

DETSKY MIR GROUP

Interim Condensed Consolidated
Financial Information (unaudited)
Three Months and Nine Months Ended
30 September 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 THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 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 September 2019, and the consolidated results of its operations for the three months and the nine months then ended, cash flows and changes in equity for the nine months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting" (hereinafter, "IAS 34").

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.

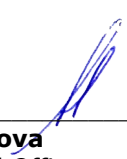
Management is also responsible for:

- 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 IAS 34;
- 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 three months and the nine months ended 30 September 2019 was approved on 14 November 2019.



V.S. Chirakhov
Chief Executive Officer
PJSC Detsky Mir



A.S. Garmanova
Chief Financial Officer
PJSC Detsky Mir

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 September 2019 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three and nine months then ended, changes in equity and cash flows for the nine months then ended, and the 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 September 2019, and its consolidated financial performance for the three and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with IAS 34 *Interim Financial Reporting*.


Egor Metelkin,
Engagement partner

14 November 2019

The Entity: PJSC "Detsky Mir"

State Registration Certificate No. 7701233499, issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 29 for Moscow on 13.09.1999

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 117415, Russia



Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED)

(in millions of Russian Rubles, except earnings per share)

	Notes	For the nine months ended		For the three months ended	
		30 September 2019	30 September 2018	30 September 2019	30 September 2018
Revenue	3	89,850	76,566	33,951	28,450
Cost of sales		(61,573)	(51,542)	(23,265)	(18,961)
GROSS PROFIT		28,277	25,024	10,686	9,489
Selling, general and administrative expenses	4	(19,863)	(17,977)	(6,990)	(5,948)
Other operating expenses, net		(8)	(23)	(10)	(10)
OPERATING PROFIT		8,406	7,024	3,686	3,531
Finance income		8	6	2	4
Finance expense	5	(3,583)	(3,087)	(1,161)	(750)
Foreign exchange (loss)/gain, net		(194)	175	92	32
PROFIT BEFORE INCOME TAX		4,637	4,118	2,619	2,817
Income tax expense		(555)	(718)	(471)	(448)
PROFIT FOR THE PERIOD		4,082	3,400	2,148	2,369
Other comprehensive income/(loss):					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Effect of translation to presentation currency		41	(9)	(4)	7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		4,123	3,391	2,144	2,376
Earnings per share					
Weighted average number of shares outstanding, basic and diluted		735,731,244	738,107,968	735,504,456	738,030,812
Earnings per share, basic and diluted (in Russian Rubles per share)		5.55	4.61	2.92	3.21

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

	Notes	30 September 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	9,580	9,226
Intangible assets	6	1,422	1,255
Right-of-use assets	7	30,258	29,606
Deferred tax assets		1,812	1,858
Other non-current assets		118	133
Total non-current assets		43,190	42,078
CURRENT ASSETS:			
Inventories	8	35,233	35,063
Trade receivables		3,729	4,473
Advances paid and other receivables		1,006	2,038
Prepaid income tax		61	1
Cash and cash equivalents	9	717	3,335
Total current assets		40,746	44,910
TOTAL ASSETS		83,936	86,988
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		1	1
Treasury shares	10	(319)	(214)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(5,554)	(6,609)
Currency translation reserve		128	87
Total equity/(equity deficit)		49	(942)
NON-CURRENT LIABILITIES:			
Lease liabilities	12	25,274	23,706
Long-term loans and borrowings	13	5,980	8,928
Deferred tax liabilities		100	152
Total non-current liabilities		31,354	32,786
CURRENT LIABILITIES:			
Trade payables		26,452	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	13	14,926	12,542
Lease liabilities	12	6,436	6,840
Advances received, other payables and accrued expenses	14	4,175	4,938
Deferred revenue		524	720
Income tax payable		20	357
Total current liabilities		52,533	55,144
Total liabilities		83,887	87,930
TOTAL EQUITY AND LIABILITIES		83,936	86,988

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

DETSKY MIR GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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	-	-	-	3,400	-	3,400
Other comprehensive loss	-	-	-	-	(9)	(9)
Total comprehensive income for the period	-	-	-	3,400	(9)	3,391
Share-based compensation (Note 15)	-	-	-	145	-	145
Purchase of treasury shares (Note 10)	-	(146)	-	-	-	(146)
Sale of treasury shares (Note 10)	-	38	-	-	-	38
Dividends (Note 11)	-	-	-	(2,864)	-	(2,864)
Balance as at 30 September 2018	1	(168)	5,793	(5,705)	121	42
Balance as at 1 January 2019	1	(214)	5,793	(6,609)	87	(942)
Profit for the period	-	-	-	4,082	-	4,082
Other comprehensive income	-	-	-	-	41	41
Total comprehensive income for the period	-	-	-	4,082	41	4,123
Share-based compensation (Note 15)	-	-	-	247	-	247
Purchase of treasury shares (Note 10)	-	(139)	-	-	-	(139)
Sale of treasury shares (Note 10)	-	34	-	-	-	34
Dividends (Note 11)	-	-	-	(3,274)	-	(3,274)
Balance as at 30 September 2019	1	(319)	5,793	(5,554)	128	49

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

	For the nine months ended	
	30 September 2019	30 September 2018
OPERATING ACTIVITIES:		
Profit for the period	4,082	3,400
Adjustments for:		
Depreciation and amortization expense	7,431	6,851
Finance expense	3,583	3,087
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	760	616
Income tax expense recognized in profit or loss	555	718
Expense on equity-settled share-based compensation	247	145
Foreign exchange loss/(gain), net	194	(175)
Finance income	(8)	(6)
Gain on disposal of non-current assets	(21)	(2)
Bad debts written-off and change in allowance for credit losses for doubtful accounts	(38)	4
Changes in working capital:		
Decrease in trade receivables	744	135
Decrease in advances paid and other receivables	746	53
Increase in inventories	(913)	(5,373)
(Decrease)/increase in trade payables	(3,256)	157
Decrease in advances received, other payables and accrued expenses	(876)	(1,779)
(Decrease)/increase in deferred revenue	(196)	138
Cash generated by operations	13,034	7,969
Interest paid	(3,194)	(2,896)
Interest received	3	3
Income taxes paid	(957)	(618)
Net cash generated by operating activities	8,886	4,458
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(2,027)	(1,188)
Payments for intangible assets	(539)	(95)
Proceeds from disposal of property, plant and equipment	22	-
Net cash used in investing activities	(2,544)	(1,283)
FINANCING ACTIVITIES:		
Purchase of treasury shares	(139)	(146)
Sale of treasury shares	34	38
Proceeds from loans and borrowings	50,190	36,642
Repayment of loans and borrowings	(50,754)	(32,616)
Dividends paid	(3,274)	(4,007)
Lease payments	(5,017)	(4,762)
Net cash used in financing activities	(8,960)	(4,851)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,618)	(1,676)
CASH AND CASH EQUIVALENTS, beginning of the period	3,335	3,155
CASH AND CASH EQUIVALENTS, end of the period	717	1,479

The Notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (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 Company's address is 3/6 3-Niznelikhoborsky Proezd, Moscow 127238.

The primary activity of the Group is the sale of children's clothing and products through retail stores and its online store, and the Group develops pet goods sales through retail stores and its online store as well. During the three months and the nine months ended 30 September 2019 and as at 30 September 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 September 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 September 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:

Subsidiaries	Ownership interest and proportion of voting power	
	30 September 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 September 2019 and 31 December 2018, the Group does not have non-wholly owned subsidiaries that have material non-controlling interests to the Group.

DETSKY MIR GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

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 as issued by the International Accounting Standards Board (hereinafter, "IASB") (hereinafter, "IFRS"). This interim condensed consolidated financial information for the three months and the nine months ended 30 September 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 the 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.

Seasonality of operations – A significant portion of the Group's sales, profit and operating cash flows have historically been realized in the fiscal fourth quarter. As a result, results of operations for the three months and the nine months ended 30 September 2019 may fluctuate significantly based on many factors, including seasonal fluctuations in customer demand, product offerings, inventory levels and promotional activity. The results of operations for the three months and the nine months ended 30 September 2019 and cash flows for the nine months ended 30 September 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 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 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 three months and the nine months ended 30 September 2019.

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

In preparing this 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 8).

DETSKY MIR GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

3. REVENUE

The Group's revenue for the nine months and the three months ended 30 September 2019 and 2018 was as follows:

	For the nine months ended		For the three months ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Retail	81,108	71,378	30,556	26,382
Online store	8,672	5,126	3,369	2,048
Other	70	62	26	20
Total	89,850	76,566	33,951	28,450

Revenue for sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 6,391 million and RUB 2,778 million for the nine months ended 30 September 2019 and 2018, respectively, is included within online store revenue (for the three months ended 30 September 2019 and 2018: RUB 2,536 million and 1,191 million, respectively).

Revenue from ELC-branded stores, presented within retail revenue line, for the nine months ended 30 September 2019 and 2018 amounted to RUB 617 million and RUB 549 million, respectively (for the three months ended 30 September 2019 and 2018: RUB 239 million and 200 million, respectively).

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 2,573 million and RUB 1,690 million for the nine months ended 30 September 2019 and 2018, respectively (for the three months ended 30 September 2019 and 2018: RUB 1,064 million and 704 million, respectively).

4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general, administrative expenses for the nine months and the three months ended 30 September 2019 and 2018 were as follows:

	For the nine months ended		For the three months ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Payroll	7,638	6,704	2,525	2,262
Depreciation and amortization	7,431	6,851	2,556	2,156
Rent and utilities	1,178	1,046	472	331
Bank services	878	696	344	252
Advertising and marketing expenses	823	902	335	331
Repair and maintenance	434	356	144	125
Security expenses	310	289	108	104
Promotional materials	299	244	111	98
Software maintenance	270	249	93	85
Consulting services	177	167	39	46
Office equipment	107	94	30	33
Communication expenses	100	88	34	30
Travel expenses	61	63	24	19
Stationery and other materials	32	27	12	8
Taxes (other than income tax)	(79)	103	31	37
Other	204	98	132	31
Total	19,863	17,977	6,990	5,948

DETSKY MIR GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

5. FINANCE EXPENSE

The Group's finance expense for the nine months and the three months ended 30 September 2019 and 2018 was as follows:

	For the nine months ended		For the three month ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Interest expense on lease liabilities	1,797	1,783	539	291
Interest expense on bank loans	1,368	1,091	438	387
Interest expense on bonds	418	213	184	72
Total	3,583	3,087	1,161	750

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the nine months ended 30 September 2019, the Group incurred capital expenditures in the amount of RUB 1,899 million (for the nine months ended 30 September 2018: RUB 1,004 million), which mainly comprised purchase of trade premises, leasehold improvements and trade and warehouse equipment. During the three months ended 30 September 2019, the Group incurred capital expenditures in the amount of RUB 316 million (for the three months ended 30 September 2018: RUB 397 million), which mainly comprised purchase of leasehold improvements and trade and warehouse equipment.

The total amount of expenditure related to purchase of intangible assets comprised RUB 539 million and RUB 95 million for the nine months ended 30 September 2019 and 30 September 2018, respectively. The total amount of expenditure related to purchase of intangible assets comprised RUB 171 million and RUB 51 million for the three months ended 30 September 2019 and 30 September 2018, respectively. These amounts relate to licenses, which were acquired for ERP system and capitalized implementation costs.

7. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses (hereinafter, "leased premises and buildings") with average lease term of 6.9 years as at 30 September 2019 (31 December 2018: 6 years). Movements in the carrying amount of leased premises and buildings were as follows (movements of lease liabilities are presented in Note 12):

	2019	2018
Cost		
At 1 January	36,695	33,886
New lease contracts and modification of existing lease contracts	6,196	1,165
Disposals	(207)	(71)
At 30 September	42,684	34,980
	2019	2018
Accumulated depreciation and impairment		
At 1 January	7,089	-
Depreciation expense	5,544	5,274
Disposals	(207)	(41)
At 30 September	12,426	5,233
Balance at 1 January	29,606	33,886
Balance at 30 September	30,258	29,747

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

	For the nine months ended		For the three months ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
Amounts recognized in profit and loss				
Depreciation expense on right-of- use assets	5,544	5,274	1,894	1,610
Interest expense on lease liabilities	1,797	1,783	539	291
Expenses relating to variable lease payments not included in the measurement of the lease liability	493	454	257	195

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 to continue to present a similar proportion of retail store sales in future years.

The total cash outflow for leases amounted to RUB 7,308 million and RUB 6,999 million for the nine months ended 30 September 2019 and 30 September 2018 respectively (for the three months ended 30 September 2019 and 30 September 2018: RUB 2,324 million and RUB 2,301 million, respectively).

8. INVENTORIES

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

	30 September 2019	31 December 2018
Merchandise inventories	35,007	34,866
Materials	226	197
Total	35,233	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 760 million and RUB 616 million for the nine months ended 30 September 2019 and 2018, respectively, were recorded within cost of sales in the interim condensed consolidated statement of profit or loss and other comprehensive income (for the three months ended 30 September 2019 and 30 September 2018: RUB 402 million and RUB 239 million, respectively).

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

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS AND THE NINE MONTHS ENDED 30 SEPTEMBER 2019 (UNAUDITED) (in millions of Russian Rubles)

9. CASH AND CASH EQUIVALENTS

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Cash in current bank accounts	286	816
Cash on hand	230	363
Cash in transit	201	2,156
Total	<u>717</u>	<u>3,335</u>

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.

10. ORDINARY AND TREASURY SHARES

Ordinary shares

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

	<u>Outstanding ordinary shares</u>	<u>Issued ordinary shares</u>	<u>Authorized ordinary shares</u>
At 1 January 2018	<u>738,378,527</u>	<u>739,000,000</u>	<u>739,000,000</u>
Purchase of treasury shares	(1,578,740)	-	-
Sale of treasury shares	408,085	-	-
At 30 September 2018	<u>737,207,872</u>	<u>739,000,000</u>	<u>739,000,000</u>
At 1 January 2019	<u>736,693,997</u>	<u>739,000,000</u>	<u>739,000,000</u>
Purchase of treasury shares	(1,556,610)	-	-
Sale of treasury shares	367,069	-	-
At 30 September 2019	<u>735,504,456</u>	<u>739,000,000</u>	<u>739,000,000</u>

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

Treasury shares

During the nine months ended 30 September 2019 and 2018, the Group purchased 1,556,610 and 1,578,740 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 139 million and RUB 146 million, respectively.

During the nine months ended 30 September 2019 and 2018, the Group sold 367,069 and 408,085 of the Company's ordinary shares to management of the Group and received a total cash consideration of RUB 34 million and RUB 38 million, respectively, to settle a share-based arrangement (Note 15).

As at 30 September 2019 and 2018 the Group has 3,495,544 treasury shares with cost of RUB 319 million and 1,792,128 treasury shares with cost of RUB 168 million, respectively.

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11. 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, the 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.

On 22 May 2018, the annual General meeting of shareholders approved the dividend payment for the year 2017 in the amount of RUB 2,864 million or RUB 3.88 per share. These dividends were fully paid by the Group on 30 May 2018. Dividends declared in 2017 and outstanding as at 31 December 2017 in the amount of RUB 1,143 million were fully paid in February 2018.

12. LEASE LIABILITIES

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Present value of net minimum lease payments	31,710	30,546
Less current portion of lease obligations	<u>(6,436)</u>	<u>(6,840)</u>
Non-current portion of lease obligations	<u>25,274</u>	<u>23,706</u>

The following table summarizes the changes in the lease liabilities:

	<u>2019</u>	<u>2018</u>
Balance as at 1 January	30,546	33,822
Interest expense on lease liabilities	1,797	1,783
Lease payments	(6,815)	(6,545)
New lease contracts and modification of existing lease contracts	<u>6,182</u>	<u>1,092</u>
Balance as at 30 September	<u>31,710</u>	<u>30,152</u>

Group's lease contracts include typical restrictions and covenants common for local business practice such as responsibility of the Group for regular maintenance and repair of the lease assets and its insurance, redesign and conduction of permanent improvements only with consent of the lessor, use of leased asset in accordance with current legislation.

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13. LOANS AND BORROWINGS

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

	<u>30 September 2019</u>	<u>31 December 2018</u>
Bank loans		
Unsecured bank loans in rubles	12,906	18,470
Bonds	<u>8,000</u>	<u>3,000</u>
	20,906	21,470
Less current portion of long-term debt	<u>(14,926)</u>	<u>(12,542)</u>
Loans and borrowings, non-current	<u>5,980</u>	<u>8,928</u>

Bank loans in Russian Rubles

As at 30 September 2019 and 31 December 2018 the loans in Russian Rubles were provided to the Group by 4 and 7 banks, respectively.

The fair value of the Group's bank loans as at 30 September 2019 amounted to RUB 12,925 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. The resulting Level-2 fair value was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 30 September 2019 and 31 December 2018 valuation was determined by reference to the Group's traded bonds yield of 7.87% 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 September 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 344 million. As at 31 December 2018 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 3,000 million, excluding outstanding coupon income of RUB 68 million.

The Level-1 fair value of exchange-traded bonds as at 30 September 2019 and 31 December 2018 amounted to RUB 8,519 million and RUB 3,111 million respectively.

Unused credit lines

As at 30 September 2019 and 31 December 2018, the total amount of undrawn credit lines of the Group amounted to RUB 31,925 million and RUB 23,203 million, including RUB 26,325 million and RUB 20,067 million of long-term credit lines, respectively.

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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 ask for early repayment of outstanding debt.

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

Pledges

As at 30 September 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.

14. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

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

	30 September 2019	31 December 2018
Accrued expenses and other current liabilities	2,460	2,894
Payables to employees	519	975
Taxes payable (other than income tax)	451	423
Advances received	385	541
Interest payable on bonds	344	68
Interest payable on bank loans	16	37
Total	4,175	4,938

15. SHARE-BASED COMPENSATION

During the nine months and the three months ended 30 September 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 September 2019, the Group recognized liabilities of RUB 15 million in relation to cash-settled share-based payment arrangement, including accrued social contributions of RUB 2 million (31 December 2018: RUB 283 million, including accrued social contributions of RUB 38 million).

During the nine months ended 30 September 2019 the Group recognized a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements of RUB 247 million (nine months ended 2018: RUB 145 million). This amount includes accrued social contributions of RUB 33 million (2018: RUB 19 million).

Expenses recognized in relation to long-term incentive plans

Expenses in the amount of RUB 428 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 ("payroll" line item) in the interim condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended 30 September 2019 (nine months ended 30 September 2018: expenses totaling RUB 417 million).

Expenses in the amount of RUB 106 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 ("payroll" line item) in the interim condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2019 (three months ended 30 September 2018: expenses totaling RUB 145 million).

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16. 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 influence or joint control over decisions on matters of economic and financial activity. In considering each possible related party, the management paid special attention to the substance of the relationship and not merely the legal form, based on reasonable judgment.

Transactions with related parties may be on terms that are not always accessible to third parties. This table presents the list of transactions and balances in the calculation of the Group with subsidiaries of PJSFC Sistema and other related parties:

	30 September 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Bank deposits and outstanding cash balances	7	-	257	-
Trade receivables/(payables)	55	(195)	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 nine months and the three months ended 30 September 2019 and 2018, as follows:

Related party	Type of operation	For the nine months ended		For the three month ended	
		30 September 2019	30 September 2018	30 September 2019	30 September 2018
MTS (i)	Communication costs	20	20	8	7
MTS (i)	Advertising and marketing	43	60	13	22
RA-Maxima (ii)	Marketing expenses	21	35	6	12
MTS – Bank (i)	Interest income	2	1	-	-
JSC "Reestr" (i)	Consulting and information services	-	1	-	-
CJSC "NVision group" (i)	Acquisition of fixed assets	6	15	1	8
CJSC "NVision group" (i)	Software maintenance	4	9	-	2
LLC "Concept Group" (ii)	Purchase of goods	-	588	-	505
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	-	466	-	-
LLC "UK LandProfit" (i)	Rent	-	10	-	-
JSC "Progress" (iii)	Acquisition of goods	1,797	1,316	709	520
JSC "Business property" (i)	Rent	2	-	1	-
LLC Segezha packaging (i)	Acquisition of goods	4	2	4	2

(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 11.

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Remuneration of key management personnel of the Group

During the nine months ended 30 September 2019 and 2018, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 798 million (including RUB 474 million of short-term non-share-based benefits, RUB 118 million of accrued short-term share-based compensation and RUB 206 million of accrued long-term share-based compensation) and RUB 726 million (including RUB 415 million of short-term non-share-based benefits and RUB 311 million of accrued long-term share-based compensation), respectively.

During the three months ended 30 September 2019 and 2018, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 236 million (including RUB 161 million of short-term non-share-based benefits and RUB 75 million of accrued long-term share-based compensation) and RUB 305 million (including RUB 73 million of short-term non-share-based benefits and RUB 232 million of accrued long-term share-based compensation), respectively.

17. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 30 September 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to RUB 54 million, which relate to trade, office and warehouse equipment (31 December 2018: RUB 79 million, which relate to equipment for the new warehouse).

Legal proceedings

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 proceedings 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.

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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 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.

18. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 14 November 2019, the date on which the interim condensed consolidated financial information was approved.

In October 2019 the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 4"). Under the Incentive Plan 4, which covers a three-year period to February 2023, senior management in continuing employment as of certain dates within this period will be awarded with the Company's ordinary shares. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 4.6% of the appreciation in the Company's stock market value from 8 February 2020 until 7 February 2023, adjusted for dividends paid during the vesting period. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration. Accordingly, the Incentive Plan 4 for the participants will be partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

On 1 November 2019 the Company's Board of Directors approved a recommendation to the general meeting of shareholders to distribute dividends for the nine months ended 30 September 2019 in the amount of RUB 5.06 per share. The total amount of dividends recommended for the distribution is RUB 3,739 million. The recommendation is subject to approval at the general meeting of shareholders which had not taken place by the date on which the interim condensed consolidated financial information was approved.