Detsky Mir Group 1H2017 Unaudited Financial Results

24 August 2017

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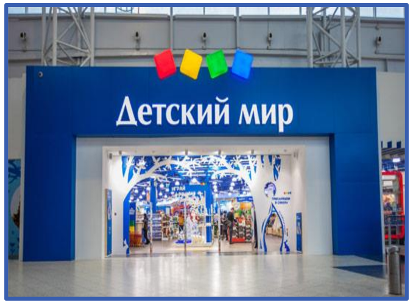
This presentation is for information purposes only.
Some of the information in this presentation may contain projections or other forward-looking statements regarding future events or the future financial performance of Detsky Mir Group. You can identify forward-looking statements by terms such as “expect,” “believe,” “anticipate,” “continue,” “estimate,” “intend,” “will,” “could,” “would,” “should,” “may” or “might”, the negative of such terms or other similar expressions. These statements are only predictions and actual events or results may differ materially. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, as well as many other risks specifically related to Detsky Mir Group and its operations. The Company and all its directors, officers, employees and advisors herewith state that they are not obliged to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events, save as required under applicable laws.

1H2017 Financial Highlights

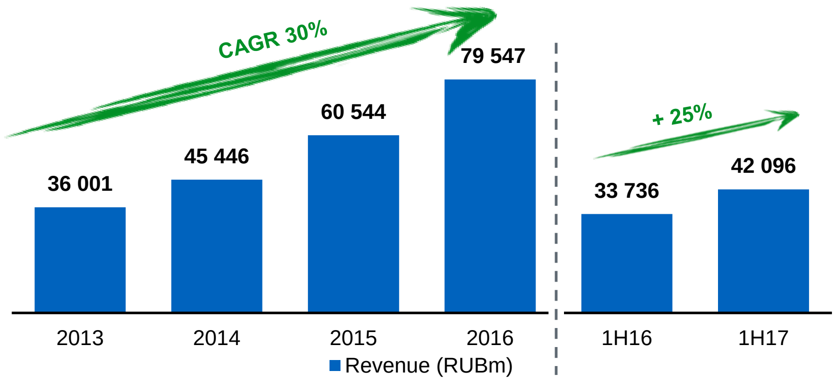


Solid Revenue Growth	**Total Revenue increased by 24.8%, reaching RUB 42.1bn** ▶ LFL sales growth[1] of Detsky mir stores in Russia was 7.9% in 1H 2017 (number of transactions growth was 12.0%)
Operational Efficiency	**Over 140 bps improvement in SG&A[2] as % of revenue** ▶ optimization measures focused on decrease in rent and payroll costs
Improved EBITDA Margin	**Adjusted EBITDA[3] of RUB 3.3bn, up 39.9%** ▶ the EBITDA margin[4] reached 7.9% vs 7.0% in 1H 2016
High Profit Margin	**Adjusted Profit for the period[5] increased by more than 1.5 times to RUB 978mn** ▶ the Profit margin[6] reached 2.3% vs 1.8% in 1H 2016
Conservative leverage	**Net Debt / Adjusted EBITDA LTM ratio amounted to 1.7x** ▶ the weighted average interest rate – 10.5% (as of 30 June 2017)

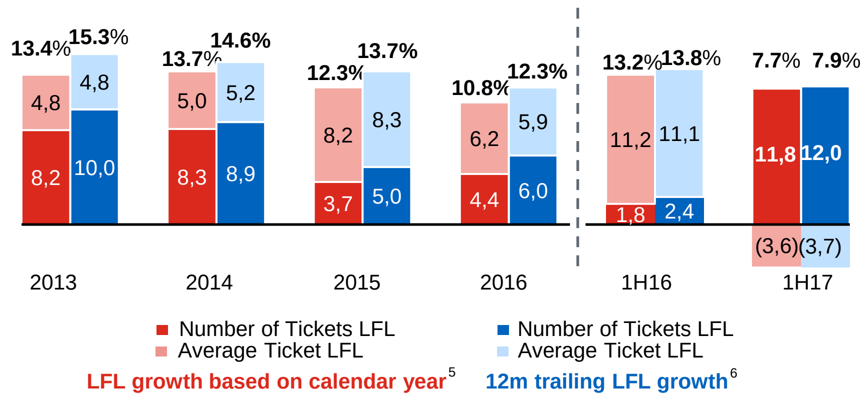
Source: The Group's consolidated financial statements for 2016-2017 under IFRS, Company data
[1] LfL growth in RUB terms. LfL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months.
[2] Selling, general and administrative expanses exclude D&A expenses and adjusted for LTI bonuses
[3] Adjusted EBITDA is calculated as profit for the period before income tax, FX loss, net finance expense, D&A, adjusted for share-based compensation and cash bonuses under the LTI program, as well as Income received from partial termination of employees' right to receive shares under the LTI program
[4] Adjusted EBITDA margin is adjusted EBITDA divided by total revenue
[5] Adjusted for one-off effects relating to the expense under the LTI management program
[6] Adjusted the Profit margin is adjusted Profit for the period divided by total revenue

Strong Financial Performance

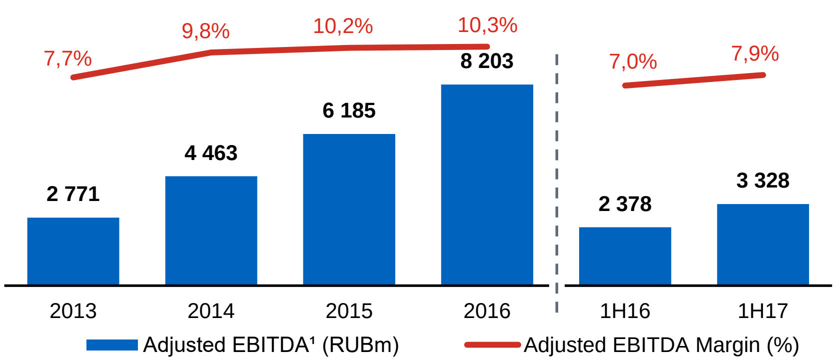
Exceptional Revenue Growth Trajectory…



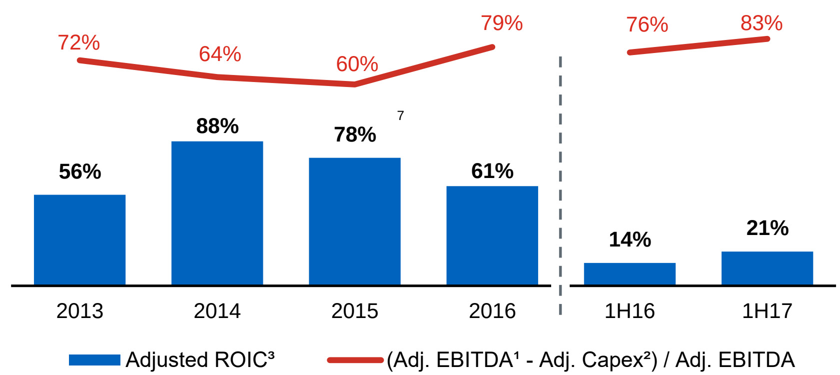
…Underpinned by Strong and Consistent Like For Like Growth[4]



Significant Margin Expansion with Scale Benefits



Strong Cash Conversion and Financial Returns



Source: Company data. Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.

[1] Adjusted for one-off items

[2] Adjusted for Bekasovo distribution center construction

[3] Calculated as operating profit, adjusted for the effect of disposal of Yakimanka building in 2014 and LTI bonus payments,incl. Income received from partial termination of employees' right to receive shares under the LTI program, divided by average capital invested. Capital invested is calculated as Net Debt plus total equity(deficit) minus a loan granted to CJSC "DM-Finance"

[4] Includes only Detsky Mir branded stores in Russia

[5] LfL growth includes only DM stores in Russia that were in operation for one full prior calendar year

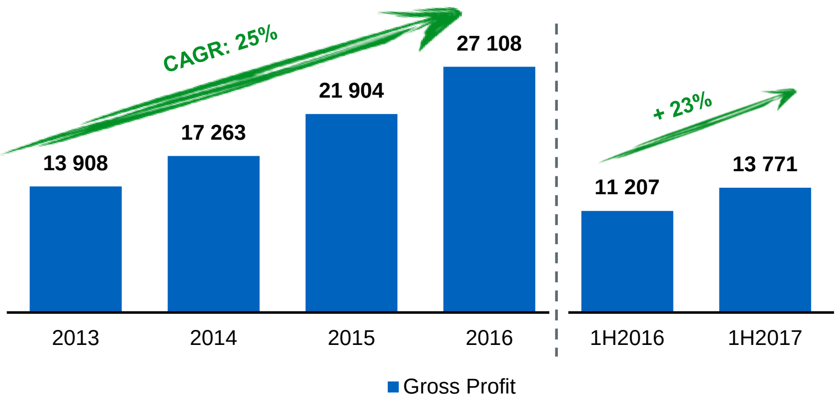
[6] LfL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months

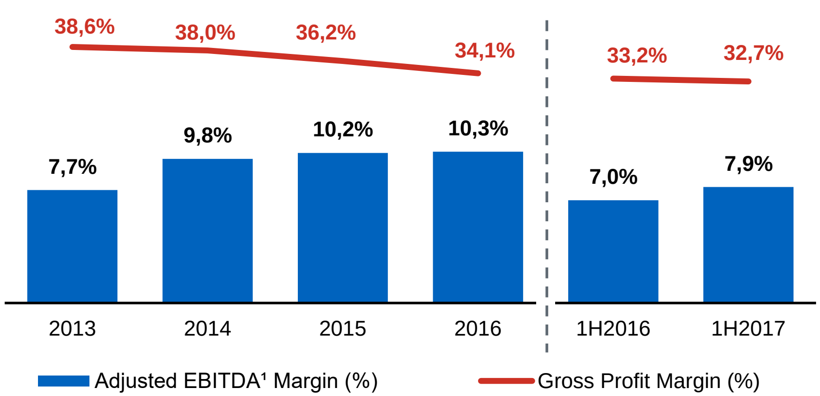
[7] Represents ROIC with investment capital as adjusted to exclude the construction value of the Bekasovo distribution center, which was completed in 2015 and was not operational for most of the year

Growing Profitability

Gross Profitability is Balanced by Double-Digit EBITDA Margin

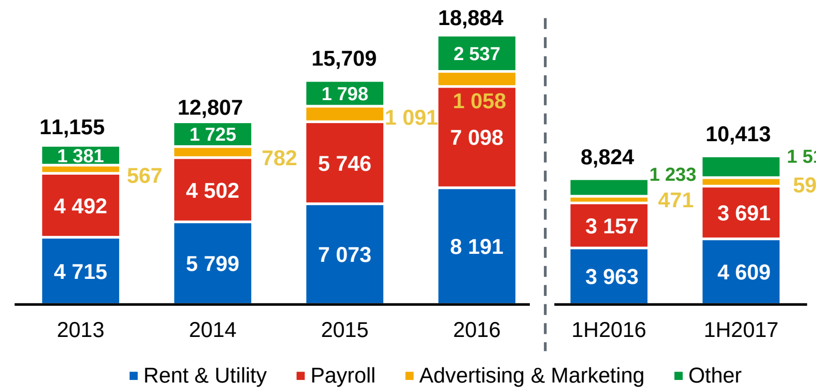
(RUBm)



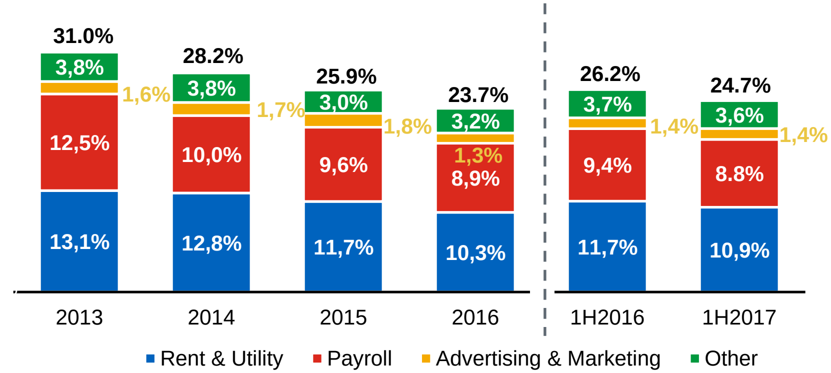


Focus on Operating Costs Optimization Generates Substantial Profitability Improvements²

(RUBm)



(Adjusted SG&A expenses² as % of revenue)



Source: Company data. Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS

[1] Adjusted for one-off items

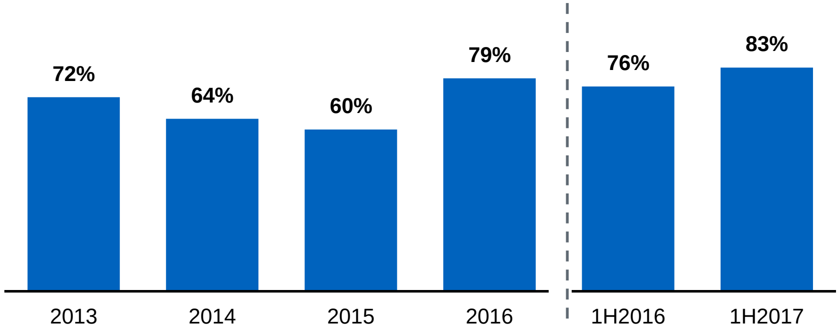
[2] SG&A expenses exclude D&A expenses and adjusted for LTI bonuses, as well as Income received from partial termination of employees' right to receive shares under the LTI program

Strong Cash Flow Conversion

Comments

- The increase in NWC significantly affected the decline in the Operating Cash flow.
- The growth of NWC is explained by the business seasonality.
- The share of Purchases and Sales of the fourth quarter in the total annual turnover is significant.
- Most of the goods purchased and sold in the 4th quarter are paid in the 1st half of the following year.
- In 4Q16 vs 4Q15, the Purchases increased by RUB 4.8bn due to the business growth, while increase of the Sales in purchase prices amounted to just RUB 3.7bn, leading to the significant impact on NWC in 1H17.
- At the same time, Cash Flow Conversion and ROIC improved; Receivables Turnover Ratio[1] reduced from 10 days to 8 days, while Inventory Turnover Ratio[1] kept at a stable level y-y

Cash Flow Conversion[3] (%)



Cash Flow (RUBm)

	2013	2014	2015	2016	1H16	1H17
Adjusted EBITDA[2]	**2,771**	**4,463**	**6,185**	**8,203**	**2,378**	**3,328**
Changes in NWC	(93)	(1,640)	(4,300)	(407)	(2,109)	(5,620)
Cash Income Taxes Paid	(477)[4]	(657)	(1,190)	(1,468)	(697)	(679)
Net Finance Expense Paid	(507)	(795)	(1,879)	(1,812)	(955)	(820)
Other Operating Cash Flow	331	121	505	1,285	823	368
Operating Cash Flow	**2,025**	**1,492**	**(679)[4]**	**5,801**	**(560)**	**(3,424)**
Capital Expenditure	**(772)**	**(1,945)**	**(5,308)**	**(1,747)**	**(582)**	**(563)**
DC Construction	-	(330)	(2,842)	-	-	-
Store Openings, IT & Maintenance	(772)	(1,615)	(2,465)	(1,747)	(582)	(563)
Free Cash Flow	**1,253**	**(453)**	**(5,987)**	**4,054**	**(1,142)**	**(3,987)**

Source: The Group's consolidated financial statements for 2013 under US GAAP and 2014–2016 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS.

[1] Days of Inventories / Receivables / Payables turnover calculated as corresponding metric divided by COGS / Revenue / COGS multiplied by 365 for FY numbers. The base of semi-annual ratio is LTM Revenue and COGS.

[2] Adjusted for one-off items

[3] Calculated as (Adjusted EBITDA – Adjusted Capex) / Adjusted EBITDA

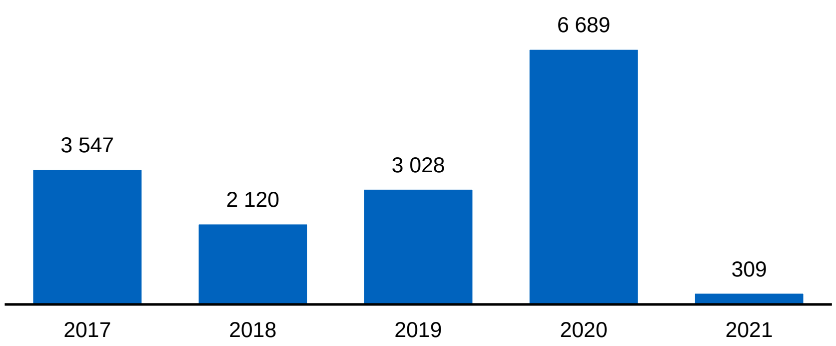
[4] Calculated as Income tax expense plus deferred tax income benefit

Conservative Financial Policy and Stable Leverage

Comments

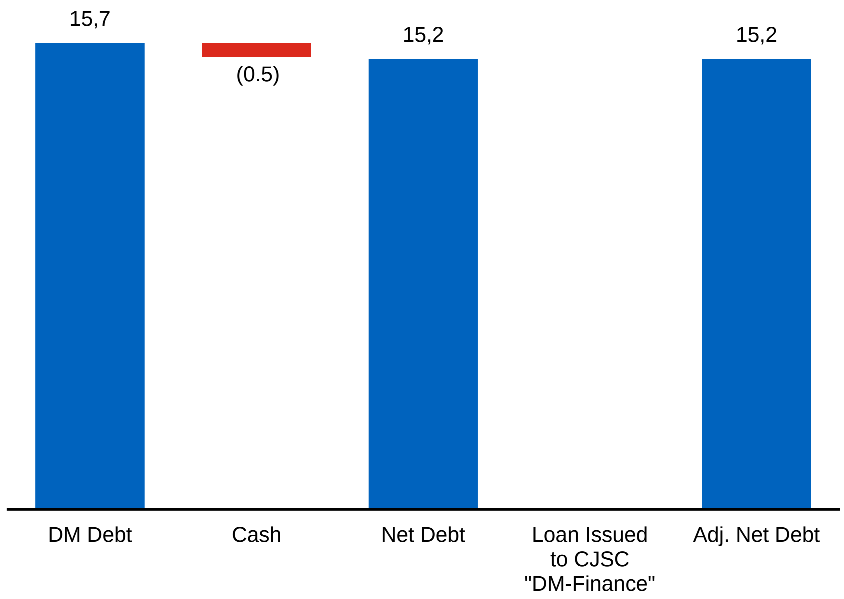
- Commitment to a conservative financial policy
  - Fully RUB denominated debt to match RUB revenue
  - Relationships with multiple Russian and international banks
- Leverage [2] as of 30-June-2017 is 1.7x of vs. 4.0x average covenant level across the loan portfolio
- The weighted average interest rate[3] – 10.5% (as of 30 June 2017)
  - Incl. Issued bond of RUB 3 bn with fixed annual coupon rate of 9.5 p.p. and a three-year put option
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities

30-June-17 Debt Repayment Schedule (RUBm)



30-June-17 Adj. Net Debt Calculation (RUBbn)

- Detsky Mir provided CJSC "DM-Finance" (Sistema's subsidiary) with the loan to buy out 25% stake from Sberbank in 2013. Most of the loan (RUB4,875m including interest) was repaid in January/February 2016
- RUB1.1 bn has been fully repaid on February 27, 2017



Source: Company data

Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.

[1] Adjusted Net debt is calculated as total borrowings less cash and cash equivalent / adjusted for the loan issued to CJSC "DM Finance" (Sistema's subsidiary) on 3 July 2013

[2] Exuding one-off effects related to the payment of bonuses under the long-term incentive scheme

[3] Calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the dates specified.

[4] Including repayment of revolving lines that will be refinanced .


Appendix

Outlook

	Near Term	Mid- to Long-Term
Store Count	~70 new stores	~250 new stores in 2017-20
Revenue	Driven by store openings, LFL & ramp ups	Driven by store opening, LFL & ramp ups
LFL Revenue Growth	Low Double-digit, Less than in 2016, including effect of new store ramp-ups and 103 new stores entering LfL panel in 2017	Slightly positive traffic growth, below inflation ticket growth, plus effect of new store ramp ups
Gross Margin	Decline, but by less than 2016 vs 2015, as process of offline price reductions to match online is complete	Stable
Rent & Utility Expenses	Further meaningful decline as % of revenue vs 2016, with virtually no rise in rent/sqm in a continued soft rentals market	Rents/sqm rise first slightly above inflation then in line with inflation, so stable as % of revenue
Personnel Expenses	Further meaningful decline as % of revenue vs 2016, on operating leverage	Stable to slightly declining as % of revenue
EBITDA Margin	Double-digit supported by expectations of SG&A efficiency gains and new store ramp-ups more than offsetting the effect of lower gross margins	Double-digit

Source: Company data

Well-Established Governance and Supportive Shareholders

Strong Governance Framework

General Shareholders' Meeting

Board of Directors
10 Directors
(including 3 INEDs)

Audit Committee
3 Members
(including 2 INEDs)

Nomination and Remuneration Committee
3 Members
(including 2 INEDs)

Strategy Committee
7 Members
(including 2 INEDs)

Management Board

Internal Audit Commission

Internal Audit and Control Department

Prominent Shareholder Base

JOINT-STOCK FINANCIAL CORPORATION SISTEMA

- The largest publicly listed diversified financial corporation in Russia and CIS
- Majority shareholder of MTS, a U.S. listed mobile operator
- Strong track record of consistent dividend payout policies in its portfolio companies

52,1%

14.3%

Detsky Mir Retail Chain

33.87%

Free Float[1]

RUSSIA-CHINA INVESTMENT FUND

- Joint fund of Russian Direct Investment Fund (RDIF) and China Investment Corporation (CIC)
- Shareholder of Magnit and Lenta, leading food retailers in Russia
- Long-term committed investor in the Russian market

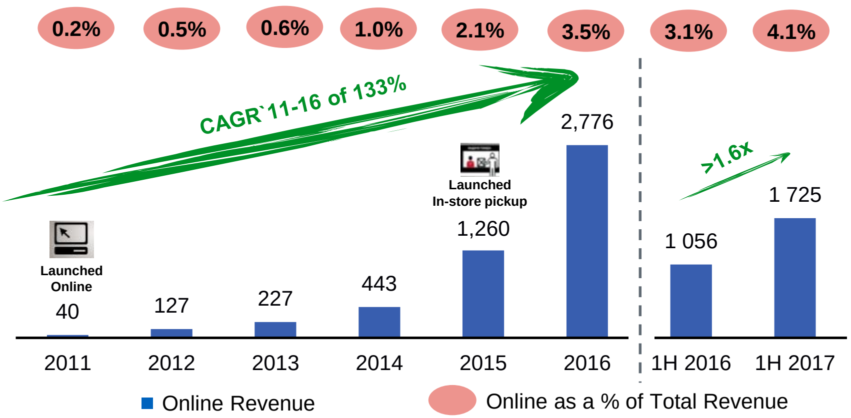
Source: Company data
[1] Including Detsky Mir and Sistema Management

Growing e-Commerce Platform with the Leading Online Market Position

Key Achievements in 2013-1Q2017[1]

- ✓ Took the leading market position in 2016 and kept it in 1H17
- ✓ Revenue CAGR`11-16 of 133% (>1.6x – 1H17vs1H16)
- ✓ Price leadership across all categories
- ✓ Low marketing expense on the back of the iconic brand
- ✓ Profitable on standalone basis[2]
- ✓ Over 97m website visits in 2016 (+33% in 1H17vs1H16)
- ✓ Double-digit conversion rate growth YoY (2016 2x growth)
- ✓ Product range - 40,000 SKUs
- ✓ Instore pick-up in all offline DM stores in Russia (475 stores as of 30 June 2017). Share of in-store pickup in # of orders c.60%)
- ✓ Delivery to point[3] (915 points as of 30 June 2017)
- ✓ Home-delivery service – largest ATV

Accelerated Online Revenue Growth Underpinned by Launch of In-Store Pickup Function in All Offline Stores



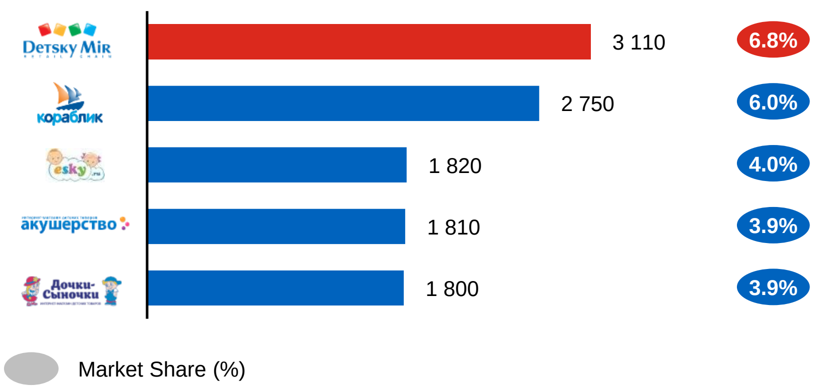
User Interface/Experience Evolution

The omni-channel strategy leveraging Detsky Mir's existing store network throughout Russia

Source: Company data, Ipsos Comcon

Russian Top-5 Online Children's Goods Stores

(Online Sales Volume in 2016, RUBm, incl. VAT)

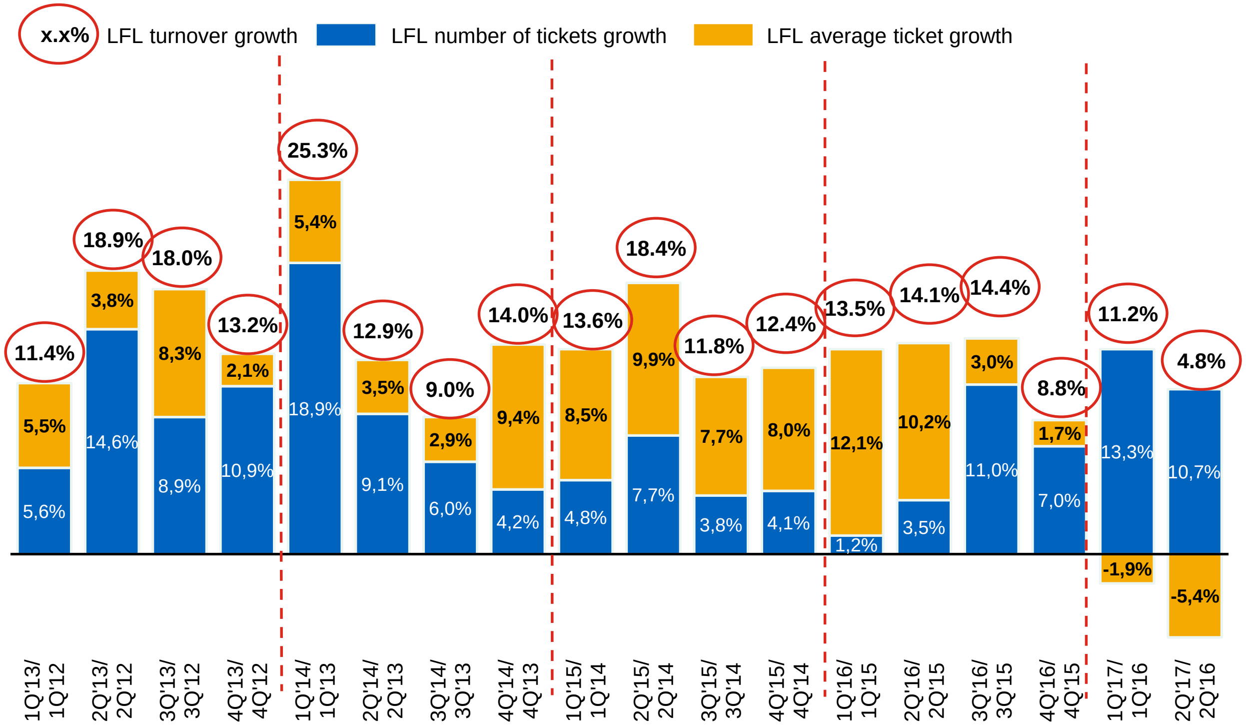


Source: Company data, Data Insight, Ipsos Comcon report

[1] The Group's consolidated financial statements for 2011-2013 under US GAAP and 2014–2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS
[2] Based on management accounts
[3] Incl. rented pick-up points (Boxberry + Ozon)
[4] Including in-store pickup
[5] Pilot version of the "back to school "site is completed. The Internet store is being further developed

Robust Like-for-Like Performance

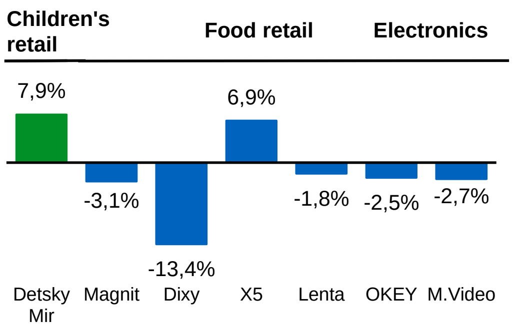
Like-for-like revenue (in RUR)*



Comments

- Double-digit growth of the like-for-like sales was a result of competitive pricing policy marketing activities and improvements in merchandising
- Focus on attracting of new customers as result double digit LFL number of tickets growth in 1H2017
- New openings under new store concept, attractive loyalty program and competitive prices are key factors supporting further like-for-like growth

Like-for-like revenue growth for 1H17



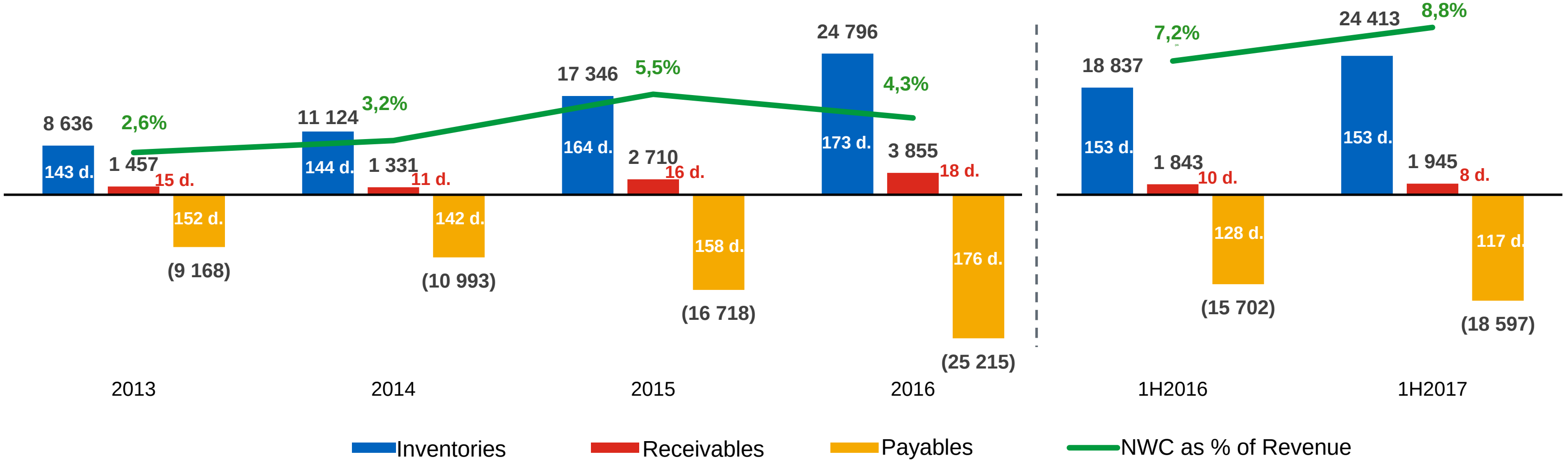
	LFL growth in 2013	LFL growth 2014	LFL growth 2015	LFL growth 2016	LFL growth 1H2017
Total	**15.3%**	**14.6%**	**13.7%**	**12.3%**	**7.9%**
Average ticket	4.8%	5.2%	8.3%	5.9%	(3.7%)
Number of tickets	10.0%	8.9%	5.0%	6.0%	12.0%

Source: Company data, publicly available data with respect to other companies
*LfL growth in RUB terms. LfL growth includes only DM stores in Russia that have been in operations for at least 12 full calendar months.

Detsky Mir demonstrated attractive revenue growth rate (LFL +7.9%) for 1H 2017

Net Trade Working Capital Overview

Focus on Constant Improvement & Optimization of NWC[1,2]



- Increase in trade working capital in 2015 mainly driven by
  - Change of margin structure (shift from front to back thus higher retro-bonuses thus increased AR)
  - Company has opened new DC, initial fill-up resulted in inventory level growth
  - Increase in number of new stores also resulted in inventory level growth

- Improvements in 2016 achieved via
  - Improved logistics processes efficiency
  - Improved AR: retro-bonuses are calculated and received on a monthly basis instead of quarterly effective beginning of 2016

- Increase in trade working capital in 1H 2017 mainly driven by
  - Decrease of Payables Turnover Ratio due to the seasonality of the business: 4th quarter is historically the largest in terms of share of annual revenue, as well as sales increased by 25% in 4Q16 vs Q4 2015
  - Most of the goods sold were paid in the first half of 2017
  - Nevertheless substantialy improved Receivables TR & kept stable Inventories TR

Source: Company data.
Note: The Company's consolidated financial statements for 2013 under US GAAP and 2014-2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under GAAP vs IFRS.
[1] Net trade working capital calculated as Receivables + Inventories – Payables
[2] Days of Inventories / Receivables / Payables turnover calculated as corresponding metric divided by COGS / Revenue / COGS multiplied by 365 for FY numbers. The base of semi-annual ratio is LTM Revenue and COGS.

Financial Performance Evolution

(RUBm, unless specified otherwise)[1]

	2013	2014	2015	2016	1H2016	1H2017
Number of stores	**252**	**322**	**425**	**525**	**444**	**521**
Detsky Mir stores	224	278	381	480	400	488
ELC stores	27	43	44	45	44	40
Selling space (k sqm)	**320**	**390**	**491**	**596**	**511**	**604**
Revenue	**36,001**	**45,446**	**60,544**	**79,547**	**33,736**	**42,096**
% total sales growth	*30.3%*	*26.2%*	*33.2%*	*31.4%*	*36,3%*	*24,8%*
% LFL sales growth[2]	*15.3%*	*14.6%*	*13.7%*	*12.3%*	*13.8%*	*7.9%*
Revenue per sqm[3] *(RUB thousand / sqm)*	*118*	*128*	*137*	*146*	*67*	*70*
Online sales[4]	227	443	1,260	2,778	1,056	1,725
Share of online sales	*0.6%*	*1.0%*	*2.1%*	*3.5%*	*3.1%*	*4.1%*
Gross profit	**13,908**	**17,263**	**21,904**	**27,108**	**11,207**	**13,771**
Margin, %	*38.6%*	*38.0%*	*36.2%*	*34.1%*	*33.2%*	*32.7%*
Gross profit per sqm[3] ***(RUB thousand / sqm)***	***46***	***49***	***50***	***50***	***22***	***23***
Adjusted SG&A[5]	11,155	12,807	15,708	18,884	8,824	10,413
% of revenue	*31.0%*	*28.2%*	*25.9%*	*23.7%*	*26.2%*	*24.7%*
Adjusted EBITDA[6]	**2,771**	**4,463**	**6,185**	**8,203**	**2,378**	**3,328**
Margin, %	*7.7%*	*9.8%*	*10.2%*	*10.3%*	*7.0%*	*7.9%*
Adjusted Profit for the period[7]	**1,153**	**1,685**	**2,189**	**3,827**	**601**	**978**
Margin, %	*3.2%*	*3.7%*	*3.6%*	*4.8%*	*1.8%*	*2.3%*
Total Debt	**5,922**	**9,716**	**18,359**	**14,638**	**13,602**	**15,693**
Cash and cash equivalents	(860)	(1,670)	(1,934)	(2,445)	612	545
Adjusted Net Debt[8]	**5,062**	**2,806**	**10,618**	**11,133**	**11,965**	**15,148**
Adjusted Net Debt / Adjusted EBITDA	*1.8x*	*0.6x*	*1.7x*	*1.4x*	*1.7x*	*1.7x*
Capex	**(772)**	**(1,945)**	**(5,308)**	**(1,747)**	**(582)**	**(563)**
% of revenue	*2.1%*	*4.3%*	*8.8%*	*2.2%*	*1,7%*	*1,3%*
Dividends paid	**(420)**	**(1,856)**	**(2,973)**	**(4,427)**	**-**	**-**

Comments

Sales growth
- Strong support from both network expansion and LFL
- Solid LFL Sales growth rates
- Accelerated rate of new openings in 2016 (+100 stores)

Improved operating efficiency
- Slightly declining gross margin due to investment in price leadership to support traffic and LFL growth
- Over 720bps improvement in SG&A as % of sales over four years (-140bps 1H17vs1H16)

Superior EBITDA margins
- Major SG&A optimisation measures implemented by the new management team since 2013
- 260 bps margin over four years (+90bps 1H17vs1H16)
- Double-digit EBITDA margin achieved in 2015 and maintained in 2016

Capex
- Asset-light business model drives cash flow generation

Conservative financial policy
- Leverage[8] as of 30-June-2017 is 1.7x vs. 4.0x average leverage covenant level across the loan portfolio

Attractive returns for shareholders
- The Company paid RUB 5.7bn in dividends to shareholders for FY2016
- The amount of dividends increased 11-fold from 2013

Source: Company data

[1] The Group's consolidated financial statements for 2011-2013 under US GAAP and 2014–2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS
[2] LfL growth in RUB terms. LfL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months
[3] Calculated per average space for the period
[4] Including in-store pickup
[5] Adjusted SG&A expenses are calculated excluding Depreciation and Amortisation, as well as additional bonus payments and Income received from partial termination of employees' right to receive shares under the LTI program

[6] Calculated as EBITDA, adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014, as well as additional share-based compensation expense and Income received from partial termination of employees' right to receive shares under the LTI program
[7] Adjusted for the one-off effect relating to disposal of the building occupied by the Yakimanka Gallery in 2014 (together with related tax effects), as well as additional bonus accruals and Income received from partial termination of employees' right to receive shares under the LTI program
[8] Adjusted Net Debt is calculated as Net Debt adjusted for amounts receivable under the loan issued to CJSC "DM-Finance" (Sistema's subsidiary), fully repaid on February 27, 2017.

Contact information

Sergey Levitskiy
Head of Investor Relations
+ 7 (495) 781-08-08. ext. 2315
Slevitskiy@detmir.ru