DETSKY MIR GROUP

Interim Condensed Consolidated
Financial Information (unaudited)
Half-Year Ended 30 June 2019

DETSKY MIR GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE HALF-YEAR ENDED 30 JUNE 2019 (UNAUDITED)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the consolidated financial position of Public Joint Stock Company "Detsky Mir" (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group" or "Detsky Mir Group") as at 30 June 2019, and the consolidated results of its operations, cash flows and changes in equity for the half-year then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

Management is also responsible for:

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

The interim condensed consolidated financial information of the Group for the half-year ended 30 June 2019 was approved on 23 August 2019.

V.S. Chirakhov
Chief Executive Officer
PJSC Detsky Mir

A.S. Garmanova
Chief Financial Officer
PJSC Detsky Mir

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To: Board of Directors and Shareholders 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" (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group") as at 30 June 2019 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the half-year then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information does not present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, and its consolidated financial performance and its consolidated cash flows for the half-year then ended in accordance with IAS 34 *Interim Financial Reporting*.

Other Information

Management is responsible for the other information. The other information comprises the supplementary information included on pages 18-21 and is presented for the purpose of additional analysis and is not a part of the interim condensed consolidated financial information for the half-year ended 30 June 2019.

Our conclusion on the interim condensed consolidated financial information of the Group for the half-year ended 30 June 2019 does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our interim review of the interim condensed consolidated financial information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed consolidated financial information, or our knowledge obtained in the interim review or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Egor Metelkin,
Engagement partner

23 August 2019

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2019 (UNAUDITED)
(in millions of Russian Rubles, except earnings per share)

	Notes	For the half-year ended 30 June 2019	For the half-year ended 30 June 2018
Revenue	3	55,899	48,116
Cost of sales		(38,308)	(32,581)
GROSS PROFIT		**17,591**	**15,535**
Selling, general and administrative expenses	4	(12,873)	(12,029)
Other operating expenses, net		2	(13)
OPERATING PROFIT		**4,720**	**3,493**
Finance income		6	2
Finance expense	5	(2,422)	(2,337)
Foreign exchange (loss)/ gain, net		(286)	143
PROFIT BEFORE INCOME TAX		**2,018**	**1,301**
Income tax expense	6	(84)	(270)
PROFIT FOR THE PERIOD		**1,934**	**1,031**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss			
Effect of translation to presentation currency		45	(16)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,979**	**1,015**
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:		735,841,810	738,145,900
Earnings per share, basic and diluted (in Russian Rubles per share)		2.63	1.40

The Notes on pages 8 to 17 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 2019 (UNAUDITED)
(in millions of Russian Rubles)

	Notes	30 June 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	9,798	9,226
Intangible assets	7	1,387	1,255
Right-of-use assets	8	30,350	29,606
Deferred tax assets		1,763	1,858
Other non-current assets		128	133
Total non-current assets		**43,426**	**42,078**
CURRENT ASSETS:			
Inventories	9	37,307	35,063
Trade receivables		3,281	4,473
Advances paid and other receivables		1,085	2,038
Prepaid income tax		328	1
Cash and cash equivalents	10	1,318	3,335
Total current assets		**43,319**	**44,910**
TOTAL ASSETS		**86,745**	**86,988**
EQUITY AND LIABILITIES			
EQUITY DEFICIT:			
Share capital		1	1
Treasury shares	11	(322)	(214)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(7,793)	(6,609)
Currency translation reserve		132	87
Total equity deficit		**(2,189)**	**(942)**
NON-CURRENT LIABILITIES:			
Lease liabilities	13	25,051	23,706
Long-term loans and borrowings	14	5,950	8,928
Deferred tax liabilities		118	152
Total non-current liabilities		**31,119**	**32,786**
CURRENT LIABILITIES:			
Trade payables		24,622	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	14	21,544	12,542
Lease liabilities	13	6,339	6,840
Advances received, other payables and accrued expenses	15	4,829	4,938
Deferred revenue		469	720
Income tax payable		12	357
Total current liabilities		**57,815**	**55,144**
Total liabilities		**88,934**	**87,930**
TOTAL EQUITY DEFICIT AND LIABILITIES		**86,745**	**86,988**

The Notes on pages 8 to 17 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 2019 (UNAUDITED)

(in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance as at 1 January 2018	**1**	**(60)**	**5,793**	**(6,386)**	**130**	**(522)**
Profit for the period	-	-	-	1,031	-	1,031
Other comprehensive loss	-	-	-	-	(16)	(16)
Total comprehensive income for the period	**-**	**-**	**-**	**1,031**	**(16)**	**1,015**
Share-based compensation (Note 16)	-	-	-	96	-	96
Purchase of treasury shares (Note 11)	-	(48)	-	-	-	(48)
Dividends (Note 12)	-	-	-	(2,864)	-	(2,864)
Balance as at 30 June 2018	**1**	**(108)**	**5,793**	**(8,123)**	**114**	**(2,323)**
Balance as at 1 January 2019	**1**	**(214)**	**5,793**	**(6,609)**	**87**	**(942)**
Profit for the period	-	-	-	1,934	-	1,934
Other comprehensive income	-	-	-	-	45	45
Total comprehensive income for the period	**-**	**-**	**-**	**1,934**	**45**	**1,979**
Share-based compensation (Note 16)	-	-	-	156	-	156
Purchase of treasury shares (Note 11)	-	(139)	-	-	-	(139)
Sale of treasury shares (Note 11)	-	31	-	-	-	31
Dividends (Note 12)	-	-	-	(3,274)	-	(3,274)
Balance as at 30 June 2019	**1**	**(322)**	**5,793**	**(7,793)**	**132**	**(2,189)**

The Notes on pages 8 to 17 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 2019 (UNAUDITED)
(in millions of Russian Rubles)

	For the half-year ended	
	30 June 2019	**30 June 2018**
OPERATING ACTIVITIES:		
Profit for the period	1,934	1,031
Adjustments for:		
Depreciation and amortization expense	4,875	4,695
Finance expense	2,422	2,337
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	358	377
Foreign exchange loss/(gain), net	286	(143)
Expense on equity-settled share-based compensation	156	96
Income tax expense recognized in profit or loss	84	270
Finance income	(6)	(2)
Gain on disposal of non-current assets	(11)	(4)
Bad debts written-off and change in allowance for credit losses for doubtful accounts	(35)	4
Revaluation of other assets	(50)	-
Changes in working capital:		
Decrease/(increase) in trade receivables	1,192	(185)
Decrease/(increase) in advances paid and other receivables	263	(489)
Increase in inventories	(2,591)	(3,881)
Decrease in trade payables	(4,787)	(1,402)
Decrease in advances received, other payables and accrued expenses	(507)	(861)
(Decrease)/increase in deferred revenue	(251)	64
Cash generated by operations	**3,332**	**1,907**
Interest paid	(2,248)	(2,248)
Interest received	3	2
Income taxes paid	(659)	(394)
Net cash generated by/(used in) operating activities	**428**	**(733)**
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(1,248)	(686)
Payments for intangible assets	(368)	(44)
Proceeds from disposal of property, plant and equipment	20	-
Net cash used in investing activities	**(1,596)**	**(730)**
FINANCING ACTIVITIES:		
Purchase of treasury shares	(139)	(48)
Sale of treasury shares	31	-
Proceeds from loans and borrowings	34,937	28,031
Repayment of loans and borrowings	(28,914)	(21,936)
Dividends paid	(3,274)	(4,007)
Lease payments	(3,490)	(2,947)
Net cash used in financing activities	**(849)**	**(907)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,017)**	**(2,370)**
CASH AND CASH EQUIVALENTS, beginning of the period	**3,335**	**3,155**
CASH AND CASH EQUIVALENTS, end of the period	**1,318**	**785**

The Notes on pages 8 to 17 form an integral part of this interim condensed consolidated financial information.

(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 products 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 products through retail stores and online store, and the Group develops pet goods sales through retail stores and online store as well. During the half-year ended 30 June 2019 and as at 30 June 2019 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan, Early Learning Centre (hereinafter, the "ELC") branded retail stores in Russia, and "Zoozavr" branded retail stores in Russia. In February 2019 the Group launched its retail activity under "Detsky Mir" brand in the Republic of Belarus.

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

	30 June 2019, %	31 December 2018, %
PJSFC Sistema and its subsidiaries	52.028	52.099
Floette Holdings Limited [1, 2]	7.016	7.016
Exarzo Holdings Limited [1, 2]	7.016	7.016
Other shareholders	33.940	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 30 June 2019 and 31 December 2018 the ultimate controlling party of the Company was Mr. Vladimir Evtushenkov.

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

	Ownership interest and proportion of voting power	
Subsidiaries	**30 June 2019, %**	**31 December 2018, %**
LLP Detsky Mir Kazakhstan, Kazakhstan	100	100
LLC Kub-Market, RF	100	100
LLC Detmir BEL, Belarus	100	100

As at 30 June 2019 and 31 December 2018 the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The annual consolidated financial statements of PJSC "Detsky Mir" and its subsidiaries are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"). This interim condensed consolidated financial information for the half-year ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (hereinafter, "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 2018.

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 Company and its Russian subsidiaries. The functional currency of LLP Detsky Mir Kazakhstan is Kazakhstani Tenge, and the functional currency of LLC Detmir BEL is Belarusian Ruble.

(in millions of Russian Rubles)

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 promotional activity. The results of operations and cash flows for the half-year 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 2018, except for the adoption of the new standards and interpretations.

From 1 January 2019, 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:

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation";
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures";
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement";
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

No new standards and interpretations adopted in 2019 had a material impact on the interim condensed consolidated financial information of the Group for the half-year ended 30 June 2019.

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

In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS except for those assumed by the change in accounting for allowance for slow-moving and obsolete inventories (Note 9) and revenue attributed to customer loyalty program.

Revenue attributed to loyalty program – management introduced a change to the fair value measurement of remuneration received from customers in relation to bonus points (deferred revenue) presented by a clarification of redemption rates on basis of historical performance of customer loyalty points (actual breakage) for the last twelve months.

3. REVENUE

The Group's revenue for the half-year ended 30 June 2019 and 2018 was as follows:

	For the half-year ended	
	30 June 2019	**30 June 2018**
Retail	50,552	44,996
Online store	5,303	3,078
Other	44	42
Total	**55,899**	**48,116**

Revenue for sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 3,855 million and RUB 1,587 million for the period ended 30 June 2019 and 2018 is included within online store revenue.

(in millions of Russian Rubles)

Revenue from ELC-branded stores, presented within retail revenue line, for the period ended 30 June 2019 and 2018 amounted to RUB 378 million and RUB 349 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 1,509 million and RUB 986 million for the period ended 30 June 2019 and 2018, respectively.

4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general, administrative expenses for the half-year ended 30 June 2019 and 2018 were as follows:

	For the half-year ended	
	30 June 2019	30 June 2018
Payroll	5,113	4,442
Depreciation and amortization	4,875	4,695
Rent and utilities	706	715
Banking services	534	444
Advertising and marketing expenses	488	571
Repair and maintenance	290	231
Security expenses	202	185
Promotional materials	188	146
Software maintenance	177	164
Consulting services	138	121
Office equipment	77	61
Communication expenses	66	58
Travel expenses	37	44
Stationery and other materials	20	19
Taxes (other than income tax)	(110)	66
Other	72	67
Total	**12,873**	**12,029**

5. FINANCE EXPENSE

The Group's finance expense for the half- year ended 30 June 2019 and 2018 were as follows:

	For the half-year ended	
	30 June 2019	30 June 2018
Interest expense on lease liabilities	1,258	1,492
Interest expense on bank loans	930	704
Interest expense on bonds	234	141
Total	**2,422**	**2,337**

6. INCOME TAXES

Below is a reconciliation of income tax calculated using the income tax rate effective in RF where the Group has its main operating entities to the actual income tax expense recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income for the periods ended 30 June 2019 and 2018:

	For the half-year ended	
	30 June 2019	30 June 2018
Profit before tax	2,018	1,301
Income tax expense calculated at 20% (2018: 20%)	(404)	(260)
Effect from the application of preferential rates (other than 20%)	19	-
Prior period current income tax adjustment	150	-
Non-taxable income/ (non-deductible expenses), including income/ (expenses) from change in allowance for inventories	216	(6)
Other expenses not deductible for tax purposes, net	(65)	(4)
Total	**(84)**	**(270)**

(in millions of Russian Rubles)

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the half-year ended 30 June 2019, the Group incurred capital expenditures in the amount of RUB 1,583 million (for the half-year ended 30 June 2018: RUB 607 million), which mainly comprised purchase of trade premises, leasehold improvements and trade and warehouse equipment.

The total amount of expenditure related to purchase of intangible assets comprised RUB 368 million and RUB 44 million for the half-year ended 30 June 2019 and 30 June 2018, respectively. These amounts relate to licenses, which were acquired for ERP system (hereinafter – system "SAP") and capitalized implementation costs.

8. RIGHT-OF-USE ASSETS

The Group leases retails premises, offices and warehouses (hereinafter "leased premises and buildings") with average lease term of 6.7 years as at 30 June 2019 (31 December 2018: 6 years). Movements in the carrying amount of leased premises and buildings were as follows:

	2019	2018
Cost		
At 1 January	**36,695**	**33,886**
New lease contracts and modification of existing lease contracts	4,394	1,857
Disposals	(179)	-
At 30 June	**40,910**	**35,743**

	2019	2018
Accumulated depreciation and impairment		
At 1 January	**7,089**	**-**
Depreciation expense	3,650	3,664
Disposals	(179)	-
At 30 June	**10,560**	**3,664**
Balance at 1 January	**29,606**	**33,886**
Balance at 30 June	**30,350**	**32,079**

	For the half-year ended	
	30 June 2019	**30 June 2018**
Amounts recognized in profit and loss		
Depreciation expense on right-of-use assets	3,650	3,664
Interest expense on lease liabilities	1,258	1,492
Expenses relating to variable lease payments not included in the measurement of the lease liability	236	259

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. 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 retails store sales in future years.

The total cash outflow for leases accounted for under IFRS 16 amounted to RUB 4,748 million and RUB 4,439 million for the half-years ended 30 June 2019 and 30 June 2018 respectively.

(in millions of Russian Rubles)

9. INVENTORIES

Inventories as at 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019	31 December 2018
Merchandise inventories	37,087	34,866
Materials	220	197
Total	**37,307**	**35,063**

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 358 million and RUB 377 million for the half-year ended 30 June 2019 and 2018, respectively, were recorded within cost of sales in the interim condensed consolidated statement of profit or loss and other comprehensive income.

In the half-year ended 30 June 2019 the Group introduced a change to the estimate of allowance for slow-moving and obsolete inventories presented by a clarification of allowance rates. Previously allowance rates were calculated on statistical average percentage basis of obsolete inventories and slow-moving items in inventory groups' segregation. Revised allowance rates are determined based on historical performance of the inventory (sales below cost of sales) for the last twelve months.

As at 30 June 2019 and 31 December 2018 no inventories were pledged.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2019 and 31 December 2018 consisted of the following:

	30 June 2019	31 December 2018
Cash in transit	1,024	2,156
Cash in current bank accounts	156	816
Cash on hand	138	363
Total	**1,318**	**3,335**

Cash in transit comprises cash collected from the Group's stores and not yet placed into the Group's bank accounts at the period end.

11. ORDINARY AND TREASURY SHARES

Ordinary shares

As at 30 June 2019 and 2018, the ordinary share capital of the Company was as follows:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
At 1 January 2018	**738,378,527**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(523,800)	-	-
At 30 June 2018	**737,854,727**	**739,000,000**	**739,000,000**
At 1 January 2019	**736,693,997**	**739,000,000**	**739,000,000**
Purchase of treasury shares	(1,556,610)	-	-
Sale of treasury shares	367,069	-	-
At 30 June 2019	**735,504,456**	**739,000,000**	**739,000,000**

All ordinary shares have a par value of RUB 0.0004 per share.

(in millions of Russian Rubles)

Treasury shares

During the period ended 30 June 2019 and 2018, the Group purchased 1,556,610 and 523,800 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 139 million and RUB 43 million, respectively. During the period ended 30 June 2019, the Group sold 367,069 of the Company's ordinary shares to management of the Group for a total consideration of RUB 31 million to settle a share-based arrangement (Note 16). No sales of the Company's ordinary shares by the Group took place during the period ended 30 June 2018. As at 30 June 2019 the Group has 3,495,544 treasury shares with cost of RUB 322 million. As at 30 June 2018 the Group had 1,145,273 treasury shares with cost of RUB 108 million.

12. 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.

On 16 May 2019 annual General meeting of shareholders approved the dividend payment for the year 2018 in the amount of RUB 3,274 million or RUB 4.45 per share, which was paid in full on 29 May 2019. As at 30 June 2018 dividend payment for the year 2017 was approved in the amount of RUB 2,864 million or RUB 3.88 per share, which was paid in full on 30 May 2018.

13. LEASE LIABILITIES

As at 30 June 2019 and 31 December 2018 lease liabilities comprised the following:

	30 June 2019	31 December 2018
Present value of net minimum lease payments	**31,390**	**30,546**
Less current portion of lease obligations	(6,339)	(6,840)
Non-current portion of lease obligations	**25,051**	**23,706**

The following table summarizes the changes in the lease liabilities:

	2019	2018
Balance as at 1 January	**30,546**	**33,822**
Interest expense on lease liabilities	1,258	1,492
Lease payments	(4,748)	(4,439)
New lease contracts and modification of existing lease contracts	4,334	1,857
Balance as at 30 June	**31,390**	**32,732**

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.

(in millions of Russian Rubles)

14. LOANS AND BORROWINGS

Loans and borrowings as at 30 June 2019 and 31 December 2018 comprise:

	30 June 2019	31 December 2018
Bank loans		
Unsecured bank loans in rubles	19,494	18,470
Bonds	8,000	3,000
	27,494	**21,470**
Less current portion of long-term debt	(21,544)	(12,542)
Loans and borrowings, non-current	**5,950**	**8,928**

Bank loans in Russian Rubles

As at 30 June 2019 and 31 December 2018 the loans in Russian Rubles were provided to the Group by 6 and 7 banks, respectively.

The fair value of the Group's bank loans as at 30 June 2019 amounted to RUB 19,480 million. As at 31 December 2018 the fair value of the Group's bank loans was amounted to RUB 18,483 million.

Inputs of Level 2 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received and for bonds. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 30 June 2019 and 31 December 2018 valuation was determined by reference to the Group's traded bonds yield of 8.77% and 9.4%, respectively (Level 2 input).

Bonds

In April 2019, the Group issued and placed documentary exchange non-convertible bonds (Series BO 07) in the total amount of RUB 5,000 million at PJSC "Moscow Stock exchange" with a nominal value of 1 thousand Russian Rubles each. The coupon interest rate was set at 8.9% per annum. The bonds mature on 6 April 2026 with the pull offer date on 13 April 2022.

In April 2017, the Group issued and placed documentary exchange non-convertible bonds (Series BO 04) in the total amount of RUB 3,000 million at PJSC "Moscow Stock exchange" with a nominal value of 1 thousand Russian Rubles each. The 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 30 June 2019, the book value of exchange-traded bonds issued and placed by the Group was RUB 8,000 million, excluding accumulated coupon income of RUB 160 million. As at 30 June 2018, the book value of exchange-traded bonds issued and placed by the Group was RUB 3,000 million, excluding accumulated coupon income of RUB 66 million.

The fair value of exchange-traded bonds as at 30 June 2019 and 31 December 2018 amounted to RUB 8,251 million and RUB 3,111 million respectively.

Unused credit lines

As at 30 June 2019 and 31 December 2018, the total amount of undrawn credit lines of the Group amounted to RUB 25,068 million and RUB 23,203 million, including RUB 20,253 million and RUB 20,067 million of long-term credit lines.

(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, require for additional collateral or early repayment of outstanding debt.

Management believes that as at 30 June 2019 and 31 December 2018 the Group is in compliance with all financial covenants stipulated by its loan agreements.

Pledges

As at 30 June 2019, the Group has no assets or securities transferred as collateral for loans and borrowings granted to the Group. As at 31 December 2018, the Group also had no assets or securities transferred as collateral for loans and borrowings granted to the Group.

15. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 30 June 2019 and 31 December 2018 were as follows:

	30 June 2019	31 December 2018
Accrued expenses and other current liabilities	2,877	2,894
Advances received	874	541
Payables to employees	502	975
Taxes payable (other than income tax)	386	423
Interest payable from bonds	160	68
Interest payable from bank loans	30	37
Total	**4,829**	**4,938**

16. SHARE-BASED COMPENSATION

During the half-year ended 30 June 2019 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Liabilities recognized in relation to long-term incentive plans

As at 30 June 2019, the Group recognized nil liabilities in relation to cash-settled share-based payment arrangement (31 December 2018: RUB 283 million, including accrued social contributions of RUB 38 million).

During the half-year ended 30 June 2019 the Group also recognized a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements of RUB 156 million (half-year ended 2018: RUB 96 million). This amount includes accrued social contributions of RUB 20 million (2018: RUB 13 million).

Expenses recognized in relation to long-term incentive plans

Expenses in the amount of RUB 322 million incurred by the Group in relation to Incentive Plan 2, Incentive Plan 3 and amendment to Incentive Plan 3 were recognized as Selling, General and Administrative expenses in the interim condensed consolidated statement of profit or loss and other comprehensive income for half-year ended 30 June 2019 (half-year ended 30 June 2018: expenses totaling RUB 272 million).

(in millions of Russian Rubles)

17. 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, 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:

	30 June 2019		**31 December 2018**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	24	-	257	-
Trade receivables/(payables)	1	(97)	1	-
Other receivables/(payables)	1	(1)	10	(19)

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 half-year ended 30 June 2019 and 2018, as follows:

		For the half-year ended	
Related party	**Type of operation**	**30 June 2019**	**30 June 2018**
MTS (i)	Communication costs	12	13
MTS (i)	Advertising and marketing expenses	30	38
RA-Maxima (ii)	Advertising and marketing expenses	15	23
MTS – Bank (i)	Interest income	2	1
JSC "Reestr" (i)	Consulting and information services	-	1
CJSC "NVision group" (i)	Acquisition of fixed assets	5	7
CJSC "NVision group" (i)	Software maintenance	4	7
LLC "Concept Group" (ii)	Purchase of goods	-	83
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	-	466
LLC "UK LandProfit" (i)	Rent	-	10
JSC "Progress" (iii)	Acquisition of goods	1,088	796
JSC "Business property" (i)	Rent	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 12.

Remuneration of key management personnel of the Group

During the half-years ended 30 June 2019 and 2018, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 562 million (including RUB 313 million of short-term non-share-based benefits, RUB 118 million of accrued short-term share-based compensation and RUB 131 million of accrued long-term share-based compensation) and RUB 421 million (including RUB 342 million of short-term non-share-based benefits and RUB 79 million of accrued long-term share-based compensation), respectively.

18. COMMITMENTS AND CONTINGENCIES

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 position, results of operations or liquidity of the Group.

Taxation

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

Operating environment

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

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and 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.

19. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 23 August 2019, the date on which the interim condensed consolidated financial information was approved.

After the balance sheet date no events have occurred which require disclosure in the interim condensed consolidated financial information for the half-year ended 30 June 2019.

(in millions of Russian Rubles)

SUPPLEMENTARY INFORMATION: NON-IFRS MEASURES

In this note, additional information is disclosed, which was not subject to review procedures, performed by the independent auditor. In order to maintain comparability of interim condensed consolidated financial results, interim condensed consolidated financial position and interim condensed consolidated cash flows of the Group for the recent years, the Group decided to disclose supplementary information for the half-year ended 30 June 2019, prepared according to IAS 17 "Leases" instead of IFRS 16 "Leases", including comparatives. The information set out below is not IFRS information and should be considered and read in addition to, but not as a substitute for, the information contained in the interim condensed consolidated financial information.

Starting 1 January 2018, the Group has been applying requirements of IFRS 16 with respect to lease agreements. Comparing to previously effective IAS 17, IFRS 16 introduced significant changes to the lessee accounting.

According to IAS 17, until 1 January 2018 the Group had recognized operating lease payments as an expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed. Contingent rentals arising under operating leases used to be recognized as an expense in the period in which they were activated.

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.

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.

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's interim condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 June 2019 would have been as follows:

	For the half-year ended	
	30 June 2019	**30 June 2018**
Revenue	55,899	48,116
Cost of sales	(38,308)	(32,581)
GROSS PROFIT	**17,591**	**15,535**
Selling, general and administrative expenses	(13,806)	(12,423)
Other operating expenses, net	2	(13)
OPERATING PROFIT	**3,787**	**3,099**
Finance income	3	2
Finance expense	(1,164)	(846)
Foreign exchange (loss)/ gain, net	(286)	143
PROFIT BEFORE INCOME TAX	**2,340**	**2,398**
Income tax expense	(148)	(489)
PROFIT FOR THE PERIOD	**2,192**	**1,909**
Other comprehensive income / (loss):		
Items that may be reclassified subsequently to profit or loss		
Effect of translation to presentation currency	13	(16)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,205**	**1,893**
Earnings per share		
Weighted average number of shares outstanding, basic and diluted:	735,841,810	738,145,900
Earnings per share, basic and diluted (in Russian Rubles per share)	2.98	2.59

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's interim condensed consolidated statement of financial position as at 30 June 2019 would have been as follows:

	30 June 2019	31 December 2018
ASSETS		
NON-CURRENT ASSETS:		
Property, plant and equipment	9,798	9,226
Intangible assets	1,387	1,255
Deferred tax assets	1,472	1,630
Other non-current assets	227	227
Total non-current assets	**12,884**	**12,338**
CURRENT ASSETS:		
Inventories	37,307	35,063
Trade receivables	3,281	4,473
Advances paid and other receivables	1,566	2,328
Prepaid income tax	328	1
Cash and cash equivalents	1,318	3,335
Total current assets	**43,800**	**45,200**
TOTAL ASSETS	**56,684**	**57,538**
EQUITY AND LIABILITIES		
EQUITY DEFICIT:		
Share capital	1	1
Treasury shares	(322)	(214)
Additional paid-in capital	5,793	5,793
Accumulated deficit	(6,627)	(5,700)
Currency translation reserve	131	118
Total equity deficit	**(1,024)**	**(2)**
NON-CURRENT LIABILITIES:		
Long-term loans and borrowings	5,950	8,928
Deferred tax liabilities	118	152
Total non-current liabilities	**6,068**	**9,080**
CURRENT LIABILITIES:		
Trade payables	24,622	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	21,544	12,542
Advances received, other payables and accrued expenses	4,993	5,094
Deferred revenue	469	720
Income tax payable	12	357
Total current liabilities	**51,640**	**48,460**
Total liabilities	**57,708**	**57,540**
TOTAL EQUITY DEFICIT AND LIABILITIES	**56,684**	**57,538**

SUPPLEMENTARY INFORMATION: NON-IFRS MEASURES
(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's interim condensed consolidated statement of cash flows for the half-year ended 30 June 2019 would have been as follows:

	For the half-year ended	
	30 June 2019	**30 June 2018**
OPERATING ACTIVITIES:		
Profit for the period	2,192	1,909
Adjustments for:		
Depreciation and amortization expense	1,225	1,029
Finance expense	1,164	846
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	358	377
Foreign exchange loss/(gain), net	286	(143)
Expense on equity-settled share-based compensation	155	96
Income tax expense recognized in profit or loss	148	489
Finance income	(3)	(2)
Gain on disposal of fixed assets and intangible assets	(11)	(4)
Bad debts written-off and change in allowance for credit losses for doubtful accounts	(35)	4
Changes in working capital:		
Decrease/ (increase) in trade receivables	1,192	(185)
Decrease/ (increase) in advances paid and other receivables	73	(1,361)
Increase in inventories	(2,591)	(3,881)
Decrease in trade payables	(4,787)	(1,402)
Decrease in advances received, other payables and accrued expenses	(530)	(368)
(Decrease)/increase in deferred revenue	(251)	64
Cash used in operations	**(1,415)**	**(2,532)**
Interest paid	(991)	(756)
Interest received	3	2
Income tax paid	(659)	(394)
Net cash used in operating activities	**(3,062)**	**(3,680)**
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(1,248)	(686)
Payments for intangible assets	(368)	(44)
Proceeds from disposal of property, plant and equipment	20	-
Net cash used in investing activities	**(1,596)**	**(730)**
FINANCING ACTIVITIES:		
Purchase of treasury shares	(139)	(48)
Sale of treasury shares	31	-
Proceeds from loans and borrowings	35,537	28,031
Repayment of loans and borrowings	(29,514)	(21,936)
Dividends paid	(3,274)	(4,007)
Net cash generated by financing activities	**2,641**	**2,040**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,017)**	**(2,370)**
CASH AND CASH EQUIVALENTS, beginning of the period	**3,335**	**3,155**
CASH AND CASH EQUIVALENTS, end of the period	**1,318**	**785**

(in millions of Russian Rubles)

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's selling, general and administrative expenses for the half-year ended 30 June 2019 would have been as follows:

	For the half-year ended	
	30 June 2019	**30 June 2018**
Rent and utilities	5,239	4,775
Payroll	5,113	4,442
Depreciation and amortization	1,225	1,029
Banking services	534	444
Advertising and marketing expenses	488	571
Repair and maintenance	290	231
Security expenses	202	185
Promotional materials	188	146
Software maintenance	177	164
Consulting services	138	121
Office equipment	77	61
Communication expenses	66	58
Travel expenses	37	44
Stationery and other materials	20	19
Taxes (other than income tax)	(110)	66
Other	122	67
Total	**13,806**	**12,423**