of the loan agreements of the Group contain certain restrictive covenants, including requirements to comply with a certain level of financial performance. Various credit agreements of the Group contain various provisions that come into force in the case of failure of one of the parties to certain limitations. In particular, the Bank may increase the interest rate on the loan, require additional collateral or immediate payment of the corresponding amount of debt. Management believes that as at 30 June 2016 and 31 December 2015 the Group is in compliance with all financial covenants of the loan agreements.

##### **Pledges**

The performance of the Group's obligations under a credit agreement with a bank as of 30 June 2016 is secured by a mortgage of a building with carrying value of RUB 2,504 million as of this date.

With the exception of the above mentioned assets as at 30 June 2016 the Group has no other assets pledged as collateral for loans and borrowings granted to the Group.

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

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

	<u>30 June 2016</u>	<u>31 December 2015</u>
Accrued expenses and other current liabilities	2,369	1,851
Dividends payable	1,308	-
Accrued salaries	439	631
Taxes payable (other than income tax)	283	416
Interest payable	27	54
<b>Total</b>	<b><u>4,426</u></b>	<b><u>2,952</u></b>

#### 13. SHARE-BASED PAYMENTS

##### Long-term incentive plan

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

In June 2016, the Group settled part of its obligations under previously granted "phantom shares" by making respective cash payments, of which 50% were designated to purchase 0.11% of the Company's ordinary shares from a JSFC Sistema subsidiary.

As at 30 June 2016, the Group recognized liabilities of RUB 139 million in relation to the Incentive Plan, calculated as the fair value of the phantom shares granted to employees as at this date (as at 31 December 2015: RUB 278 million). These liabilities include accrued social contributions of RUB 33 million (as at 31 December 2015: RUB 65 million). Income upon partial settlement of the phantom shares of RUB 32 million was recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income for half-year ended 30 June 2016 (for the year ended 31 December 2015: expense of RUB 28 million).

##### Share-based compensation of the General Director

In June 2016, the Group General Director's previously granted right to receive Company's ordinary shares was extinguished by cash settlement mutually agreed by the Group and the General Director. This cash payment was designated to purchase 0.71% of the Company's ordinary shares from a JSFC Sistema subsidiary. This settlement was recognized as debit in equity within the Accumulated Losses line.

#### 14. 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.

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

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 JSFC Sistema:

	30 June 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
<b>Payments with related parties</b>				
Bank deposits	12	-	11	-
Other receivables/ (payables), other than dividends payable	16	(115)	12	(108)
Loans issued/ (received)	1,024	-	5,807	-
Dividends payable (in other payables)	-	(1,308)	-	-

Payments with related parties unsecured and will paid off in cash.

The Group's transactions with subsidiaries of Sistema for the half-year ended 30 June 2016 and 2015, as follows:

- Costs of rent and utilities: for the half-year ended 30 June 2016 and 2015, the Group incurred expenses on contracts with the company "Detsky Mir-Retail assets", a subsidiary of Sistema, in the amount of RUB 18 million and RUB 32 million, respectively.
- Communication costs: for the half-year ended 30 June 2016 and 2015, the Group incurred expenses under the agreement with MTS, a subsidiary of Sistema, in the amount of RUB 7 million and RUB 10 million, respectively.
- Advertising and marketing expenses: for the half-year ended 30 June 2016 and 2015, the Group incurred expenses on advertising and marketing under the contract with the company "PA-Maxima", an associate of AFK Sistema, in the amount of RUB 1 million and RUB 10 million, respectively. For the half-year ended 30 June 2016 and 2015, the Group also incurred expenses on advertising and marketing agreement with MTS, a subsidiary of Sistema, in the amount of RUB 24 million and RUB 35 million, respectively.
- Acquisition costs of fixed assets: for the half-year ended 30 June 2016 and 2015, the Group incurred expenses in connection with the acquisition of property, plant and equipment at CJSC NVision group, subsidiaries of Sistema, in the amount of RUB 11 million and RUB 10 million, respectively.
- The costs of organizing events: for the half-year ended 30 June 2016 and 2015, the Group incurred expenses under the agreement with Intourist subsidiary of AFK Sistema in the amount of RUB 17 million and nil, respectively.
- Interest income: for the half-year ended 30 June 2016 and 2015, the Group received interest income from affiliates of AFK Sistema in the amount of RUB 94 million and RUB 311 million, respectively.

#### Remuneration of key management personnel of the Group

During the half-year ended 30 June 2016 and 2015, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 93 million and RUB 135 million, respectively.

## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) (in millions of Russian Rubles)

#### 15. COMMITMENTS AND CONTINGENCIES

##### Operating leases

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

Future minimum rental payments (w/o VAT) under operating leases classified as non-cancellable for IAS 17 purposes, as at 30 June 2016 and 31 December 2015 are as follows:

	<u>30 June 2016</u>	<u>31 December 2015</u>
During one year	7,770	6,447
More than one year, but more than 5 years	37,358	32,806
More than 5 years	<u>11,188</u>	<u>9,490</u>
	<u><b>56,316</b></u>	<u><b>48,743</b></u>

##### Option agreements

In December 2015, AFK "Sistema" sold 23.1% of the Company to the Russia-China Investment Fund ("RCIF") for a total consideration of RUB 9.75 billion. The Group has granted the buyer an option to put its stake in the Company at fair value in case of the non-occurrence of prescribed future events. The option is exercisable between 2021 and 2023. The Group concluded that this puttable instrument should be classified as equity instrument rather than a financial liability because the occurrence of these events is considered under the control of the Group and AFK "Sistema".

##### Legal

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

##### Taxation

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



## DETSKY MIR GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2016 (UNAUDITED) *(in millions of Russian Rubles)*

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#### Operating environment

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

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

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

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

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

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

In July-August, the Group made a dividend payment to its shareholders thus settling liability that was recognized in the interim condensed consolidated statement of financial position as at 30 June 2016 (Note 12).

The Group has evaluated subsequent events through 23 August 2016, the date on which the interim condensed consolidated financial statements are available to be issued.