Detsky Mir
RETAIL CHAIN

3Q & 9M 2017 Unaudited Financial Results

30 October 2017

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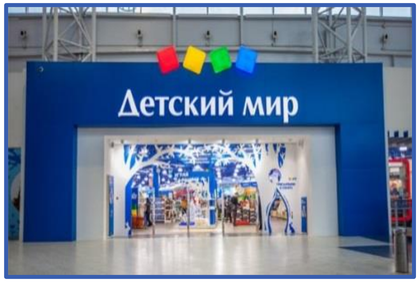
3Q & 9M 2017 Financial Highlights

DETSKY MIR RETAIL CHAIN



Solid Revenue Growth

- **Total Revenue increased by 19.8% in 3Q 2017, reaching RUB 24.6 bn,**
  - *LFL sales growth[1] was 6.1% with the number of tickets growth of 10.5%*
- **Total Revenue increased by 22.9% for 9M 2017, reaching RUB 66.6 bn**
  - *LFL sales growth[1] was 7.2% with the number of tickets growth of 11.4%*

Operational Efficiency

- **Over 80 bps improvement in SG&A[2] as % of revenue for 3Q 2017 vs. 3Q 2016**
- **Over 115 bps improvement in SG&A[2] as % of revenue for 9M 2017 vs. 9M 2016**
  - *Optimization measures focused on decrease in rent and payroll costs*

Improved EBITDA Margin

- **Adjusted EBITDA[3] of RUB 3.0bn in 3Q 2017, up 30.5%**
  - *Adjusted EBITDA margin[4] reached 12.4% (+1.0 p.p y-o-y)*
- **Adjusted EBITDA[3] of RUB 6.4bn for 9M 2017, up 35.3%**
  - *Adjusted EBITDA margin[4] reached 9.6% (+0.9 p.p y-o-y)*

High Profit Margin

- **Adjusted Profit [5] of 3Q 2017 increased by more than 1.6 times to RUB 1 895 mn**
  - *Profit margin[6] reached 7.7% (+2.1 p.p y-o-y)*
- **Adjusted Profit in 9M 2017 increased by more than 1.6 times to RUB 2 873 mn**
  - *Profit margin[6] reached 4.3% (+1.1 p.p y-o-y)*

Conservative Leverage

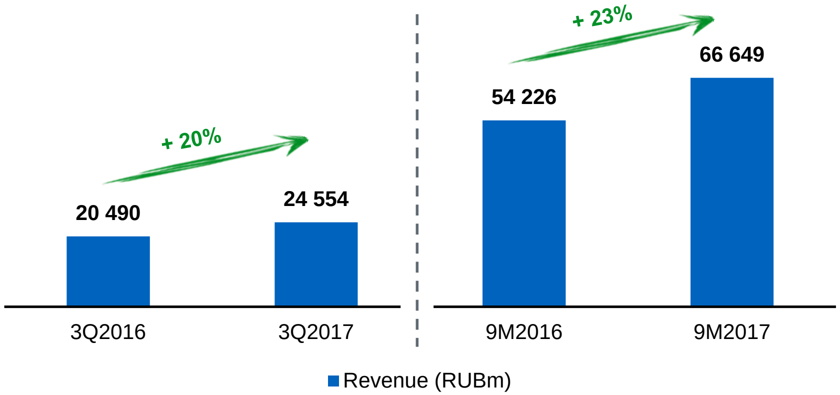
- **Net Debt / Adjusted EBITDA LTM ratio amounted to 1.4x**
  - the weighted average interest rate – 10.3% (as of 30 September 2017)

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

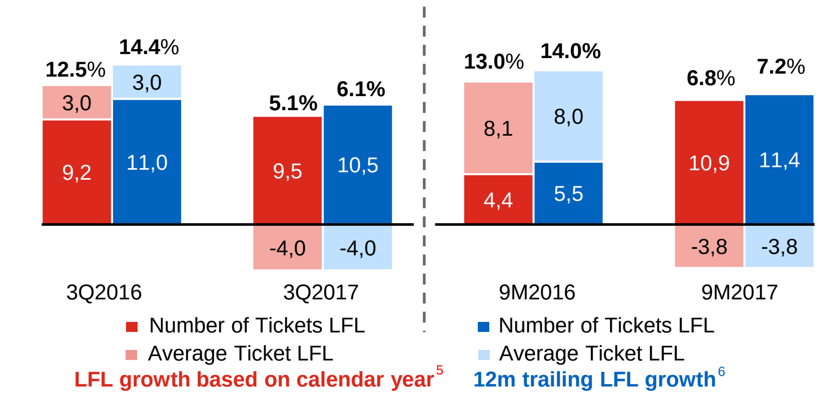
Revenue Growth for 3Q & 9M 2017

(RUBmn)

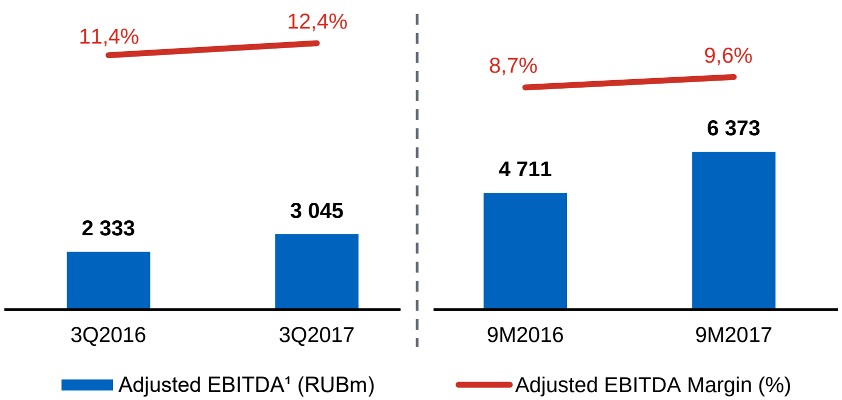


Like For Like Growth[4] for 3Q & 9M 2017

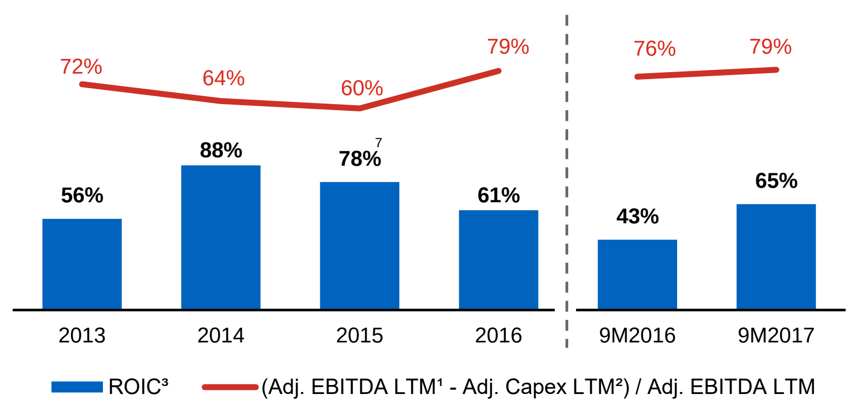
%



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 LTM, 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

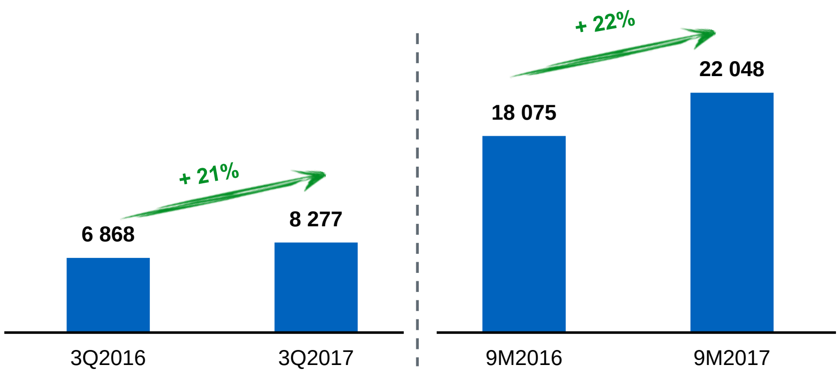
[6] LfL growth includes only DM stores in Russia that have been in operation for at least 12 full calendar months

[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

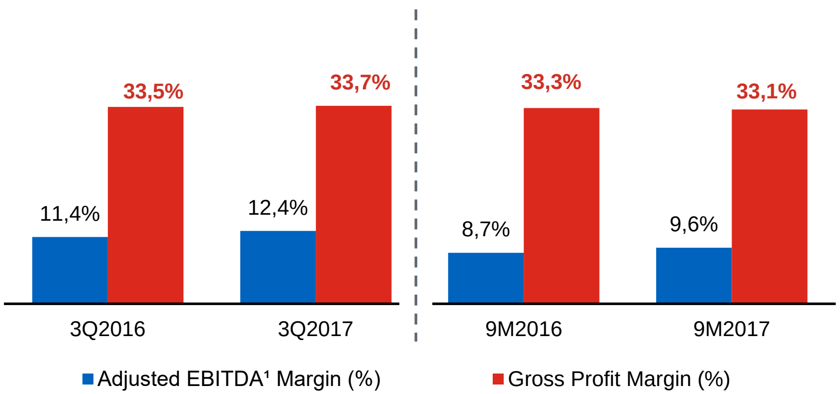
Growing Profitability

Gross Profitability is Balanced by Double-Digit EBITDA Margin

(RUBm)

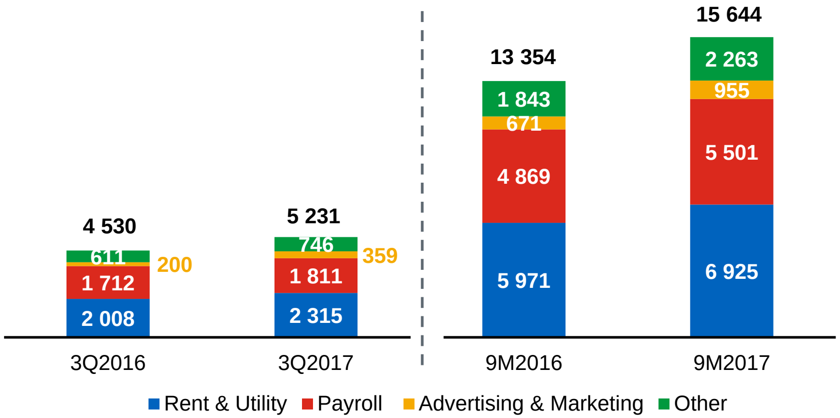


(Gross Margin and Adjusted EBITDA Margin as % of Revenue)

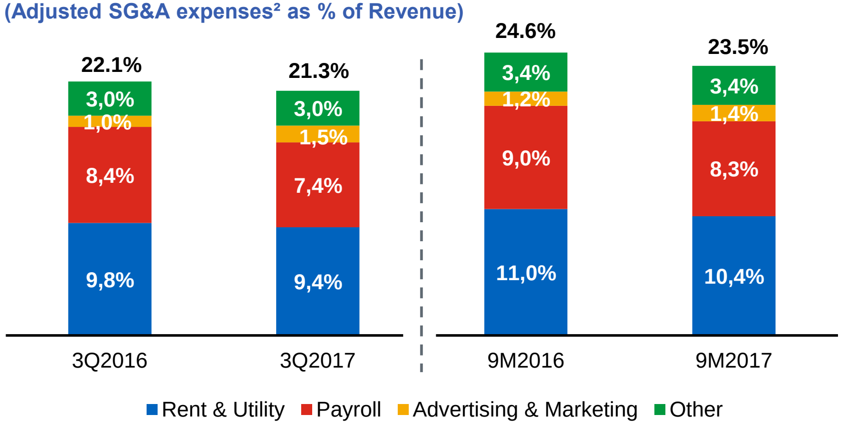


Focus on Operating Costs Optimization Generates Substantial Profitability Improvements[2]

(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

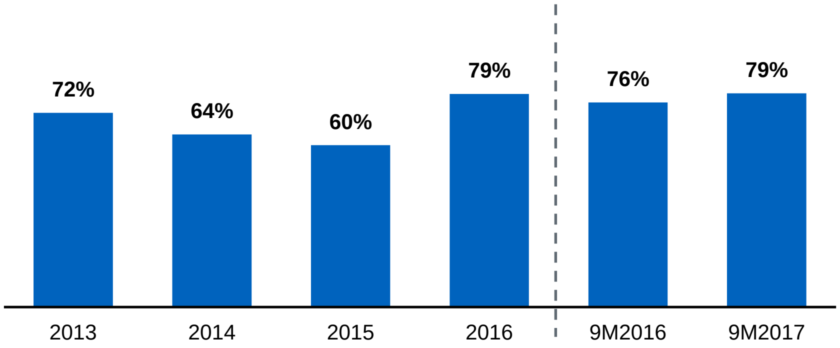
[2] SG&A expenses exclude D&A expenses and adjusted for LTI bonuses, as well as Income received from partial termination of employees' right to receive shares under the LTI program

Strong Cash Flow Conversion

Comments

- The increase in NWC significantly influenced 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 1Q of the following year.
- Cash Flow Conversion and ROIC improved, at the same time, reducing Inventory Turnover Ratio[1] by 9d. as well as Receivables Turnover Ratio[1] by 2d.

Cash Flow Conversion[3] (%)



Cash Flow (RUBm)

	2013	2014	2015	2016	9M16	9M17
Adjusted EBITDA[2]	**2,771**	**4,463**	**6,185**	**8,203**	**4,711**	**6,373**
Changes in NWC	(93)	(1,640)	(4,300)	(407)	(1,858)	(3,163)
Cash Income Taxes Paid[4]	(477)[4]	(657)	(1,190)	(1,468)	(892)	(974)
Net Finance Expense Paid	(507)	(795)	(1,879)	(1,812)	(1,395)	(1,185)
Other Operating Cash Flow	331	121	505	1,285	1,023	347
Operating Cash Flow	**2,025**	**1,492**	**(679)[4]**	**5,801**	**1,590**	**1,397**
Capital Expenditure	**(772)**	**(1,945)**	**(5,308)**	**(1,747)**	**(945)**	**(1,242)**
DC Construction	-	(330)	(2,842)	-	-	-
Store Openings, IT & Maintenance	(772)	(1,615)	(2,465)	(1,747)	(954)	(1,242)
Free Cash Flow	**1,253**	**(453)**	**(5,987)**	**4,054**	**645**	**154**
Proceeds from repayment of loans	-	-	-	4,888	4,876	1,074
Investment Cash Flow	**(749)**	**(2,645)**	**(5,218)**	**3,122**	**3,912**	**(168)**
Financial Cash Flow	**(2,047)**	**1 964**	**6,160**	**(8,455)**	**(6,972)**	**(2,429)**
Change in Cash	**(771)**	**810**	**264**	**512**	**(1,470)**	**(1,201)**

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.

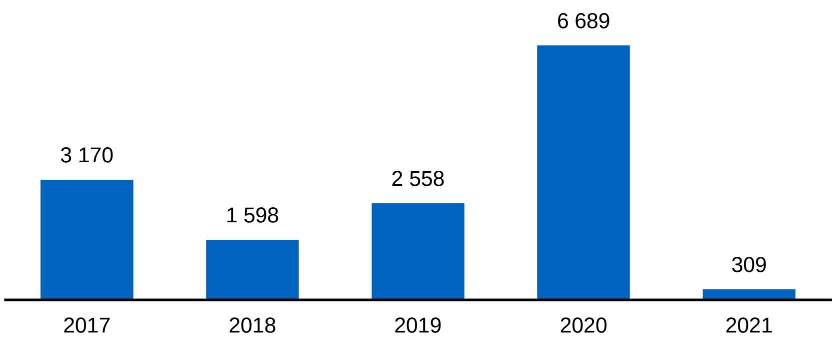
[2] Adjusted for one-off items
[3] Calculated as (Adjusted EBITDA LTM – Adjusted Capex LTM) / Adjusted EBITDA LTM
[4] Calculated as Income tax expense plus deferred tax income benefit

Conservative Financial Policy and Stable Leverage

Comments

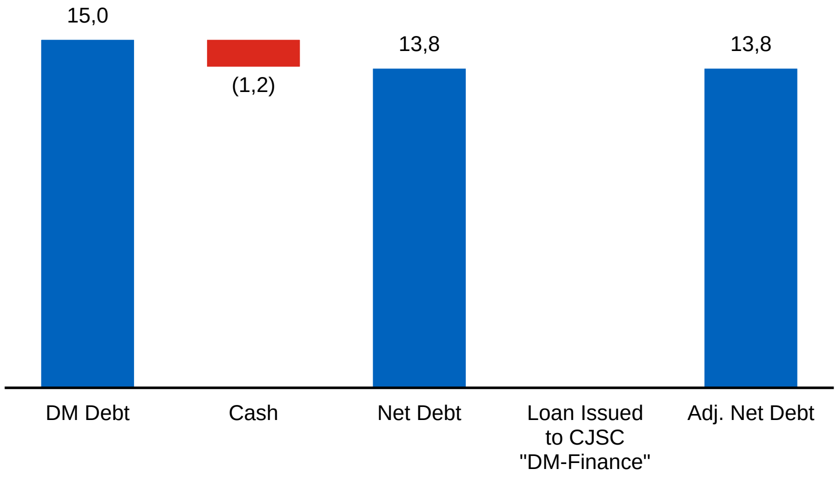
- Commitment to a conservative financial policy
  - Fully RUB denominated debt to match RUB revenue
  - Relationships with multiple Russian and international banks
- Leverage [2] as of 30-September-2017 is 1.4x of vs. 4.0x average covenant level across the loan portfolio
- The weighted average interest rate[3] – 10.3% (as of 30 September 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-September-17 Debt Repayment Schedule (RUBm)



30-September-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	~90 new stores	~300 new stores in 2017-20
Revenue	Driven by store openings, LFL & ramp ups	Driven by store opening, LFL & ramp ups
LFL Revenue Growth	Single-digit growth, outperforming the market	Single-digit growth, outperforming the market
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

Detsky Mir Retail Chain

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

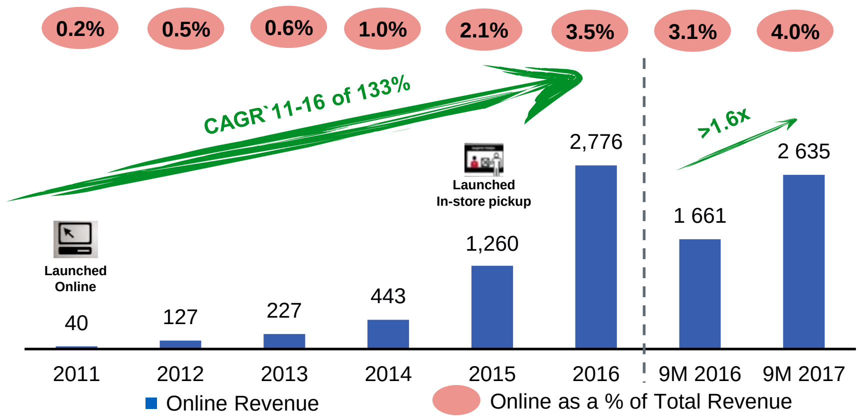
Source: Company data
[1] Including Detsky Mir and Sistema Management

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 for 9M17
- ✓ Revenue CAGR`11-16 of 133% (>1.6x – 9M17vs9M16)
- ✓ 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 (+36% in 9M17vs9M16)
- ✓ Double-digit conversion rate growth YoY (2016 2x growth)
- ✓ Product range - 40,000 SKUs
- ✓ Instore pick-up in all offline DM stores in Russia (501 stores as of 30 September 2017). Share of in-store pickup in # of orders c. 60%)
- ✓ Delivery to point[3] (826 leased points as of 30 September 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

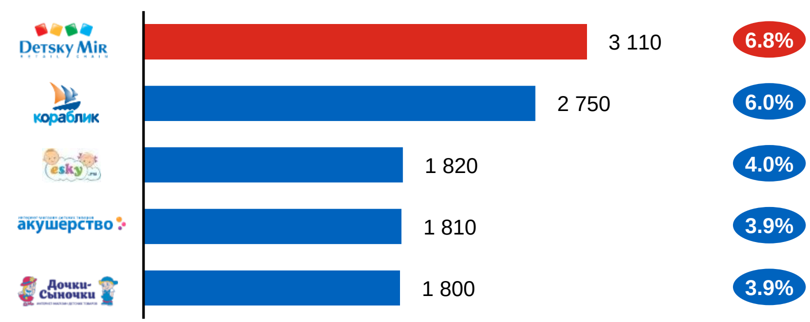
- ✓ Online shop's basket has been redesigned to increase customer monetization during 9M2017
- ✓ Full range of 40,000 SKUs is now available in offline stores
  - – Delivery of the SKU from DC to the pick-up point if required

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)

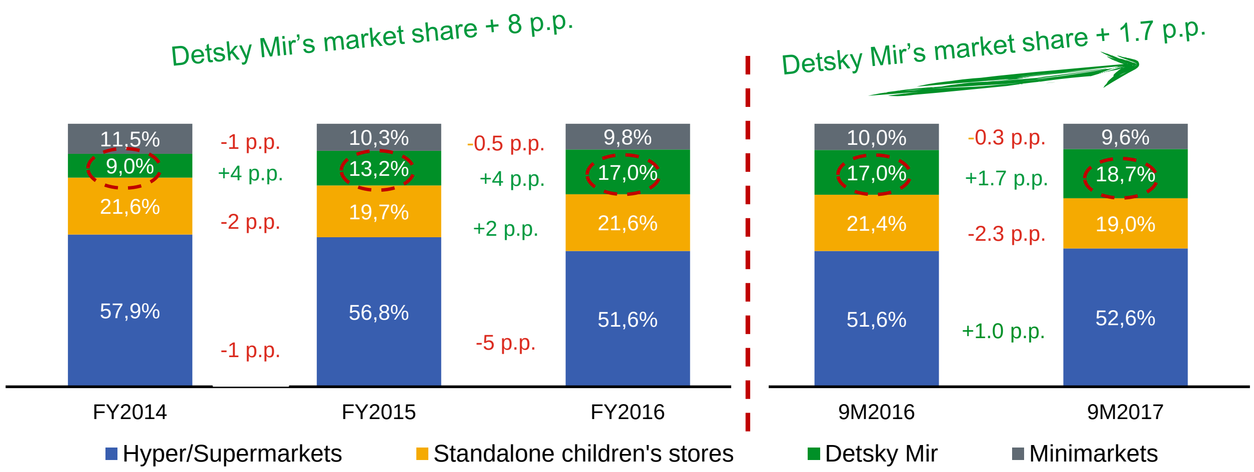


Source: Company data, Data Insight, Ipsos Comcon report

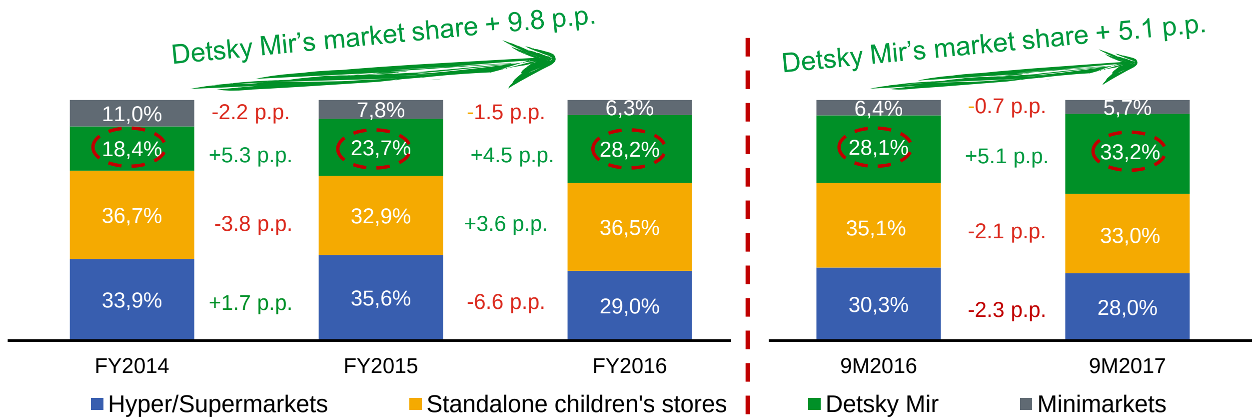
[1] The Group's consolidated financial statements for 2011-2013 under US GAAP and 2014–2017 under IFRS. For the line items and the periods presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS
[2] Based on management accounts
[3] Incl. rented pick-up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

Case Study: Baby Food Sales

Baby Food Sales by Channel in Moscow and Moscow Region



Diapers Sales by Channel in Moscow and Moscow Region



Source: AC Nielsen

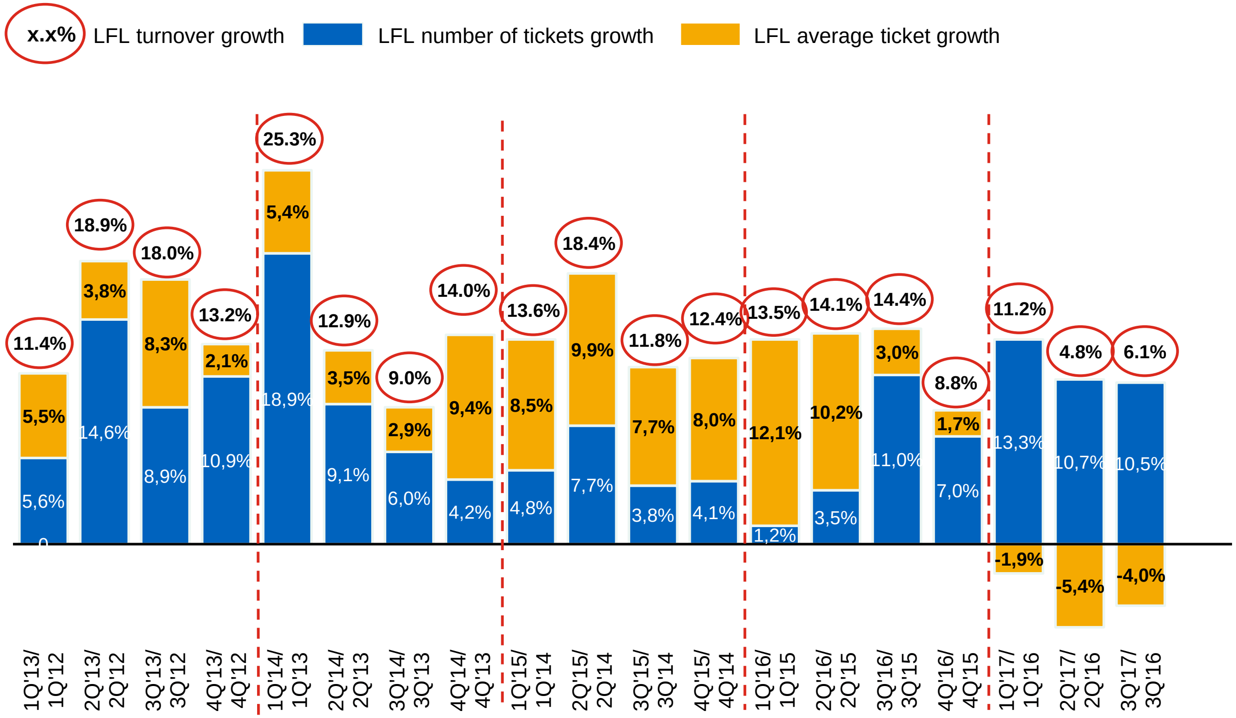
Comments

- Baby food and Diapers remain key categories for children's goods stores as traffic generators
- Only children's goods specialized stores offer a full range of Baby Food and Diapers products unlike hypermarkets which are focused on "bestsellers" SKU
- Detsky Mir gained market share away from all other channels
- Notably, Detsky Mir has particularly outperformed hypermarkets/supermarkets which have been the largest sales channel for baby food and diapers historically
- Detsky Mir's Baby Food market share increased from 9.0% in 2014 to 17.0% in 2016 and from 17.0% in Jan-Sept 2016 to 18.7% in Jan-Sept 2017
- Detsky Mir's Diapers market share increased from 18.4% in 2014 to 28.2% in 2016 and from 28.1% in Jan-Sept 2016 to 33.2% in Jan-Sept 2017

Detsky Mir's shares in the baby food and diapers markets have almost doubled over several years

Robust Like-for-Like Performance

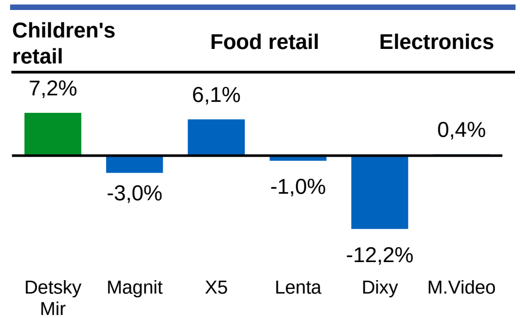
Like-for-like revenue (in RUR)*



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 9M2017
- 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 9M2017
Total	**15.3%**	**14.6%**	**13.7%**	**12.3%**	**7.2%**
Average ticket	4.8%	5.2%	8.3%	5.9%	(3.8%)
Number of tickets	10.0%	8.9%	5.0%	6.0%	11.4%

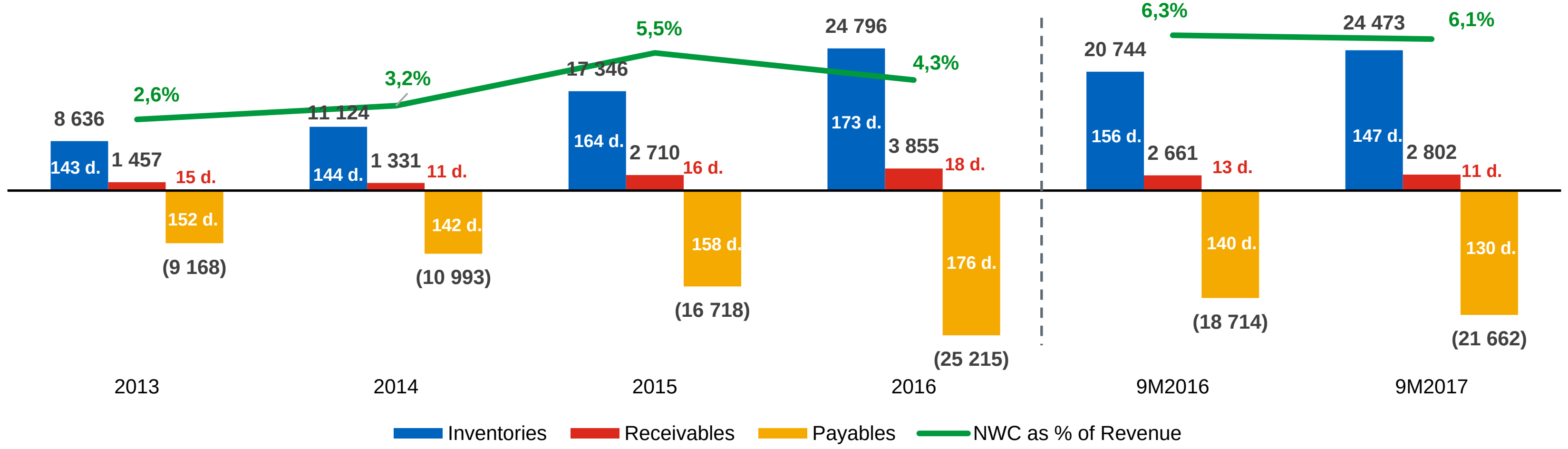
Detsky Mir demonstrated attractive revenue growth rate (LFL +7.2%) for 9M 2017

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.

Net Trade Working Capital Overview

Detsky Mir RETAIL CHAIN

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 9M 2017 mainly driven by
  - Decrease of Payables Turnover Ratio due to the seasonality of the business
  - Nevertheless substantialy improved AI & AR

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

Detsky Mir

(RUBm, unless specified otherwise)[1]

	2013	2014	2015	2016	9M2016	9M2017
Number of stores	**252**	**322**	**425**	**525**	**464**	**557**
Detsky Mir stores	224	278	381	480	420	516
ELC stores	27	43	44	45	44	41
Selling space (k sqm)	**320**	**390**	**491**	**596**	**533**	**631**
Revenue	**36,001**	**45,446**	**60,544**	**79,547**	**54,226**	**66,649**
% total sales growth	*30.3%*	*26.2%*	*33.2%*	*31.4%*	*35,7%*	*22,9%*
% LFL sales growth[2]	*15.3%*	*14.6%*	*13.7%*	*12.3%*	*14.0%*	*7.2%*
Revenue per sqm[3] (RUB thousand / sqm)	*118*	*128*	*137*	*146*	*106*	*109*
Online sales[4]	227	443	1,260	2,778	1,661	2,635
Share of online sales	*0.6%*	*1.0%*	*2.1%*	*3.5%*	*3.1%*	*4.0%*
Gross profit	**13,908**	**17,263**	**21,904**	**27,108**	**18,075**	**22,048**
Margin, %	*38.6%*	*38.0%*	*36.2%*	*34.1%*	*33.3%*	*33.1%*
Gross profit per sqm[3] (RUB thousand / sqm)	***46***	***49***	***50***	***50***	***35***	***36***
Adjusted SG&A[5]	11,155	12,807	15,708	18,884	13,354	15,644
% of revenue	*31.0%*	*28.2%*	*25.9%*	*23.7%*	*24.6%*	*23.5%*
Adjusted EBITDA[6]	**2,771**	**4,463**	**6,185**	**8,203**	**4,711**	**6,373**
Margin, %	*7.7%*	*9.8%*	*10.2%*	*10.3%*	*8.7%*	*9.6%*
Adjusted Profit for the period[7]	**1,153**	**1,685**	**2,189**	**3,827**	**1,755**	**2,873**
Margin, %	*3.2%*	*3.7%*	*3.6%*	*4.8%*	*3.2%*	*4.3%*
Total Debt	**5,922**	**9,716**	**18,359**	**14,638**	**13,002**	**15,029**
Cash and cash equivalents	(860)	(1,670)	(1,934)	(2,445)	455	1,244
Adjusted Net Debt[8]	**5,062**	**2,806**	**10,618**	**11,133**	**11,498**	**13,784**
Adjusted Net Debt / Adjusted EBITDA	*1.8x*	*0.6x*	*1.7x*	*1.4x*	*1.5x*	*1.4x*
Capex	**(772)**	**(1,945)**	**(5,308)**	**(1,747)**	**(945)**	**(1,242)**
% of revenue	*2.1%*	*4.3%*	*8.8%*	*2.2%*	*1,7%*	*1,9%*
Dividends paid	**(420)**	**(1,856)**	**(2,973)**	**(4,427)**	**-**	**(2,572)**

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 750bps improvement in SG&A as % of sales over four years (-115bps 9M17 vs. 9M16)

Superior EBITDA margins
- Major SG&A optimisation measures implemented by the new management team since 2013
- 260 bps margin over four years (+90bps 9M17 vs. 9M16)
- Double-digit EBITDA margin achieved in 2015 and maintained in 2016, expected to be maintained in 2017

Capex
- Asset-light business model allows to achieve superior cash flow generation

Conservative financial policy
- Leverage[8] as of 30-September-2017 is 1.4x 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.

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