



2019

**Detsky Mir
Annual Report**



detmir.ru

About This Report

This is the Annual Report for the period from 1 January 2019 to 31 December 2019 detailing the activities of Public Joint Stock Company Detsky Mir (“Detsky Mir” or “the Company”) and its subsidiaries jointly referred to as Detsky Mir Group (“Detsky Mir Group” or the “Group”). PJSC Detsky Mir is the parent of the Group, providing consolidated information on the financial and operating activities of the Group’s key assets used to prepare this Annual Report.



The list of subsidiaries included in this Annual Report and PJSC Detsky Mir’s shareholdings in the subsidiaries are disclosed in the notes to the IFRS consolidated financial statements for 2019. PJSC Detsky Mir’s IFRS consolidated financial statements for 2019 were audited by AO Deloitte and Touche CIS.

This Annual Report is based on operational analytics and figures presented in the IFRS consolidated financial statements. Although the Company has been applying IFRS 16 Leases since 1 January 2018, key financial metrics in the statements were compared as if IFRS 16 Leases had not been applied and thus no comparative information has been restated. This Annual Report has been verified by the Company’s Audit Commission and approved by the Board

of Directors and the Annual General Meeting of Shareholders.

This Annual Report may contain errors in ratios, percentages, and totals due to rounding. Figures in this Annual Report may differ slightly from previously reported ones due to rounding differences.

Disclaimer on Forward-Looking Statements

This Annual Report has been prepared based on the information available to the Company as at the time of reporting, including information obtained from third parties. The Company reasonably believes that this information is complete and accurate as at the publication



The Company’s previous annual reports are available at its dedicated shareholder and investor relations website: ir.detmir.ru.



date of this Annual Report. However, the Company does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

This Annual Report includes estimates or forward-looking statements related to operating, financial, economic, social, and other metrics that can be used to assess the performance of PJSC Detsky Mir and Detsky Mir Group. The Company does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved. The Company shall not be liable to any individual or legal entity for any loss or damage which may arise from their reliance on such forward-looking statements.

Annual Report of Public Joint Stock Company Detsky Mir pre-approved by the Board of Directors (Minutes No. 5 dated 26 May 2020).

PJSC Detsky Mir’s Annual Report was approved by the Annual Meeting of Shareholders on 30.06.2020 (minutes w/o dated 02 July 2020).

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Company Overview



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Detsky Mir Today

Detsky Mir Group is a multi-format retailer and the leader in the children’s goods market in Russia and Kazakhstan, operating the Detsky Mir national retail chain, the Detmir Pickup chain, the ELC (within Russia) and ABC chains, and the Zoozavr pet supplies chain.

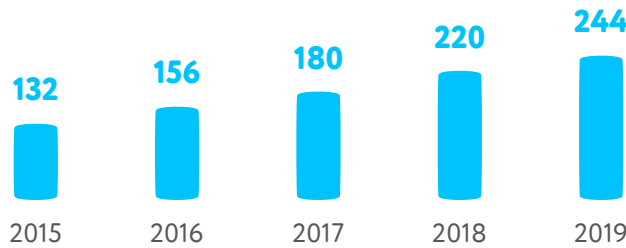
With its brand turning 72 in 2019, Detsky Mir is the most recognized brand among retail chains in the children’s goods market.

As at 31 December 2019, the Group comprised PJSC Detsky Mir, LLC Kub-Market (the ELC and ABC chains), LLP Detsky Mir Kazakhstan, LLC Detmir BEL, and LLC DM Capital.

PJSC Detsky Mir owns the “Detsky Mir” trademark and manages all stores within its retail chain. Detsky Mir Group is also focused on developing the ELC and ABC retail chains in Russia, which currently have stores in Moscow and 24 other Russian cities.

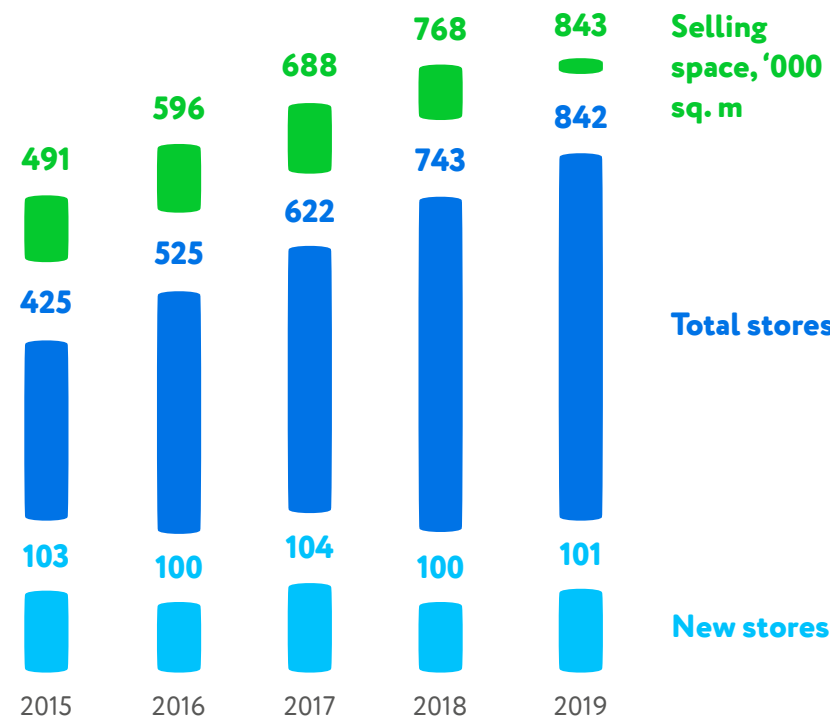
Between December 2018 and the end of the reporting year, Detsky Mir launched ten pilot pet supplies stores under the Zoozavr brand, in line with its approved strategy to enter new markets.

Detsky Mir Visitors, m



As at the end of 2019, Detsky Mir Group comprised 842 stores: 766 Detsky Mir stores across 293 cities in Russia, Kazakhstan and Belarus, 4 pilot Detmir Pickup stores, 62 ELC and ABC stores, and 10 Zoozavr pet supplies stores. The stores’ total selling space was 843,000 square meters.

Detsky Mir Group Store Count



The Company’s steady growth and leadership in the Russian children’s goods market have for many years been underpinned by its multichannel customer engagement strategy and highly-efficient use of internal resources.

In 2019, the Company successfully delivered on its Detsky Mir chain expansion plan, adding 101 new stores in Russia, Kazakhstan and Belarus.

The Company traditionally accelerated the expansion program in the last quarter, opening 56 new Detsky Mir stores. In addition, Detsky Mir announced the launch of active trials of a new compact format, Detmir Pickup, combining an offline retail store and a pickup point. In 2019, the Company piloted four such stores.

International expansion is a key strategic priority for the Company. In 2019, Detsky Mir successfully entered the Belarusian market, having already opened eight Detmir stores in the largest shopping malls of Minsk, Brest, Homyel, Maladzyechna, and Mahilyow. In 2019, Detsky Mir’s Belarusian business outperformed its initial targets and achieved operational break-even.

At the same time, Detsky Mir continued its market consolidation efforts in Kazakhstan, opening eight new stores and increasing LFL sales by 35.5 %. This strong performance prompted Detsky Mir’s decision to enter the Kyrgyz market in 2020.



In 2019, Detsky Mir stores had over 244 million visitors, with the number of visitors steadily growing in 2020



In 2019, Detsky Mir Group’s revenue increased by 16.1 % to RUB 128.8 billion

See the Financial Overview section for more details



ELC and ABC Retail Chains

ELC — the Early Learning Centre — is a fast-growing retail chain comprising 49 stores across Russia and an online store elc-russia.ru.

The British brand ELC is well-known world-wide: for more than 30 years, the Early Learning Centre has been creating safe, high-quality toys which foster well-rounded children’s development and encourage them to explore the world. When developing its toys, the Early Learning Centre engages child psychologists, leading designers, and the most important experts — children.



Detsky Mir’s many years’ experience in toy retailing encouraged it to develop its own brand, ABC, with the first ABC store opened in Chelyabinsk in May 2018. As at the end of 2019, the ABC chain comprised 13 stores.

With the ABC chain’s product matrix delivering strong performance, the Company decided



to expand the ELC stores’ product assortment as well. ABC stores offer an attractive choice of products at affordable prices not only for preschool children but for school-age children as well.

In line with its plans, the Company made decisions to develop its private labels in the medium and upper-medium segments, expand its exclusive product assortment, focus on maintaining superior customer service levels, and continue delivering operational efficiency gains. Whereas private labels accounted for just 2 % of the Company’s 2018 retail sales, in 2019 their share increased to as much as 14 %. ABC’s share in its online store sales (excluding in-store pickup) grew from 1 % to 8 %.

ELC and ABC stores feature toys, building sets, and learning and creative products for children up to 14.

The Company offers toys from widely-recognized foreign manufacturers such as LEGO, Hasbro, and Mattel, as well as products marketed under its private label brand ABC. The stores’ assortment comprises about 1,500 SKUs



Zoozavr Retail Chain

Between December 2018 and the end of 2019, the Company launched ten pilot pet supplies stores under the Zoozavr brand, in line with its approved strategy to enter new markets.

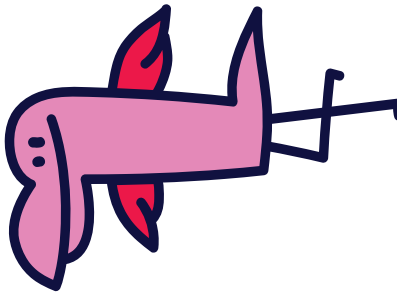
Zoozavr stores offer products from leading manufactures such as pet food, including veterinary pet food, and veterinary, cosmetic, pet care, and grooming products, among many others.

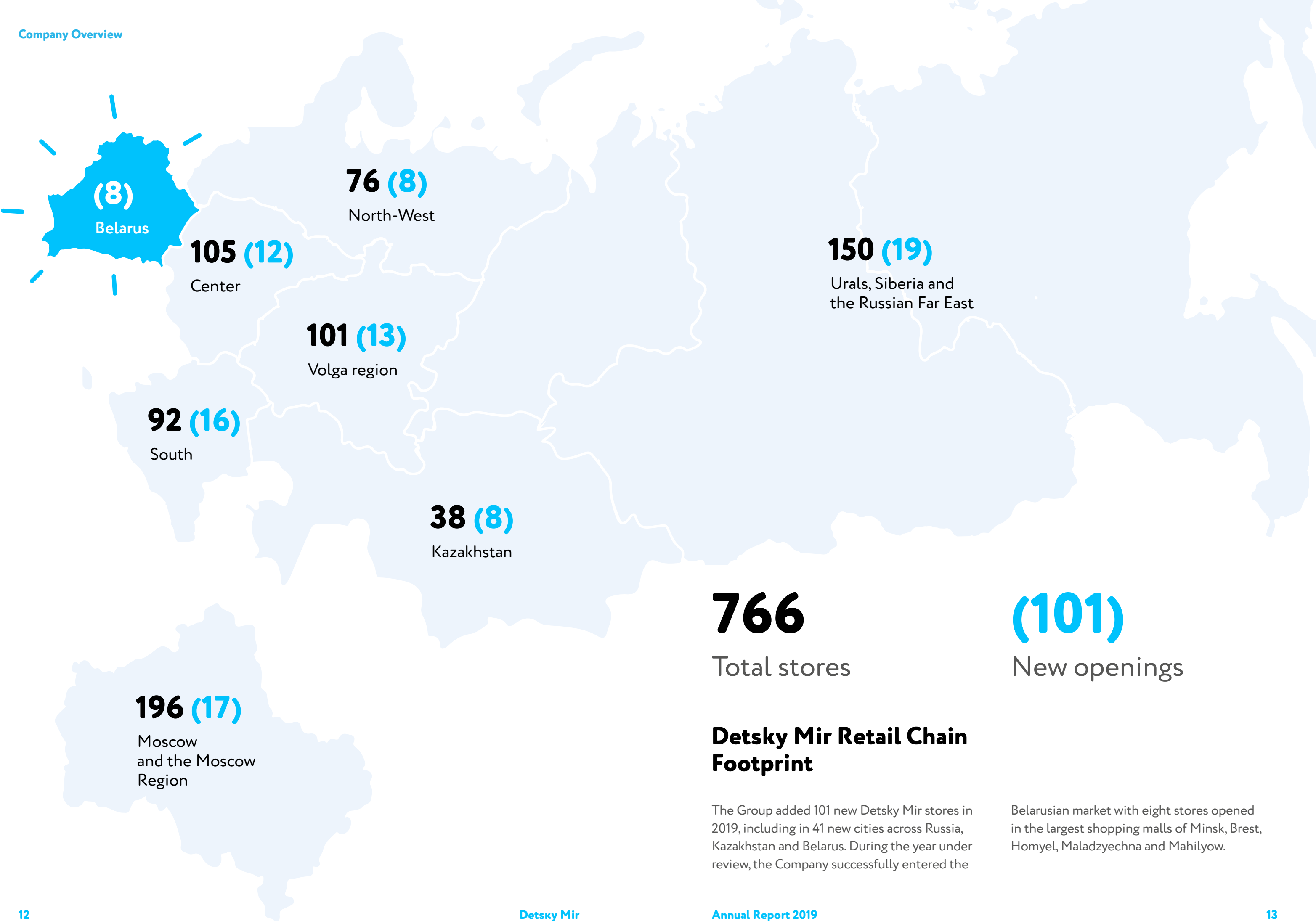
Pet supplies are also available at the Detsky Mir online store detmir.ru. Orders can be picked up at any Detsky Mir store in Moscow,

the Moscow Region or Saint Petersburg or delivered by courier.

Customers holding Detsky Mir loyalty cards can benefit from all loyalty program rewards when shopping in a Zoozavr store, including a 2 % bonus for purchase and the option to pay up to 100 % of the purchase price with bonus points.

The Company’s shared loyalty program also covers the Detsky Mir, ELC, and ABC retail chains in Russia.





766

Total stores

(101)

New openings

Detsky Mir Retail Chain Footprint

The Group added 101 new Detsky Mir stores in 2019, including in 41 new cities across Russia, Kazakhstan and Belarus. During the year under review, the Company successfully entered the

Belarusian market with eight stores opened in the largest shopping malls of Minsk, Brest, Homyel, Maladzyechna and Mahilyow.

2019 Highlights

	2018	2019 +16.1%
Revenue, RUB m	110,874	128,764
Share of the children's goods market in Russia, %	23 %	26 % +3.0 p. p.
Adjusted EBITDA, RUB m	12,665	14,725 +16.3 %
Adjusted EBITDA margin, %	11.4 %	11.4 %
Adjusted net profit, RUB m	7,229	8,022 +11 %
Net debt, RUB m	18,135	17,481 -3.6 %
CAPEX, RUB m	(3,794)	(3,507) -7.5 %
Detsky Mir chain's online revenue share in Russia (Q4 2019)	8.2 %	11.7 % +3.5 p. p.

	2018	2019 +65.2%
Online revenue, RUB bn	8.8	14.5 +2.5 p. p.
LFL sales growth in Russia and Kazakhstan	4.7 %	7.2 % +1.3 p. p.
LFL number of tickets growth in Russia and Kazakhstan	7.2 %	8.5 % +1.1 p. p.
LFL average ticket growth in Russia and Kazakhstan	(2.3 %)	(1.2 %) +32.0 %
Tax payments, RUB bn	4.4	5.8 +11.4 %
Average headcount, '000 people	12.7	14.1 +33.8 %
Charity expenses (raised and own funds), RUB m	630	843 -7.6 %
Electricity consumption, '000 kW·h	116,802	107,960 +30 %
Waste collected for recycling, tons	3,290	4,285

Key 2019 Events

Detsky Mir’s Secondary Public Offering

In November 2019, PJSC Detsky Mir successfully completed its Secondary Public Offering (SPO) of 175 million existing shares, representing 23.7% of PJSC Detsky Mir’s issued share capital.

As a result, the Company increased its free float to 57.6%, with PJSFC Sistema owning 33.4% in the Company, and RCIF 9.0%.

The SPO showed strong interest towards Detsky Mir from Russian and foreign investors, with the average daily trading volume of PJSC Detsky Mir shares growing nine-fold to RUB 281 million.

High Dividend Yield

Detsky Mir sustainably combines robust business growth and high dividend payments.

In 2019, Detsky Mir paid RUB 7.0 billion in interim and final dividends (RUB 9.51 per ordinary share), which corresponds to the dividend yield of 10.4%.

Regional and International Expansion of the Detsky Mir Chain

In 2019, the Group occupied a 26% share by revenue in the children’s goods market in Russia.

The Group added 101 new Detsky Mir stores in 2019, including in 41 new cities across Russia, Kazakhstan and Belarus.

During the year under review, the Company successfully entered the Belarusian market with eight stores opened in the largest shopping malls of Minsk, Brest, Homyel, Maladzyechna and Mahilyow.

Detsky Mir continued its market consolidation efforts in Kazakhstan, opening eight new stores and increasing LFL sales by 35.5%. Detsky Mir’s strong international performance in 2019 prompted its decision to enter the Kyrgyz market in 2020.

As at the end of 2019, Detsky Mir Group comprised 842 stores: 770 Detsky Mir and Detmir Pickup stores across 293 cities in Russia, Kazakhstan and Belarus, 62 ELC and ABC stores, and 10 Zoozavr stores, with a total selling space of 843,000 square meters.



Detmir pick-up point in the new Moscow flagship store

New Detmir Pickup Compact Store Format

As part of its efforts to develop the Company’s omnichannel business model which seeks to accelerate the children’s goods market consolidation, Detsky Mir decided to launch active trials of a new compact format, Detmir Pickup, combining an offline retail store and a pickup point.

Small towns with less than 40,000 inhabitants will be prioritized for the new format store openings, with the total market capacity of such locations estimated at 2,000 Detmir Pickup stores.

Entering the New Market of Pet Supplies

In 2019, Detsky Mir successfully delivered on its plan to open ten pilot Zoozavr stores thus entering the pet supplies market in line with the 2018 Strategy.

This market offers great opportunities in terms of its size (over RUB 200 billion), expected growth, and a high degree of fragmentation.

Developing Omnichannel Proposition

In 2019, Detsky Mir’s online business continued to demonstrate strong growth in sales of its detmir.ru online store, with online sales increasing by 65.2 % year-on-year to RUB 14.5 billion. The share of online sales in Detsky Mir’s total revenue reached 15.7 % in Q4 2019.

Detsky Mir’s omnichannel business model has proved its worth, with the in-store pickup service accounting for 90 % of all online orders. In August 2019, Detsky Mir launched its in-store pickup service across its entire retail chain in the Republic of Kazakhstan.

In 2019, Detsky Mir also launched the next-day and same-day delivery services for online orders fulfilled at Detsky Mir stores.

At the end of 2019, Detsky Mir released its fully functional mobile application, which allows customers to make purchases through a convenient interface and use the Company’s virtual loyalty card.



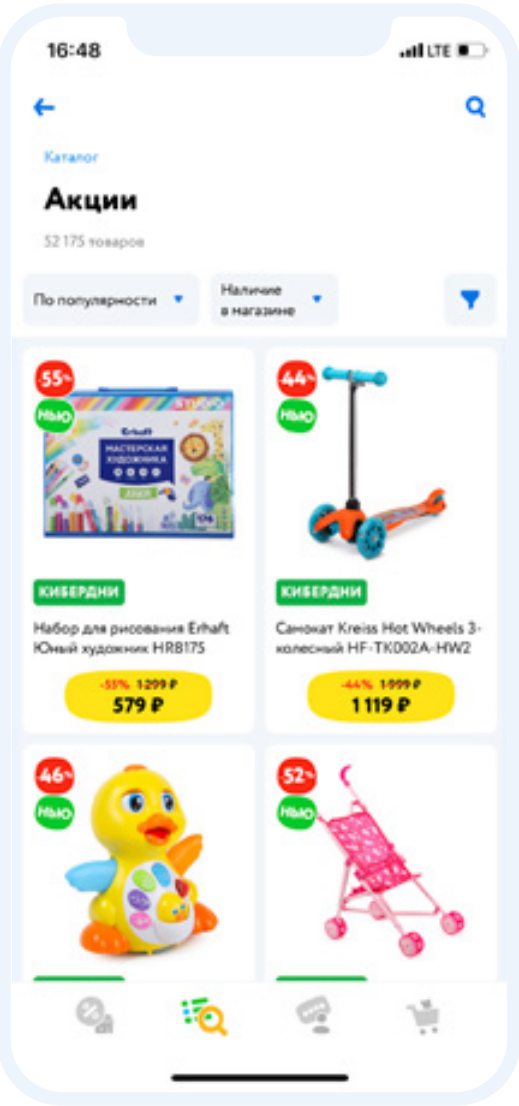
Loyalty card

Marketplace Launch

Detsky Mir piloted the marketplace for the apparel and footwear category in November 2019.

As part of the pilot, 5,000 SKUs were added to the product assortment, taking into account the size range. The full scale rollout of the marketplace is scheduled for 2020.

The Company’s mid-term target is to increase the apparel and footwear assortment from 20,000 SKUs to 250,000 SKUs.



New mobile application

Private Label and Direct Import Development

Developing private labels and switching to direct contracts enables Detsky Mir to offer its customers popular goods at the best prices in the market, while maintaining high sales margins.

In 2019, the share of private label and direct import products in the entire assortment grew by 5.7 p. p. year-on-year to 41.6 %.

In August 2019, the Company signed a direct contract with MGA Entertainment (owner of brands such as L.O.L., Poopsie, and others), the world’s fourth largest toy producer by sales.

The first shipments have already been delivered and sales fully launched at Detsky Mir stores.



Detsky Mir’s Private Labels

Social Project Development

As part of the “Uchastvuyte!” (“Participate!”) charity campaign reaching 300 cities and towns across Russia, Kazakhstan, and Belarus, Detsky Mir donated 10.5 million items worth a total of RUB 757 million.

In 2019, Detsky Mir launched a new program “Opora” (“Support”) to help seriously ill children in need of expensive implants for advanced surgeries. Under the program, 19 children had 22 surgical operations with a total cost of RUB 16 million.

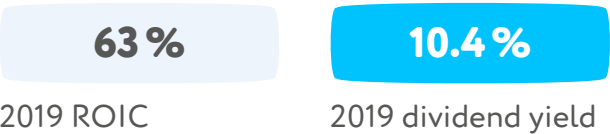
In 2019, 20 children with disabilities received targeted assistance worth RUB 5.7 million in total. The money was used to pay for required rehabilitation procedures.

Detsky Mir’s Investment Case

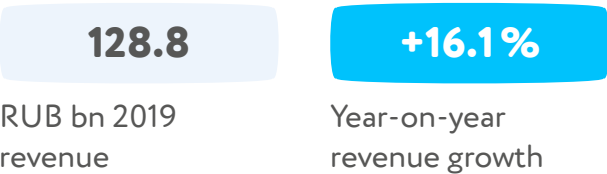
Detsky Mir Group’s distinct business model provides a compelling investment case which is expected to drive the Company’s value.

Investment Highlights

Asset-light cash-generative business model providing for strong returns on capital and consistent dividend payments



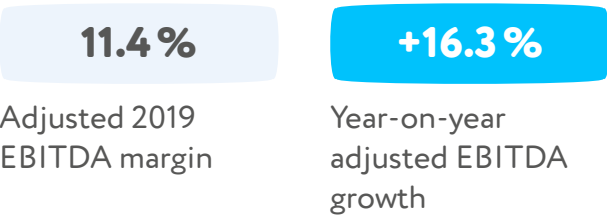
Category-defining brand with highly popular customer proposition



Iconic retail brand with a highly popular customer proposition and a long-standing market presence



Scalable supply chain and infrastructure platform ensuring high operational efficiency

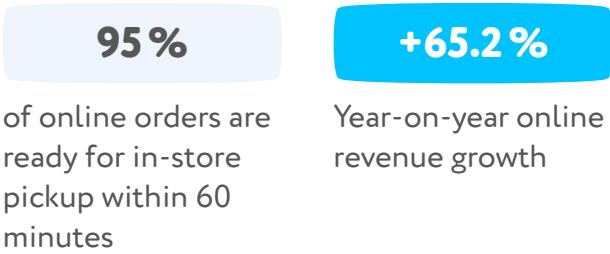




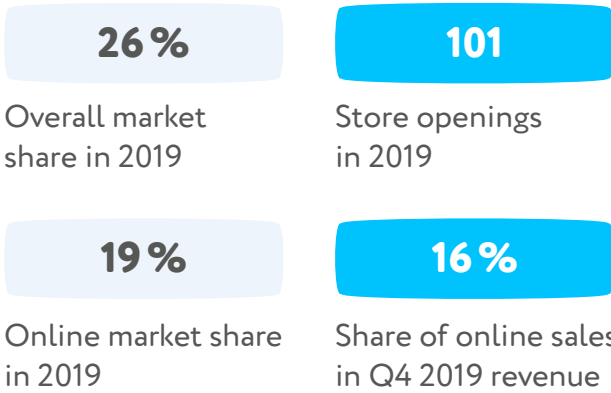
“We are delighted with the positive response to our offering in the stock market and are now pleased to move forward with a high-quality and geographically diverse shareholder base. Our team will maintain its strong focus on growing the Company’s business and further strengthening our market position. We are committed to delivering high returns to our investors and making them feel proud to invest in the Company and share in its continued success.”

Vladimir Chirakhov, CEO of PJSC Detsky Mir

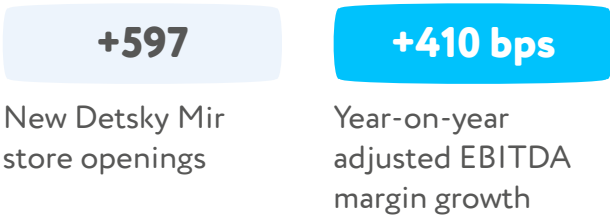
Omnichannel model enhanced by strong infrastructure backbone geared up for future growth



Undisputed market leader in the children's goods retail market in Russia with significant growth potential in online



Strong management team with a track record of delivering business growth between 2013 and 2019



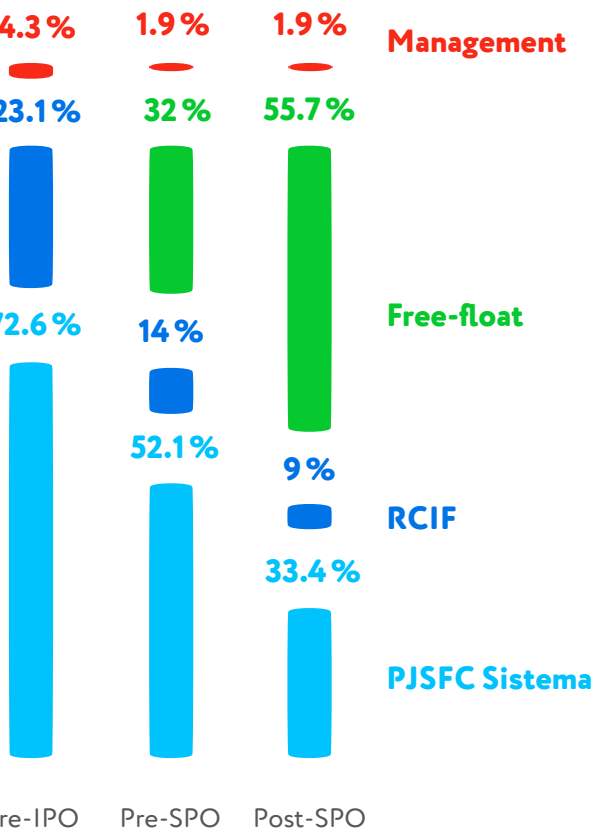
Detsky Mir’s SPO

In November 2019, the Company’s major shareholder, PJSC Sistema, jointly with the Russia-China Investment Fund (RCIF) completed a successful secondary public offering (SPO) of PJSC Detsky Mir shares.

The offering size was 175 million existing shares in Detsky Mir, representing 23.7 % of Detsky Mir’s issued share capital and priced at RUB 91 a share.

As a result of the offering, the Company increased its free float to 57.6 %, with PJSC Sistema owning 33.4 % in the Company, and RCIF 9.0 %. Detsky Mir’s top management decided against selling the shares it held in the Company.

Shareholder Structure Pre- and Post-IPO/SPO

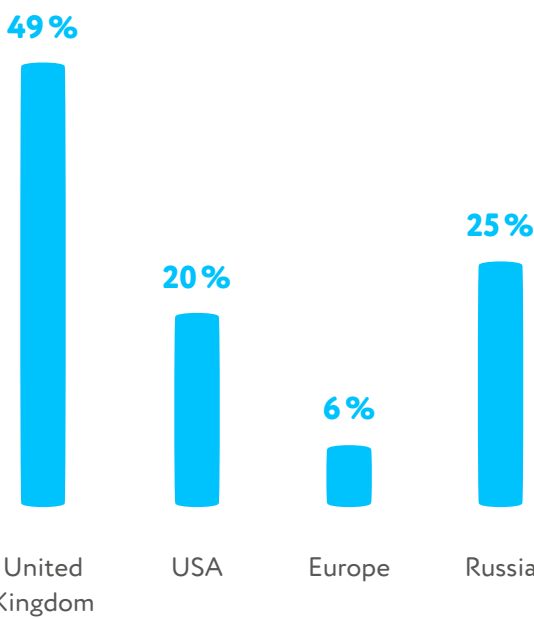


The Company’s SPO showed strong demand for the Company’s securities from both Russian and foreign investors. Over 75 % of the final offering amount was purchased by international investment funds from the UK, Continental Europe, and the USA.

Following the SPO, the average daily trading volumes of Detsky Mir shares have increased almost nine-fold to RUB 281 million in the aftermarket, with the 2019 year-end closing price showing an increase of 9.9 % from the SPO price. Detsky Mir became one of the most expensive Russian public companies and was ranked 60th (with a market capitalization of USD 1.207 billion) by RIA Rating.

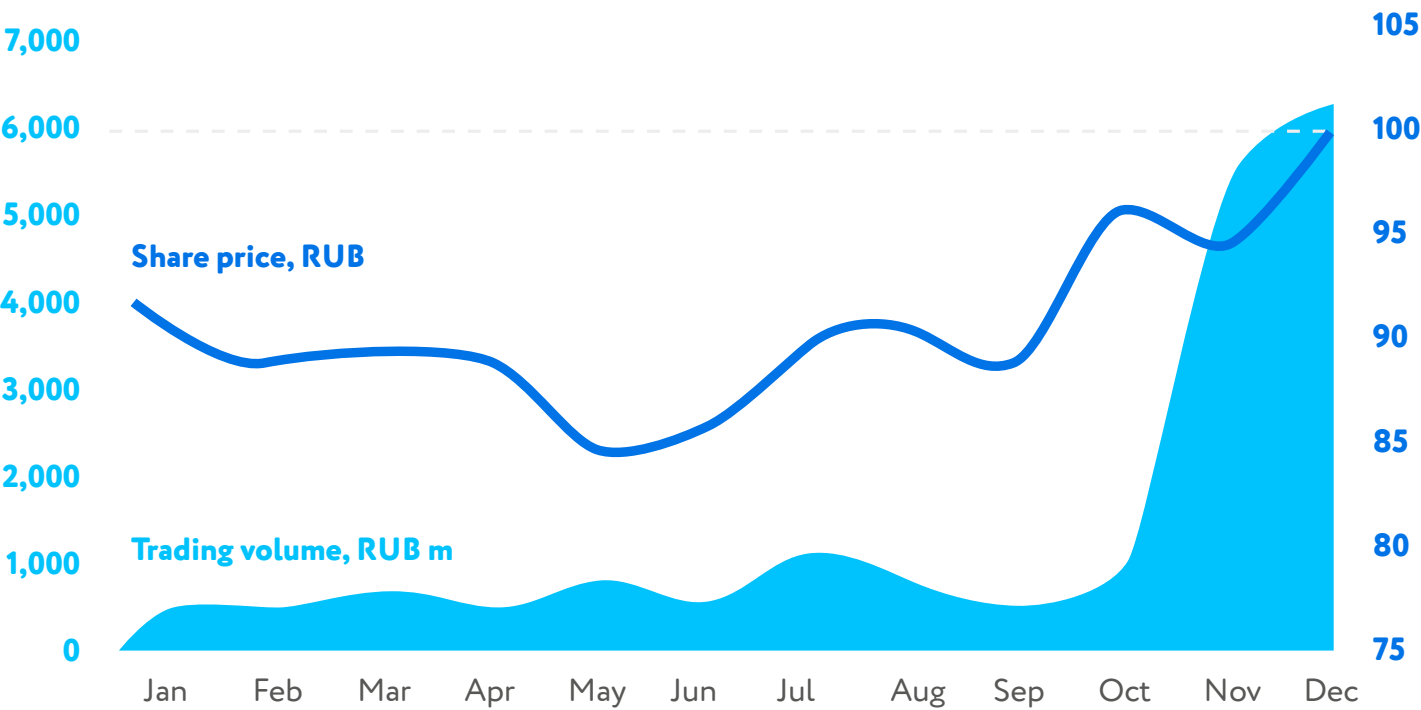
RIA Rating, based on data provided by Moscow Exchange, issuers, and the Bank of Russia. Market capitalization was calculated using the price of ordinary shares, or depositary receipts representing them, traded on exchanges at the end of December 2019. Translation to US dollars was made using the exchange rate set by the Central Bank of Russia at the end of 2019. Incremental value was estimated in US dollars.

SPO Allocation



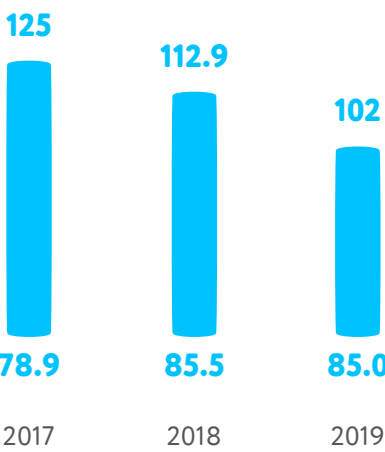
PJSC Detsky Mir Share Price Performance and Trading Volumes in 2019

Source: Moscow Exchange



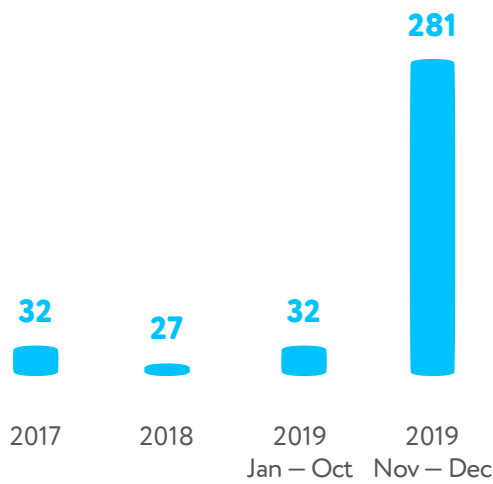
PJSC Detsky Mir Share Price Highs and Lows (RUB)

Source: Moscow Exchange



Average Daily Trading Volumes of PJSC Detsky Mir Shares on the Moscow Exchange, RUB m

Source: Moscow Exchange



Bonds

In April 2019, PJSC Detsky Mir successfully completed its Series BO-07 exchange bond issue with a total par value of RUB 5 billion and a coupon of 8.90 % per annum. The book was more than two times oversubscribed, allowing the Company to lower the indicative coupon rate to 8.80 %–8.90 % p.a. Time to the earliest redemption date: three years.

In March 2019, in the run-up to the Company’s bond issue, RAEX (Expert RA) rating agency assigned PJSC Detsky Mir a ruA+ long-term credit rating with a Stable outlook.

Expert RA cited Detsky Mir’s leading position in the children’s goods retail market, sound profitability and a competitive pricing policy translating into robust sales growth.

In December 2019, the Company successfully completed another bond issue, Series BO-05 with a total par value of RUB 3 billion and a coupon of 7.25 % per annum. During the book building, the indicative coupon rate was lowered to 7.25 %–7.40 % p.a., and then further down to 7.25 %–7.30 % p.a. Time to the earliest redemption date: three years.

In April 2017, PJSC Detsky Mir successfully completed book building for its Series BO-04 exchange bond issue with a total par value of RUB 3 billion and a coupon of 9.5 % per annum. The earliest redemption date was set to 7 April 2020.

In 2019, the coupon on PJSC Detsky Mir outstanding bonds was paid in full and in strict compliance with the payment schedule.



Stock Ticker
of Detsky Mir



“We are focused on improving our business efficiency and are making every effort to achieve it, including by optimizing our debt structure and reducing our borrowing costs. Strong investor demand for our bonds is yet another endorsement of our Company’s growth potential and credit quality. Proceeds from the bond issue will be used for refinancing our current loan portfolio to further diversify it and optimize debt costs.”

Anna Garmanova,
CFO at PJSC Detsky Mir.

Awards

The enduring success of Detsky Mir, the national champion in children’s retail, is recognized annually with a number of top Russian public and industry awards.



The Company’s head office won the AD Design Award in the Best Office Design category.

Forbes

Detsky Mir ranked 92nd in Forbes annual Russia’s Top 200 Largest Companies 2019 rating, overtaking Mail.ru Group, Pharmacy Chain 36.6, Azbuka Vkusa, Ural Airlines and many other major players.



According to Data Insight, Detsky Mir’s online store was the leader among the Top 1000 retailers in the children’s goods online market in 2019, with a 42 % share of total online sales.



JLL consultancy placed Detsky Mir on top of its ranking of the most well-established brands in the Russian market. According to JLL, the most well-established retail chains in Russia include Burger King, Befree, Detsky Mir, kari, Gloria Jeans, and Sportmaster, all with presence in every location covered by the research.



Six of Detsky Mir Group top managers were included in the milestone 20th rating of the Top 1000 Russian Managers. The short list of top managers was compiled by Russian Managers Association and published in Kommersant, Russia’s leading business daily.



Detsky Mir won the Growth Leader: Stayer category in an annual rating compiled by Data Insight analytics company.



In its extensive research of the footwear market conducted in spring 2019, RBC Market Research Agency ranked Detsky Mir second largest retail chain in the Russian footwear market.



In 2019, Detsky Mir Group was recognized by Institutional Investor, a leading international finance publisher, as one of the best companies in the EMEA emerging markets.



The Company’s “Operation Toys” charitable project won the Change Management. Visionaries award recognizing Russian companies making significant contribution to the sustainable development of the Russian economy, environment and society.

Detsky Mir's History

1947–1996

Evolution of the Detsky Mir Brand

The first Detsky Mir store was opened on 8 September 1947 in Moscow on Kirov Street (presently Myasnitskaya Street) as a branch of the Central Department Store (TSUM).

In 1957, the new Central Detsky Mir opened next to Lubyanka Metro Station.

In 1992, the Moscow Government established JSC Detsky Mir, which owned and operated the Detsky Mir department store on Lubyanka Street in Moscow under the name Lubyanka Store Operator.

In 1994, PJSFC Sistema acquired a 43 % stake in Lubyanka Store Operator, which at the time had no other stores under the same brand or using the “Detsky Mir” name.

1997–2002

Establishment of Detsky Mir Group

In 1997, PJSFC Sistema established OJSC Detsky Mir – Center, the predecessor of Detsky Mir Group, to manage its assets in the children’s goods retail market.

In the summer of 2000, Detsky Mir’s top management and PJSFC Sistema, a new shareholder, decided to build a national retail chain and Detsky Mir supermarkets began to spring up in cities across Russia.

2003–2012

Retail Chain Expansion

In 2003, PJSFC Sistema approved a five-year plan to grow the Detsky Mir retail chain, subsequently opening 85 new stores in Russia between 2003 and 2007 and increasing the Group’s total selling space by approximately 145,000 square meters.

In 2007, the “Detsky Mir” trademark was registered, still in use today.

In 2011, the first store was opened in Astana, Kazakhstan, and LLP Detsky Mir Kazakhstan was established.

In 2011, Detsky Mir launched its online store detmir.ru.

In 2012, Detsky Mir acquired a 100 % stake in the Cyprus company Sparthema Limited, the owner of LLC Kub-Market, which develops franchised stores of the British toy retail chain ELC in Russia.

2013–2019

New Phase of Development

In 2012, new Company management was appointed, led by Vladimir Chirakhov, CEO of PJSC Detsky Mir.

In December 2015, Floette Holdings Limited and Exarzo Holdings Limited acquired a 23.1 % stake in PJSC Detsky Mir from PJSFC Sistema for RUB 9.75 billion.

In 2017, PJSC Detsky Mir held an initial public offering on the Moscow Exchange with a total offering size of approximately RUB 18.4 billion (29.3 % of the Company’s share capital, excluding the over-allotment option). As a result, PJSFC Sistema retained a controlling stake of 52.1 % (72.6 % before the IPO), with a free float of 30.5 %.

In 2018–2019, the Company opened ten pilot pet supplies stores under the Zoozavr brand.

In 2019, the Company entered the Belarusian market with eight Detmir stores.

In 2019, Detsky Mir launched the next-day and same-day online order delivery services from Detsky Mir stores.

In 2019, the Company’s major shareholder PJSFC Sistema and the Russia-China Investment Fund (RCIF) successfully priced the offering of 175 million existing shares in Detsky Mir, representing 23.7 % of Detsky Mir’s issued share capital. As a result, the Company increased its free float to 57.6 %, with PJSFC Sistema owning 33.4 % in the Company, and RCIF 9.0 %.

Historically, Detsky Mir is the most recognized brand in the children’s goods market in Russia, turning 72 in 2019

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Chief Executive Officer's Statement

Dear Partners, Colleagues and Shareholders,

In 2019, Detsky Mir Group once again demonstrated that it can lead the children's goods market and expand its business even despite a challenging macroeconomic situation, and in the face of tough competition, as evidenced by our strong operational and financial performance for the year.



Detsky Mir Group's consolidated revenue increased by 16.1 % year-on-year in 2019 to RUB 128.8 billion.

This was complimented by our sustainably high operational efficiency, as our adjusted EBITDA increased by 16.3 % year-on-year to RUB 14.7

billion. Furthermore, we have not only reduced our net debt, but have also been able to fully implement our development program, increasing dividend payout by 15.1 % year-on-year to RUB 7.0 billion. This translates to a double-digit dividend yield for our shareholders.

Total LFL sales at Detsky Mir stores in Russia and Kazakhstan grew by 7.2 %, which is almost 50 % higher than in 2018 (4.7 %). The strong growth of LFL sales was a result of our competitive pricing policy and continuous improvements in merchandising. In addition, our ability to attract new traffic to Detsky Mir stores was a pivotal success driver for our business. As a result, LFL number of tickets has increased by 8.5 %.

Private label development is a key strategic goal for Detsky Mir Group, with our retail chain currently offering approximately 8,000 SKUs of private labels, whose share in revenue increased by 3.3 p.p. year-on-year to 33.1 %.

Every third retail ticket item in our retail chain is a private label product. The Company has identified significant growth potential in private label sales in Toys and Diapers.

Detsky Mir successfully delivered on its 2019 promises to shareholders and investors, adding 101 new stores to its retail chain.

As of the end of the reporting period, Detsky Mir Group boasted a total of 842 stores

And we are continuing to actively expand our geographies: in 2019, Detsky Mir successfully entered the Belarusian market.

International expansion is a further strategic priority for the Company. We have become the market leader in Kazakhstan, bringing our total store count to 38 in 2019.

Our successful growth in Belarus and Kazakhstan has inspired us to expand our footprint to other CIS countries, with a decision to enter the Kyrgyz market as early as 2020. We are planning to become the market leader in Kyrgyzstan in the mid-term by offering local customers high-quality goods at very attractive prices.

Our mid-term plans also include opening at least 300 stores, of which at least 80 stores will open in 2020.

The detmir.ru online store enjoined high customer demand in 2019.



The Company recorded over 238 million online visits

and fulfilled over 9.8 million online orders in 2019, which drove online revenue up by 65.2 % year-on-year to RUB 14.5 billion.

We are taking proactive steps to capture the high customer demand for this service and grow our online sales.

In the reporting year, we successfully launched next-day and same-day direct delivery services in 30 largest Russian cities. Furthermore, Detsky Mir customers are now able to take advantage of a full-feature mobile application, enabling them to make purchases via a convenient online interface while using a virtual loyalty card.

In line with the development of our omni-channel business model, Detsky Mir launched active trials of a new compact store format, Detmir Pickup, combining an offline retail store and a pickup point. Designed primarily for smaller towns and commuter areas, the format utilizes a selling space of under 170 square meters. In 2019, the Company piloted four such stores.



The new format will allow for an increased presence in the Russian market for children's goods, while also improving online delivery performance

2019 also saw the launch of the pilot version of Detsky Mir’s marketplace for the Apparel and Footwear category.

We are pleased with the pilot’s initial results: inventory turnover at the new e-marketplace matched that of other comparable products offered by our online store. Our target is to increase the number of SKUs in the marketplace’s assortment from 20,000 SKUs to 250,000 SKUs in the medium term.

Our 2019 results suggest that the market for pet supplies holds great white-space opportunity. Six Zoozavr pet supplies stores opened for business during the year, stocked with products from leading global manufacturers.

Ten stores are currently operational, including those in Vidnoye, Zhukovsky, Podolsk, and Tambov. In 2020, we will decide on the next steps to develop the Zoozavr retail chain.

While pursuing our business goals, we always keep corporate social responsibility in mind. For many years, charity has been central to Detsky Mir’s social agenda, and many of our charitable activities and events have been cemented as corporate tradition. One of these is our “Uchastvuyte!” (“Participate!”) campaign, which has been running for more than 14 years.

Around 7.1 million people participated in the campaign in 2019, when we managed to collect 10.5 million items of apparel for children with special needs, children from large families, and orphaned children.

The Detsky Mir Charitable Foundation receives substantial donations from both the Company’s partners and private individuals. Throughout 2019, the Foundation was able to provide a total of around RUB 1 billion in charitable assistance.

The successful secondary public offering (SPO) of PJSC Detsky Mir was another key highlight of the year. We are delighted with the positive response to our offering on the Russian stock market, and are now pleased to move forward with a high-quality and geographically diverse shareholder base.

In 2020, we will focus on the further development of the Company by scaling up its business and increasing its profits. I am confident that we will keep the momentum going to deliver on our boldest ever plans and commitments to our shareholders.

Vladimir Chirakhov,
CEO of PJSC Detsky Mir



The interior design of the new flagship store in Moscow



The visualization of the external elevation of the new flagship store in Moscow

Market Overview

Detsky Mir Group operates in the children’s goods market in Russia, Kazakhstan and Belarus.

In 2019, the Group occupied a 26 % share by revenue in the children’s goods market in Russia, as well as a 19 % market share in the online segment.

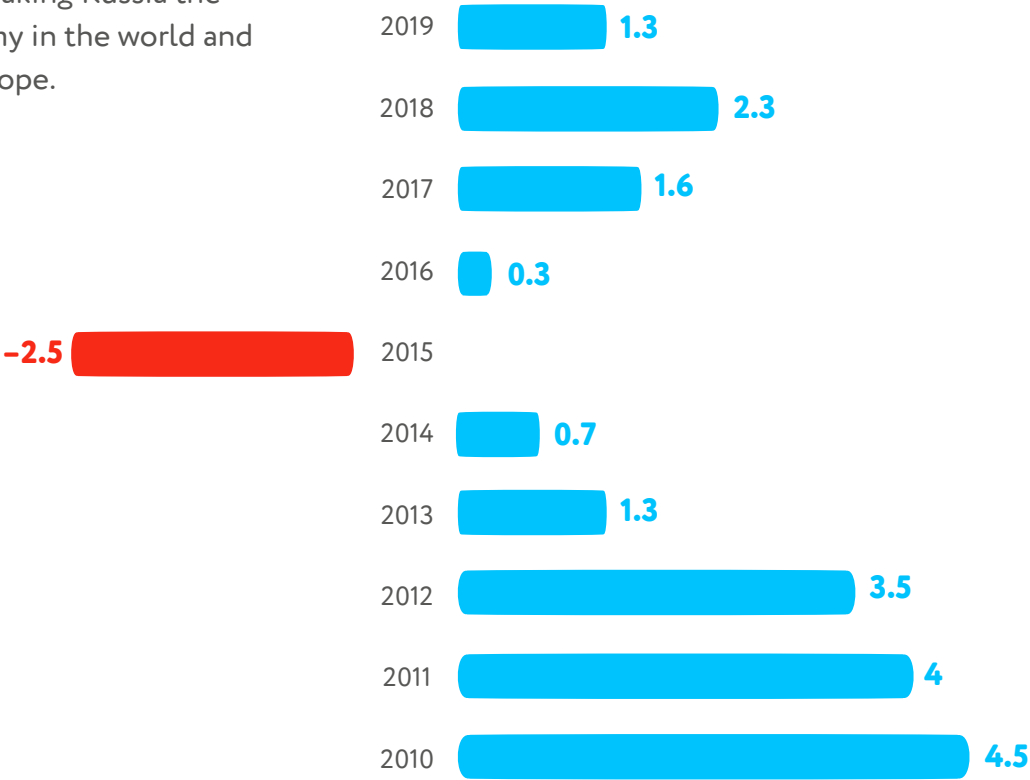
The Company entered the Russian pet supplies market in Q4 2018 by opening four pilot Zoozavr stores, and continued the pilot into 2019, adding another six Zoozavr stores.

Macroeconomics in Russia

According to the International Monetary Fund, Russia’s GDP in 2019 amounted to about USD 1.7 trillion, making Russia the eleventh largest economy in the world and the fourth largest in Europe.

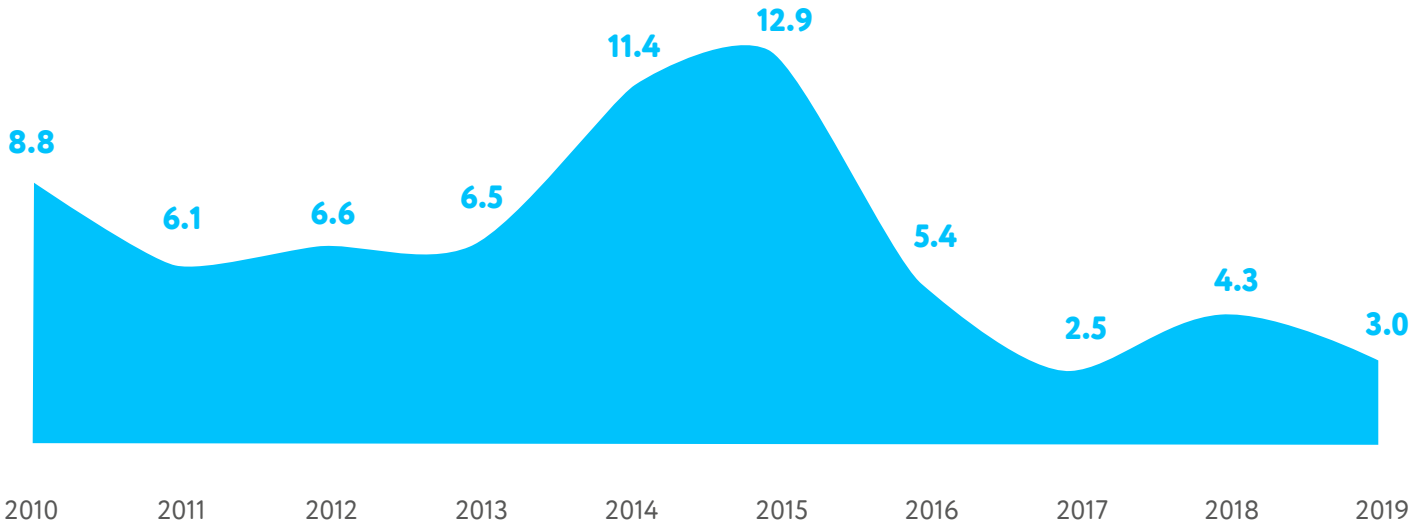
Russia’s Real GDP Growth Year-on-Year, %

Source: Rosstat



Consumer Price Index (Inflation Rate) in Russia, %

Source: Rosstat



Russia’s annual GDP grew by 2.4 % on average from 2010 to 2014, bolstered by the rising prices of oil and other commodities as well as a generally favorable macroeconomic environment.

A steep drop in commodity prices and the economic sanctions imposed by the USA, Canada and some Western European countries triggered an economic recession in Russia in 2014.

Real disposable household income and consumer spending declined in ruble terms due to the depreciation of the national currency, while unemployment increased.

The weaker ruble also caused a spike in inflation, which grew 12.9 % year-on-year in 2015.

The situation began to stabilize from 2017 to 2018. According to the Ministry of Economic Development of the Russian Federation, the primary drivers of Russia’s economic growth were industry (primarily the mining sector), construction, and transport.

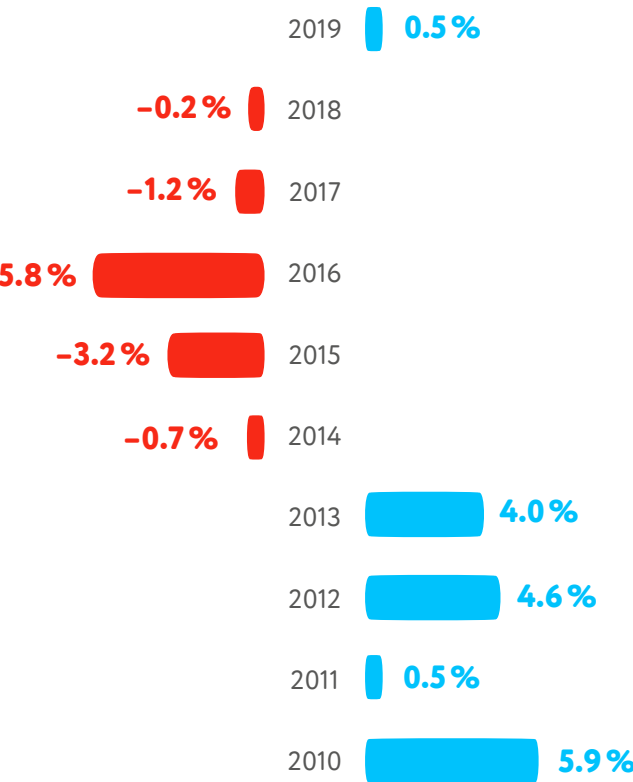
In 2019, real GDP growth slowed down to 1.3 %, with GDP volume driven mostly by the increase in value added in the mining and processing industries as well as wholesale and retail trade.

The Russian Federal State Statistics Service (Rosstat) estimated the inflation rate in Russia at 3.0 % – the second lowest in the history of modern Russia.

The annual inflation rate was 4.3 % in 2018 and 2.5 % in 2017. In 2019, food prices grew 2.6 % while prices for non-food products increased by 3 %, and services by 3.8 %.

Real Disposable Income in Russia, %

Source: Rosstat



Retail sales and real disposable income trends were mixed in 2019, following a continued slowdown in the first half of the year, retail sales and real disposable income started showing signs of recovery already in the third and fourth quarters, with the real disposable income growing by more than 3 % in Q3 and Q4 2019 and 0.8 % for FY2019.

This return to growth was due to a number of factors, including the lower inflation rate, and the increases in salaries, pensions and social benefits outpacing inflation.

The second half of the year saw higher government spending and stepped-up implementation of national projects, bolstering household incomes and retail consumption.

At the same time, with the Russian economy stagnating, consumers have remained more cautious about spending on essential products, including children’s goods.

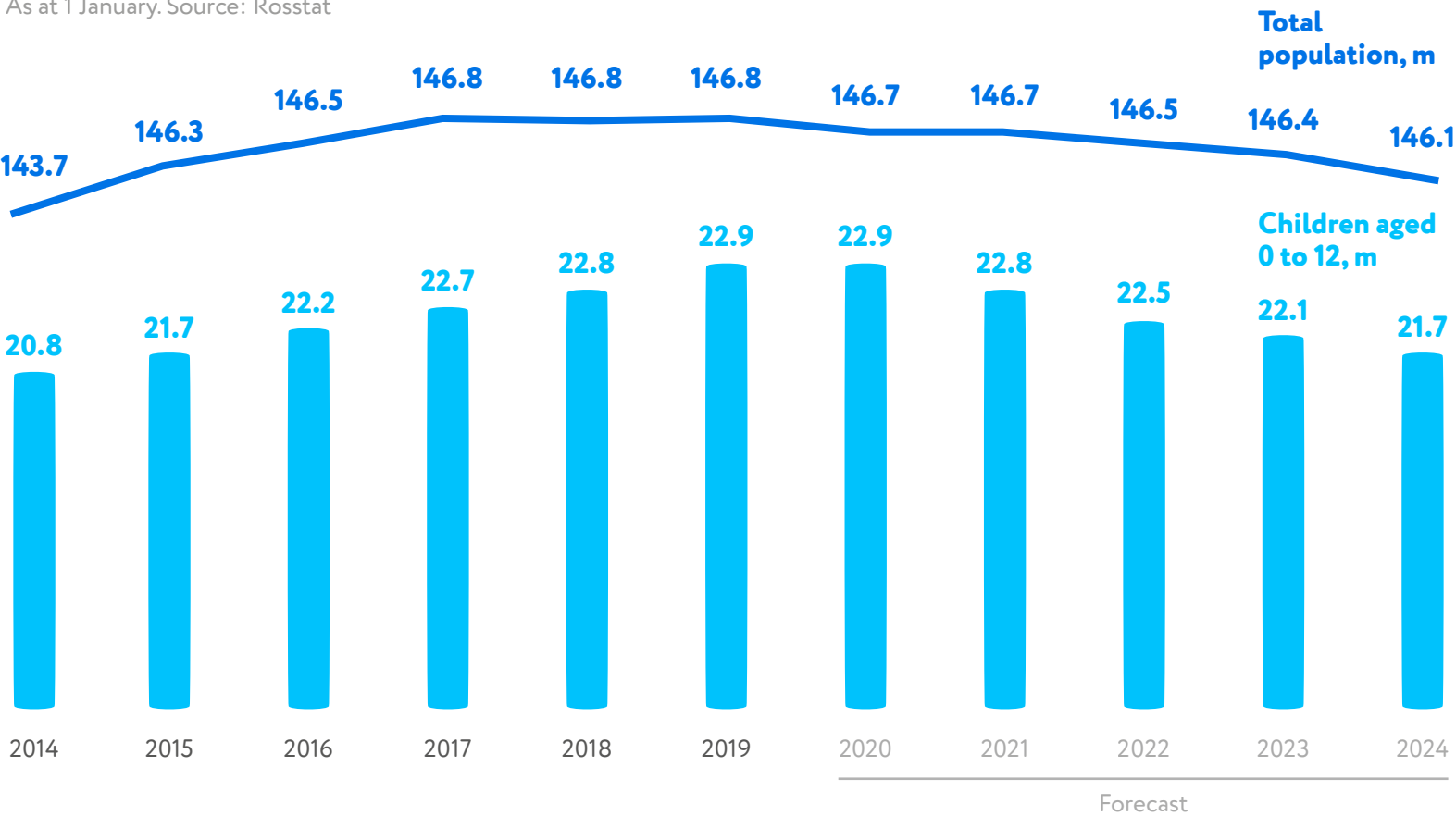
As result, consumers seek to avoid impulse purchasing while cutting expenses by focusing on lower volume purchases and trading down to cheaper products, thereby reducing the average retail ticket size.

In efforts to mitigate the negative financial impact of the challenging macroeconomic environment, Detsky Mir Group adapted its product assortment and pricing policy.

The growing number of purchases in Detsky Mir stores was due to improved shelf pricing, particularly in traffic-generating categories such as products for newborns.

Population of Children Aged 0 to 12 in Russia

As at 1 January. Source: Rosstat



Russian Demographics

In early 2019, the number of children in Russia aged 0 to 12 (Detsky Mir’s target audience) was 22.9 million. Russia has Europe’s largest population of children aged 0 to 12, making up about 16 % of the total Russian population, which is comparable to many European countries.

The average annual population growth rate from 2014 to 2019 was 1.9 %, outperforming many developed and developing countries.

In the next five years, the population of children in Russia will decline at an average rate of 1.0 % per year and is expected to reach 21.7 million by early 2024. The post-2020 decline will be due to the overall effect of the low birth rates observable since 2017.

In 2019, birth rates declined by 7.3 % to 10.1 compared to 10.9 in 2018.

Lower birth rates in the reporting period are due to both the demographic gap of the early 1990s and the economic recession over the past few years.

In his annual state of the nation address to the Federal Assembly on 15 January 2020, Russian President Vladimir Putin focused on poverty and demographic issues.

To address these issues, in addition to the monthly benefits payable for each child under three in low-income families that were announced in 2019 and took effect in January 2020, Vladimir Putin announced additional payments for each child between three and seven in families with average per capita incomes below the living wage.

In 2020, these benefits will total RUB 5,500, which is half of the living wage, but may double to about RUB 11,000 in 2021.

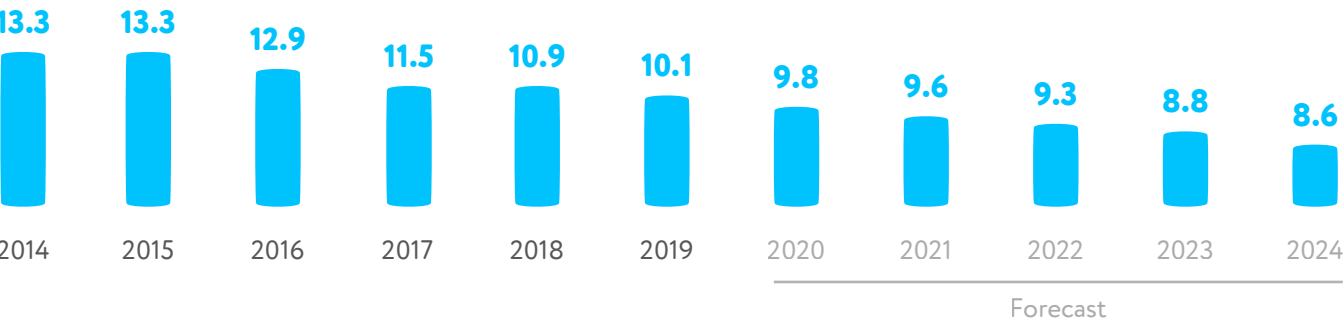
Maternity capital program, another important initiative aimed to stimulate birth rate, will be extended until 2026 (previously spanning throughout 2021), with payments under the program increased.

The total amount paid will increase from RUB 453,000 in 2019 to RUB 617,000, with RUB 467,000

paid now upon the birth of the first child (instead of the second child as before) and RUB 150,000 — after the second child is born.

Total Birth Rate

Births per 1,000 people. Source: Rosstat



Eligible spending for maternity capital includes mortgage repayment, education for children, healthcare or supplementing the mother’s pension.

Families with three children are also eligible for an additional RUB 450,000 payment that can only be spent on home purchase.

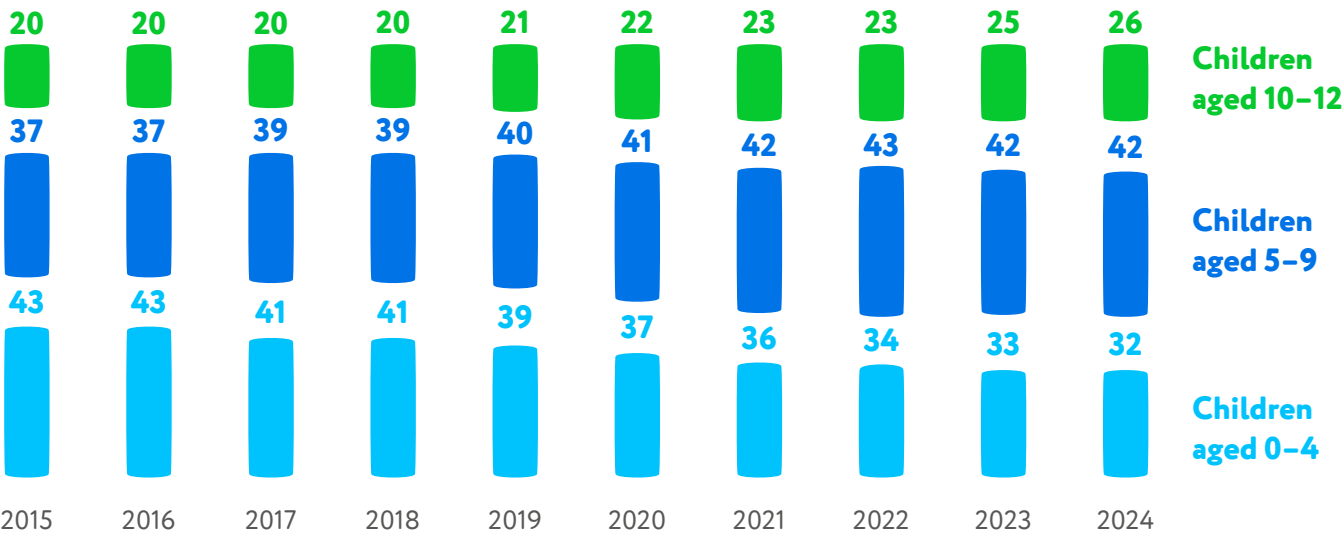
The Ministry of Finance of the Russian Federation estimates the additional spending under the program at RUB 122 billion in 2020, RUB 211 billion in 2021, RUB 266 billion in 2022, and over RUB 300 billion in 2023 and 2024 each.

According to Rosstat, in the next five years the age structure of the children’s population in Russia will be as follows: the share of children in Russia aged 0 to 4 will decline from 39 % of the total children’s population in 2019 to 34 % in 2023, and the share of children aged 5 to 9 will become the largest demographic in 2023, at 41 %.

At the same time, toys and apparel — the highest margin products — will see an increased demand due to the growing share of children aged 5 to 9 and 10 to 12 in the next few years.

Population of Children Aged 0 to 12 in Russia by Age Group, %

Data as at 1 January. Source: Rosstat



Population of Children Aged 0 to 12 in 2019 by Country

Source: Rosstat, IMF

	Children, m	Share of children in the total population, %
India	350.4	27.3 %
China	236.5	17.1 %
USA	61.1	18.7 %
Brazil	46.2	22.3 %
Russia	24.3	17.1 %
Turkey	19.9	24.7 %
France	12.4	18.5 %
UK	11.3	17.5 %
Germany	10.3	12.8 %
Poland	5.67	14.8 %
Kazakhstan	5.0	27.8 %
Belarus	1.5	15.8 %
Ukraine	6.9	15.8 %

Children’s Goods Market in Russia

According to the research company Ipsos Comcon, the children’s goods market in Russia grew by 0.6 % year-on-year in 2019 to RUB 526.5 billion. Over the last four years, the annual market growth rate has averaged 0.5 %.

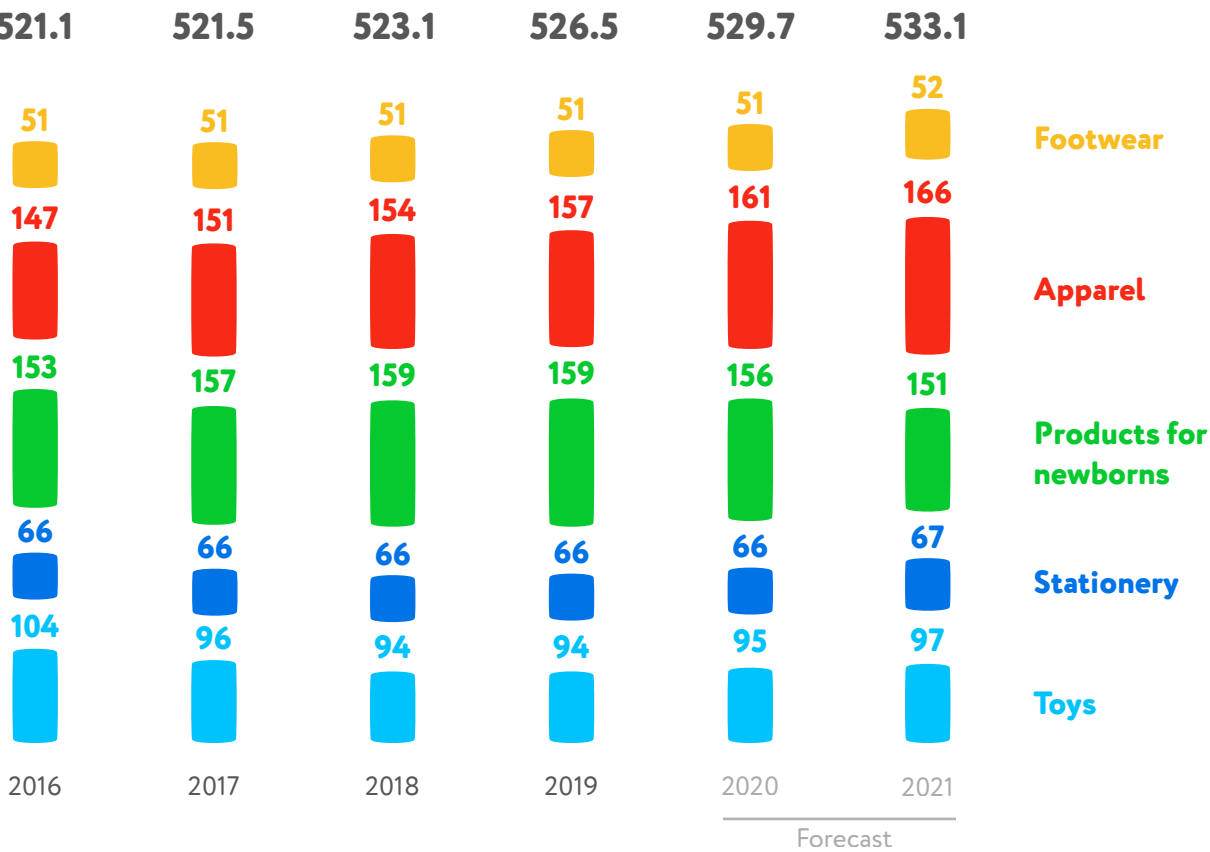
According to analytical forecasts, the market is expected to grow by an average of 1 % and total RUB 533.1 billion by 2021.

Factors Affecting the Children’s Goods Market in Russia

- 1 Slight decline in the children’s population (see Russia’s Demographics)
- 2 Stagnation in consumer income and spending
- 3 Parents’ priorities when allocating money to purchase children’s goods. Parents’ rising education level and higher internet penetration leading to more rational purchase decisions
- 4 Evolution and growth of sales channels offering children’s goods making the products more accessible and competitively priced. Growing market share of online sales, which increasingly cannibalize other sales channels
- 5 Specialty retail maintains parity with food retail due to Detsky Mir’s growth
- 6 Stronger product assortment diversification: development of private labels (more affordable than similar foreign or branded goods)

Annual Volume of the Children’s Goods Market in Russia by Category, RUB bn

Ipsos Comcon’s estimate of the children’s goods retail market in Russia (including 10 % VAT) covers cities with over 100,000 inhabitants. Source: Russian Target Group Index, Ipsos Comcon



The combined market share of apparel and footwear, historically the largest segment in the children’s goods market, grew by 0.4 p.p. year-on-year to 39.5 % in 2019.

Toys’ share of the market remained almost flat year-on-year at 17.9 %.

Products for newborns showed slightly lower sales growth in 2019, declining by 0.2 p.p. year-on-year to a 30.1 % market share on the back of the negative birth rate dynamics in recent years.

Ipsos Comcon estimates that toys, apparel and footwear will remain the fastest growing categories over the next few years.

However, the additional measures to overcome the demographic crisis announced by the President of Russia at the beginning of 2020 may bolster demand for newborn products in the mid-term.

The current economic situation prompts Russians to plan their purchases, including children’s goods, more carefully.

Price is the most important purchasing factor, causing shifts in consumer behavior toward cheaper products.

The flow of consumer demand shifted from premium and medium price segments to the mass market and low-price segments.

Domestic goods and Detsky Mir’s private labels are increasingly gaining traction, being priced lower than similar foreign or branded goods.

Detsky Mir is therefore strongly focused on developing its private labels (see the Supply Chain section for more details).

Non-chain retail stores have historically been widespread in Russia, leading in sales of most goods, including children’s goods, and occupied the second place in the children’s goods market with a combined share of 32.2 % in 2010.

Growing demand for a wider product assortment, the active expansion of modern retail spaces, and large retail chain development have been rapidly taking away the market share from non-chain retail stores, which shrank by 2.4 p.p. to 7.0 % in 2019, with e-commerce benefiting the most.

Over the past few years, some specialty retailers left the market or closed some of their stores, while the remaining federal and regional

retail chains were losing traffic and slowing down their expansion plans on the back of significant declines in LFL sales.

Nevertheless, specialty retail has remained the main sales channel for children’s goods, along with food retail, due mostly to the active expansion of the Detsky Mir chain.

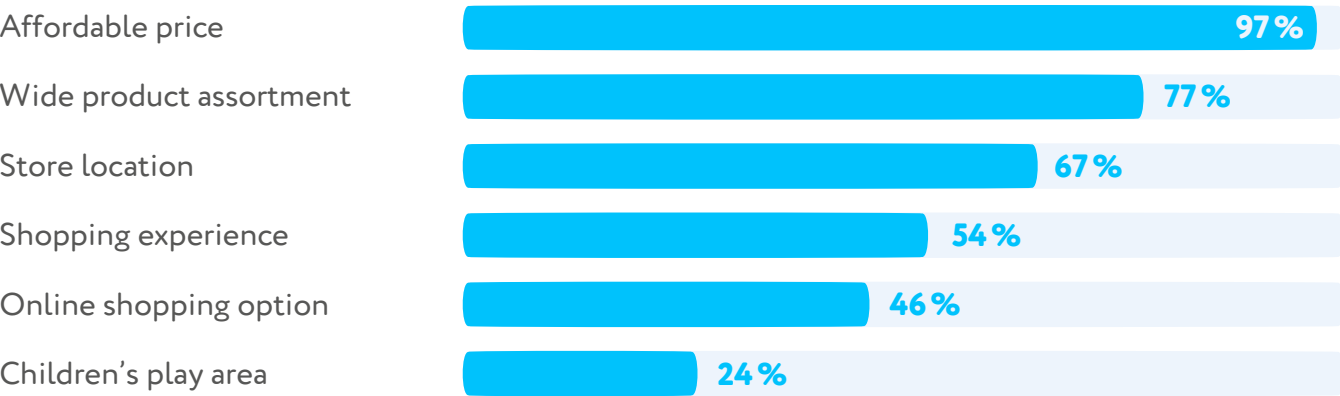
The market shares of specialty and food retail chains shrank by 0.3 p.p. year-on-year in 2019 to 38.9 % and 38.6 % respectively.

According to a survey by Ipsos Comcon, the most important purchasing drivers are affordable prices (92 %) and a wide product assortment (77 %), while proximity to one’s home, which is important for food retailers, only comes third.

However, the strong consumer preference for a wide choice of children’s products can only be satisfied by specialized stores.

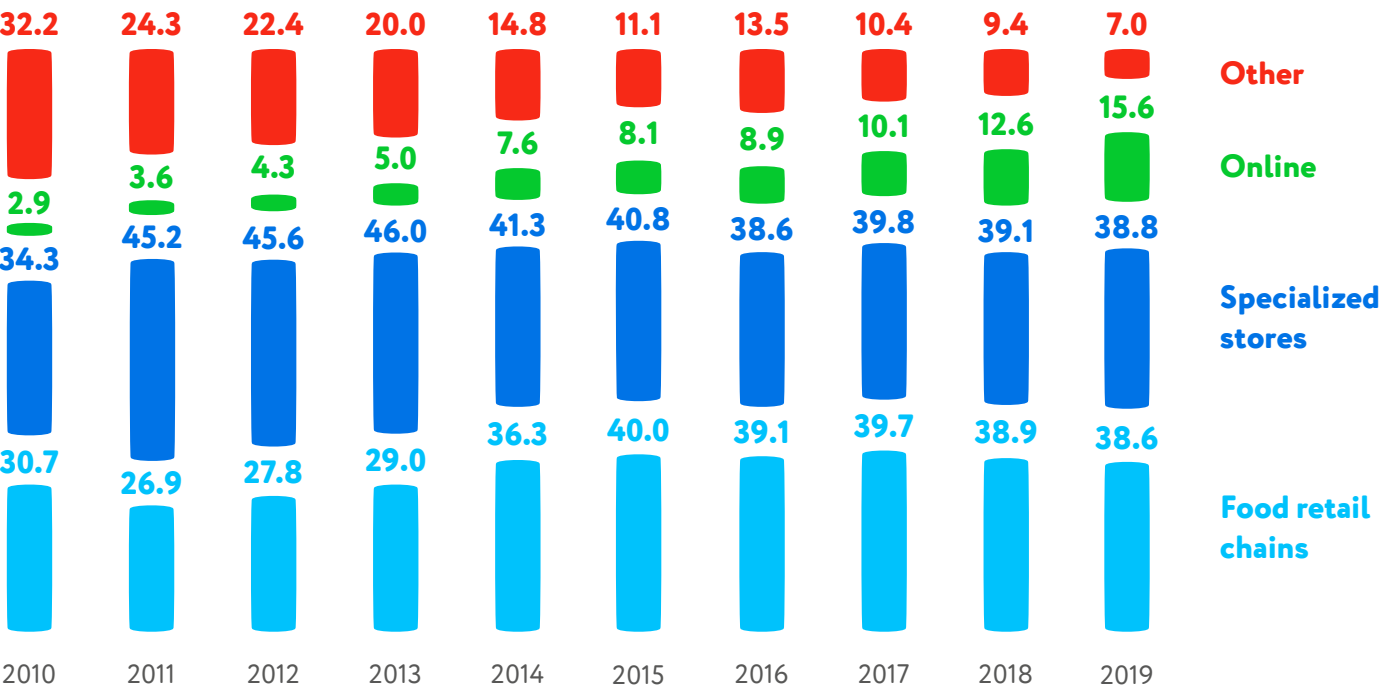
What Do Customers Consider When Choosing Where to Shop for Children’s Goods?

Source: Ipsos Comcon survey



Children’s Goods Market by Sales Channel, %

Source: Ipsos Comcon



The internet is an increasingly popular sales channel offering both a wide range of products at attractive prices and a seamless experience of researching and selecting products.

The share of e-commerce in the children’s goods market is growing steadily, reaching 15.6 % in 2019 (+3.0 p. p. year-on-year), with a 19.4 % CAGR in 2015–2019.

Sales of children’s goods in Russia vary depending on the region and average income. According to Ipsos Comcon, the largest spending on children’s goods per capita in 2019 was in Moscow at RUB 12,600, compared to the average RUB 7,000 recorded across Russia.

Moscow accounts for a quarter (25 %) of all spending on children’s goods in Russia.

In 2019, Detsky Mir’s revenue share of the children’s goods market in Russia was 26 % (2018: 23 %), and 19 % in the online segment (2018: 15 %).

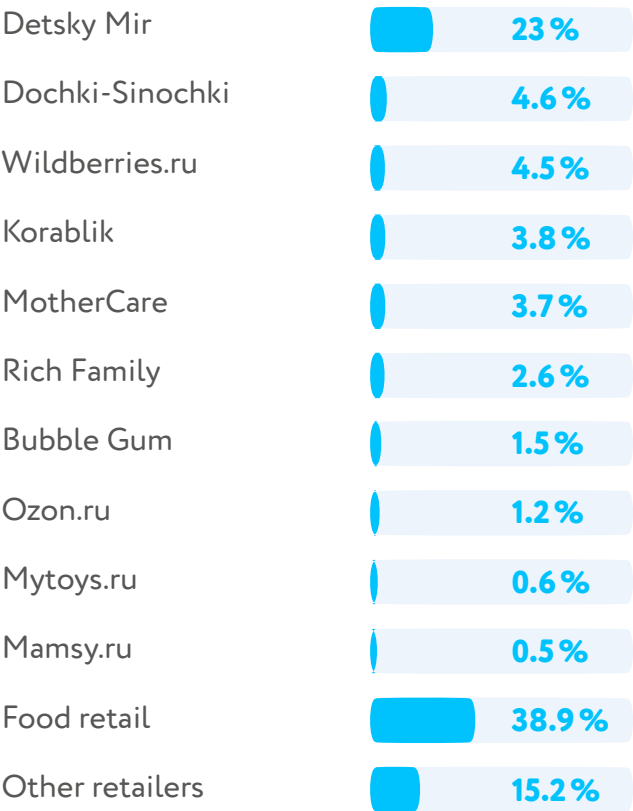
Detsky Mir is the absolute leader in the children’s goods market, with the share of its nearest competitor, Dochki-Sinochki, five times smaller in 2018.

Detsky Mir’s share of the children’s goods market among specialized retailers grew from 14 % in 2011 to 67 % in 2019 due to opening a large number of stores, attracting consumer traffic from competitor retail chains during this period and strong focus on the online store development.

The Detsky Mir chain’s online sales grew at a 97 % CAGR in 2012–2019, with 544 net new store openings over the period.

Key Children’s Goods Retailers in Russia in 2018, %

Source: Ipsos Comcon



In 2019, Detsky Mir’s market share growth was largely driven by toys and products for new-borns, for which the market share increased from 45.6 % to 51.3 % and from 26.8 % to 29.9 % respectively. At the same time, Detsky Mir’s market share grew across all children’s product categories in 2019.

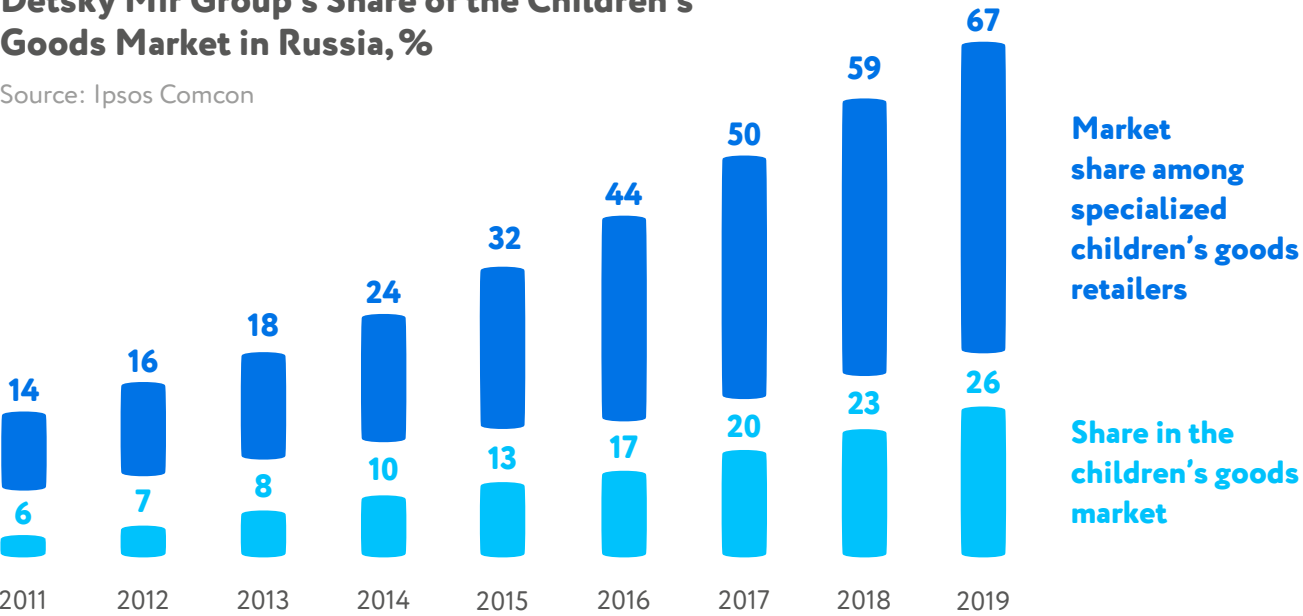
The online children’s goods market is highly fragmented and includes both several large players and multiple online-only small stores. In 2019, the detmir.ru online store achieved a 19 % revenue share in the online children’s retail market in Russia.

The retail market in Russia is therefore going through the same cycle as in developed economies: it has begun to consolidate following an intensive growth stage.

Detsky Mir sees its role as the key market consolidator and is positive about its organic growth prospects in the current economic environment of weaker competition and inefficient players exiting the market.

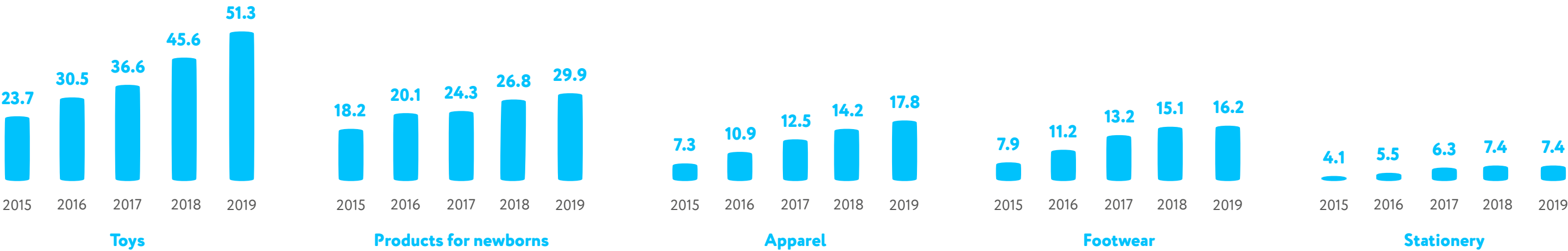
Detsky Mir Group’s Share of the Children’s Goods Market in Russia, %

Source: Ipsos Comcon



Detsky Mir Group’s Market Share by Children’s Product Category, %

Source: Ipsos Comcon



Sales of the Key Players in the Online Children’s Goods Market in 2017–2019, RUB bn

Sales figures include VAT. Source: Ipsos Comcon

	2017	2018	2019
wildberries.ru	14.4	23.4	42.0
detmir.ru	5.1	9.8	16.0
ozon.ru	2.6	6.3	12.4
mytoys.ru	2.3	3.1	n/a
dochkisinochki.ru	2.4	3.0	n/a
mamsy.ru	2.7	2.4	n/a
toy.ru	2.0	n/a	n/a
akusherstvo.ru	1.9	n/a	n/a
korablik.ru	1.8	1.8	n/a
babadu.ru	1.6	n/a	n/a

Market Shares of the Key Companies in the Online Children’s Goods Market in 2017–2019, %

Source: Ipsos Comcon

	2017	2018	2019
wildberries.ru	27	36	51
detmir.ru	10	15	19
ozon.ru	5	10	15
mytoys.ru	4	5	n/a
dochkisinochki.ru	5	5	n/a
mamsy.ru	5	4	n/a
toy.ru	4	n/a	n/a
akusherstvo.ru	3	n/a	n/a
korablik.ru	3	3	n/a
babadu.ru	3	n/a	n/a

Opportunities in Kazakhstan

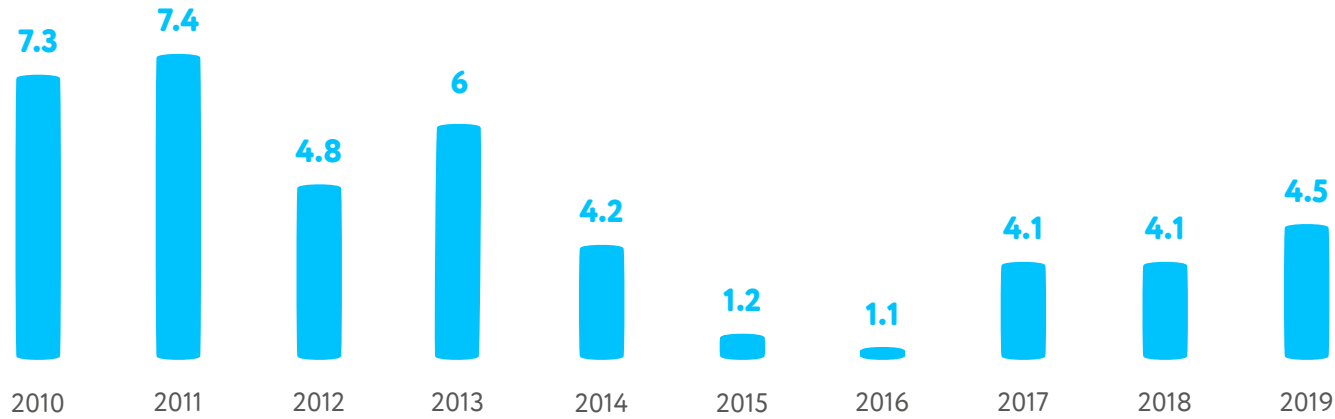
Kazakhstan’s economy, similarly to Russia, relies on exports of goods, including oil, ferrous and non-ferrous metals, and grain.

During the past decade, Kazakhstan demonstrated strong growth in GDP in both nominal and real terms.

Moreover, Kazakhstan sustained positive real GDP growth amidst the 2008/2009 and 2014/2015 financial crises by drawing on its national sovereign wealth fund, which was used by the government to smoothen the economic cycles and downturns as it introduced plans to support local businesses and financial institutions.

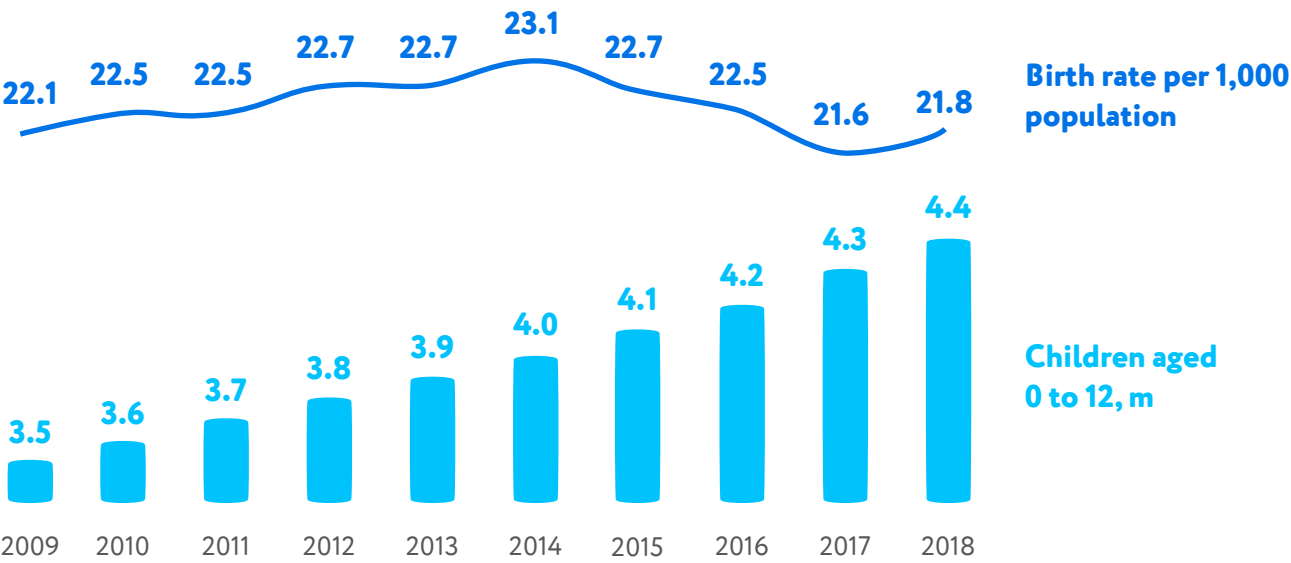
Kazakhstan’s Year-on-Year Real GDP Growth, %

Source: National Bank of Kazakhstan



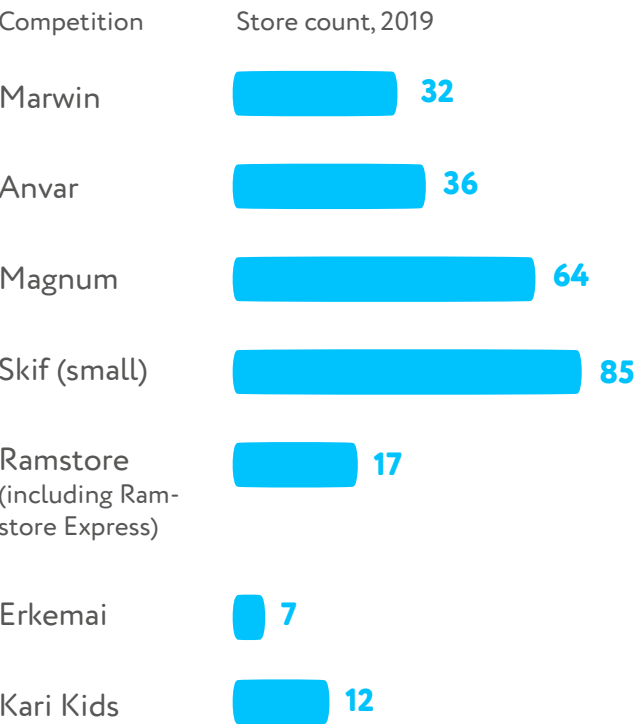
Kazakhstan’s Demographics

Source: National Bank of Kazakhstan, IMF



Kazakhstan’s Competitive Landscape

Source: Detsky Mir



Kazakhstan maintains close political and economic relations with Russia.

Both countries are members of the Commonwealth of Independent States and the Eurasian Economic Union, sharing a single customs space with free movement of goods, services, capital, and labor across national borders.

Kazakhstan also develops its relations with China, one of its largest trade partners.

Kazakhstan’s population is approximately 18.7 million. The country’s overall population growth has been positive although decelerating, with the birth rates and the rate of natural increase in population declining slightly in 2018.

Nonetheless, Kazakhstan’s demographics have remained relatively strong compared to Europe, supported by high birth rates. According to IMF estimates, the number of children in

Kazakhstan aged 0 to 12 was about 4.4 million in 2018, and in 2009–2018 this demographic demonstrated a high average annual growth rate of 2.5 %.

Accordingly, children constitute a greater part of the population in Kazakhstan than in many large developed and emerging markets, at 23.3 % in 2018.

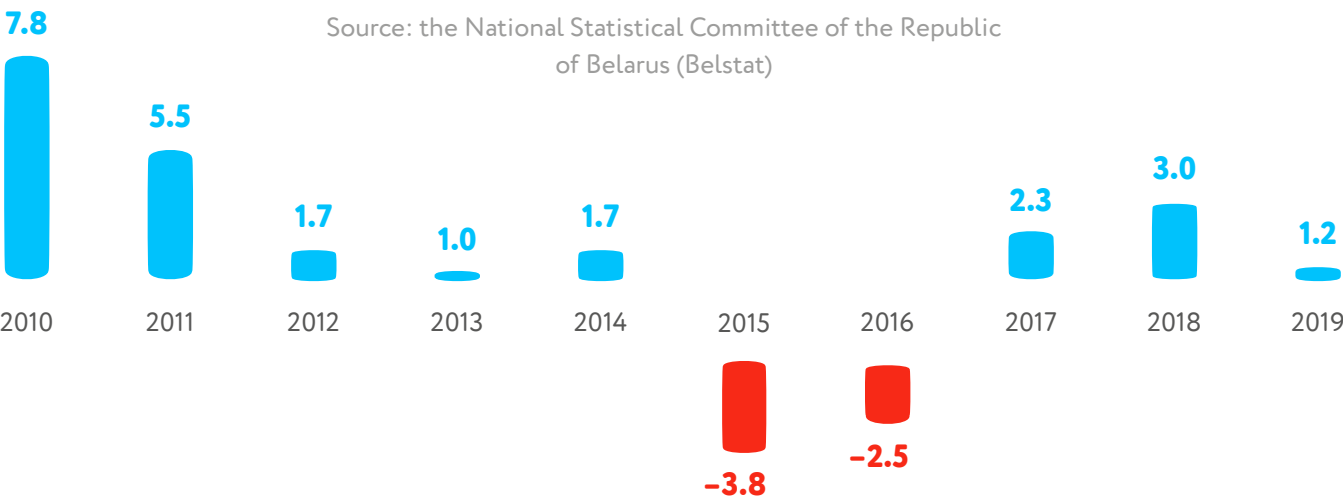
The growing share of children in the population has been a driver for the children’s goods

market in Kazakhstan. According to the Company’s estimate, the size of the children’s goods market was approximately RUB 100 billion in 2019, five times smaller than that in Russia.

The market offers good opportunities for a rapid consolidation, given the large market share of non-chain retail. At the end of 2019, Detsky Mir operated 38 stores in Kazakhstan.

Belarus’ Year-on-Year Real GDP Growth, %

Source: the National Statistical Committee of the Republic of Belarus (Belstat)



Opportunities in Belarus

Together with Russia and Kazakhstan, Belarus is part of the Eurasian Economic Union and shares a single customs space with them.

Belarus’ proximity to both European Russia and Central European countries is supplemented by strong transport connectivity.

The Belarusian economy is closely linked to, and strongly reliant on, Russia, which is also the principal market for the country’s indus-

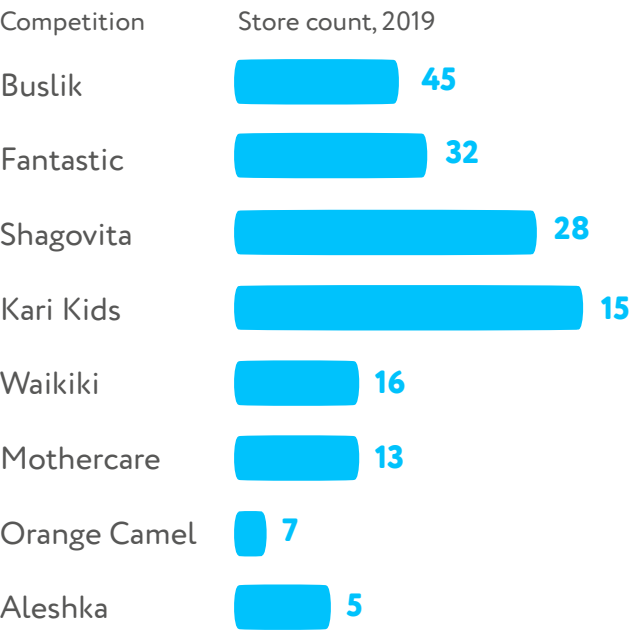
trial and agricultural products. Belarus is also an important transit and processing hub for hydrocarbons imported from the Russian Federation.

The population of Belarus decreased from 9.7 million in 2009 to 9.5 million in 2018, although the percentage of children aged 0 to 12 increased, currently at about 1.3 million.

According to expert estimates, the size of the

Belarus’ Competitive Landscape

Source: Detsky Mir



children’s goods market was approximately RUB 40 billion in 2019, 13 times smaller than that of Russia. Children’s goods market in Belarus is fragmented, with a great number of small and medium-sized players, and currently goes through a consolidation phase. The Buslik children’s goods retail chain is the key market player.



Detsky Mir entered the Belarusian market in 2019

Pet Supplies Market in Russia

Between the end of 2018 and the end of 2019, Detsky Mir launched ten pilot pet supplies stores under the Zoozavr brand, in line with its approved strategy to enter new markets.

The Russian pet supplies market is one of the world’s largest by number of pets (72 million), with cats and dogs accounting for approximately 50 % of the total.

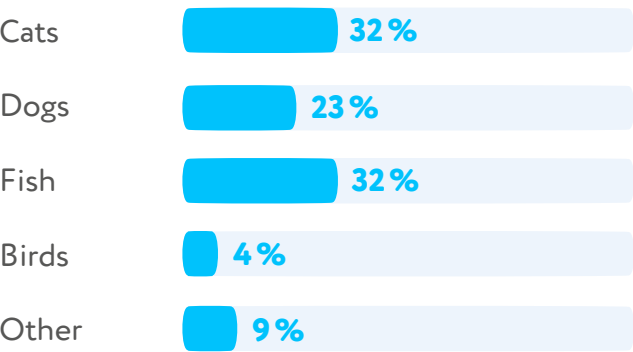
The number of pets has been increasing annually by 1% to 2 %. Between 2013 and 2018, the number of cats and dogs increased at an average rate of 1.8 % per year.

According to the Company’s estimate, the size of the pet supplies market in 2018 was RUB 215 billion, with pet food accounting for as much as 85 % of the total market.

This share has been steadily growing due to the increasing numbers of pet owners switching to dry or canned pet food.

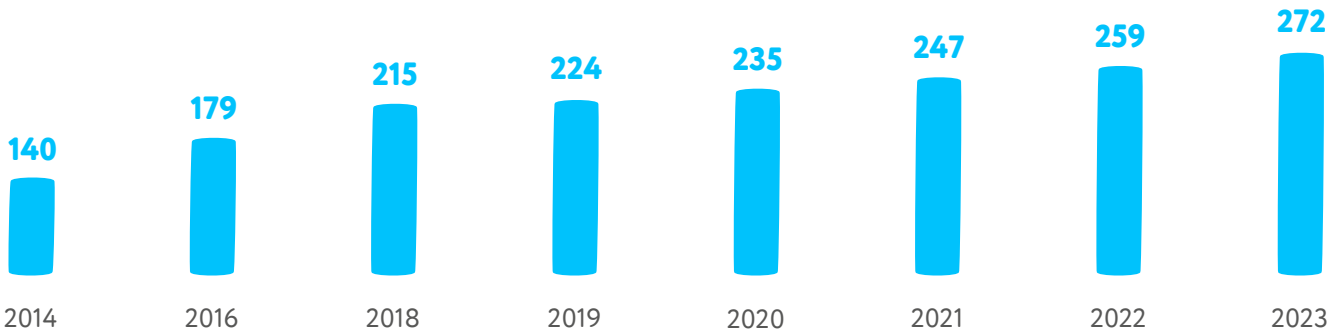
Pet Ownership in Russia in 2018

Source: GfK



Pet Supplies Market in Russia, RUB bn

Source: Detsky Mir



The Russian pet supplies market continued growing even during the downturn in the national economy (2013–2018), suggesting reluctance on the part of pet owners to cut back on spending on their pets. According to the Company’s estimate, the Russian pet supplies market will continue to grow at a CAGR of 5 % in 2018–2023.

Specialized stores are the key sales channel for the pet supplies market, accounting for

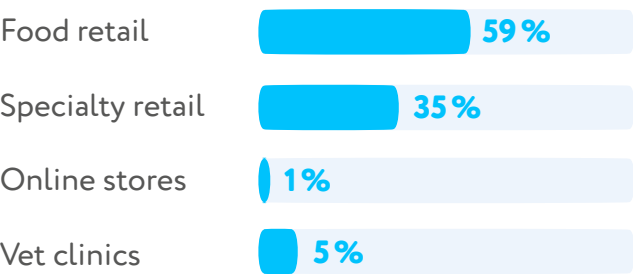
35 % of total sales in 2018. Detsky Mir expects the specialized stores’ sales to grow at a CAGR of 7.4 % in 2018–2023.

The Russian pet care market is highly fragmented – the Top 5 players’ combined market share is 13 %.

All specialized retail stores are developing their own online stores, sales channels within major retail chains, and small-format stores.

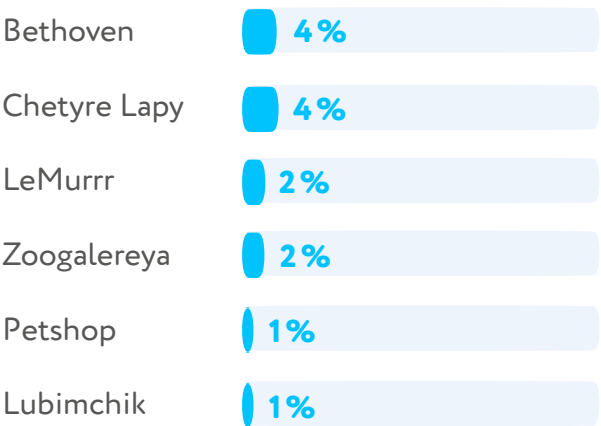
Pet Supplies Sales Channels in 2018, %

Source: Detsky Mir



Overall Market Share of Top Specialty Retail Players in 2018, %

Source: Detsky Mir



Detsky Mir’s key strategic goal is to consolidate the children’s goods market in Russia, Kazakhstan and Belarus

1

Regional and International Expansion

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Developing Omnichannel Proposition

3

Developing Private Labels

4

Improving Operational Efficiency

5

Infrastructure Development


Strategy Overview

Detsky Mir’s key strategic goal is to consolidate the children’s goods market in Russia, Kazakhstan and Belarus. To that end, the Company plans to expand its retail chain, develop its omnichannel proposition, and continue providing its customers with a wide assortment of affordable products including

affordable private labels. Detsky Mir has well-defined strategic growth pillars that support Detsky Mir in achieving its goal. A range of key initiatives have been developed for Detsky Mir’s strategic growth pillars, as well as operational and financial KPIs.

Strategy Implementation

The targets are presented as if IFRS 16 Leases has not been applied. The updated guidance is relevant at the date of approval of the Annual Report by the Board of Directors of the Company.

Metrics	Previous short-term guidance (March 2019)	2019 performance	Post-IPO medium-term guidance (March 2019)	Updated guidance (March 2020)
Detsky Mir store count	+ 80 new store openin	101 new store openings	+ 250 new store openings in 2019–2021	+ 300 new store openings in 2020–2023 + 80 new store openings in 2020
Revenue	Key drivers are store openings, LFL growth, and store ramp-ups		Key drivers are store openings, LFL growth, and store ramp-ups	The same set of drivers, strengthened with a new target: achieving a 30 % share in Detsky Mir’s total revenue in Russia for online sales in the medium term.
LFL sales growth	Single-digit growth outperforming the children’s goods market	+ 7.2 %, outperforming the children’s goods market in Russia and Kazakhstan	Single-digit growth outperforming the children’s goods market	Same guidance for 2021–2023*
Gross profit margin	Slight decline due to price investment to drive additional traffic	Slight decline (– 100 bps) due to price investment to drive additional traffic	Slight decline due to price investment to drive additional traffic	Same guidance for 2021–2023*
Rent and utility expenses	Further significant reduction of costs as a percentage of revenue, with zero growth in rental costs per square meter	Rent and utility expenses as a percentage of revenue reduced by 60 bps	Further reduction of costs as a percentage of revenue, with zero growth in rental costs per square meter	Same guidance for 2021–2023*
Payroll expenses	Consistent reduction of costs as a percentage of revenue	Keeping costs as a percentage of revenue at the current level	Slight reduction of costs as a percentage of revenue	Same guidance for 2021–2023*
Adjusted EBITDA margin	Maintaining an adjusted EBITDA margin of at least 10 %	Sustaining the 2018 adjusted EBITDA margin level (11.4 %)	Maintaining an adjusted EBITDA margin of at least 10 %	Same guidance for 2021–2023*
				*2020 Guidance will be updated after Q2 due to COVID-19 outbreak

Targets and projects delivered in 2019



The Company became No. 1 in the children’s goods market in Kazakhstan with 38 Detsky Mir stores.



By opening eight Detmir stores, the Company made a successful entry into the Belarusian market, worth over RUB 40 billion.



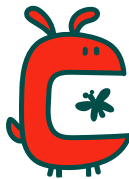
Pilot version of the marketplace for the apparel and footwear category was launched.



In-store pickup service for online orders was launched across the entire Detsky Mir retail chain in Kazakhstan, enabling customers to collect their orders within 60 minutes after the online purchase.



The share of private labels and direct imports increased by 6.3 p. p. to 29 % in toys and by 2.5 p. p. to 6 % in diapers in 2019.



By piloting ten Zoozavr stores, the Company made a successful entry into the pet supplies market, worth over RUB 200 billion.



The pilot of a full-feature mobile application was launched, enabling customers to make purchases via a convenient online interface while using a virtual loyalty card.



Next-day and same-day online order delivery services from Detsky Mir stores were launched.



The Company began testing its new compact store format, Detmir Pickup, by opening four pilot stores.

Key mid-term targets and initiatives



Maintain leadership in Kazakhstan by increasing the number of Detsky Mir stores by 1.5 times to 62.



Achieve leadership in the Belarusian market by taking the number of Detsky Mir stores to 45.



Enter the Kyrgyz market by opening the first store in 2020.



By the end of 2020, make a decision on active expansion of the Zoozavr chain and provide a mid-term guidance for store openings.



By the end of 2020, make a decision on active expansion of the new compact format Detmir Pickup chain.



Launch an in-store pickup service enabling the customers to choose between home delivery and delivery to the store of the customer’s choice.



Open the Company’s first regional warehouse supporting both courier delivery and in-store pickup services.



Roll out the marketplace for the apparel and footwear category in 2020. The Company’s mid-term target is to increase the apparel and footwear assortment from 20,000 SKUs to 250,000 SKUs.



Improve the CRM system: launch personalized, automated messaging.

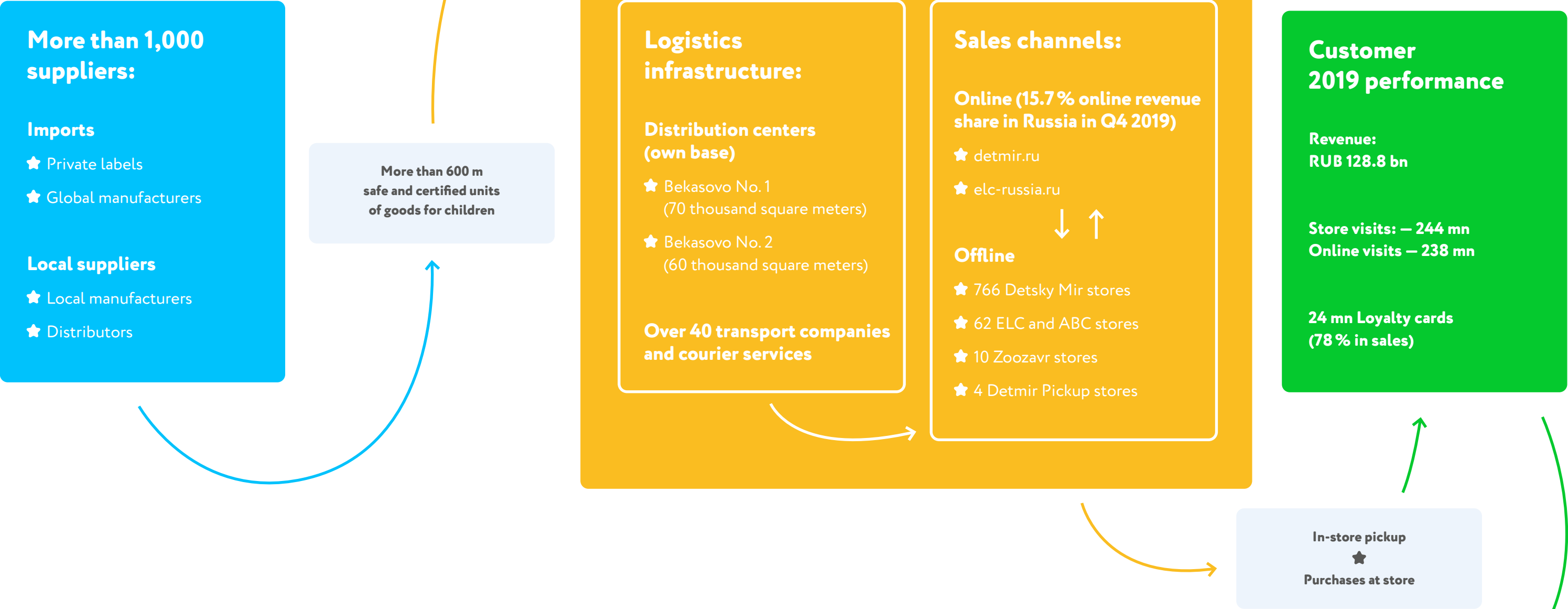


Increase the share of private labels and direct imports to 60 %.

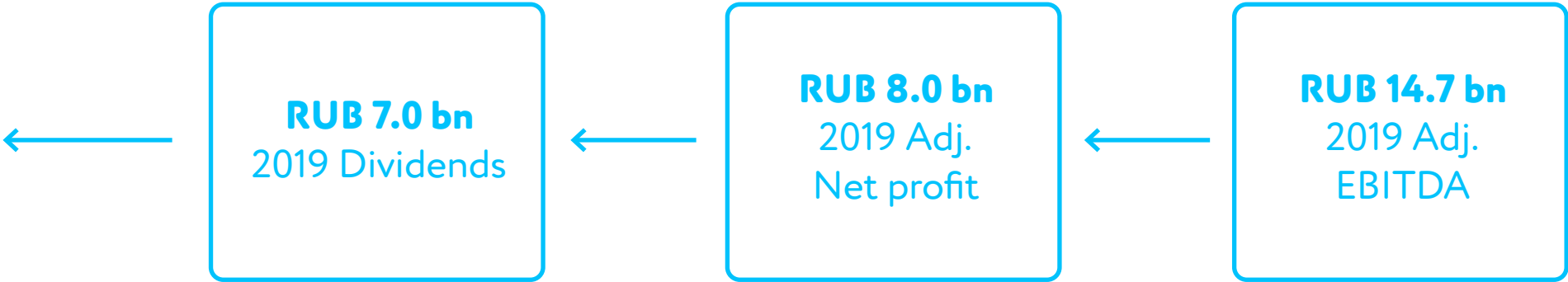


By the end of 2021, open a new distribution center in the Urals.

Business Model



Value Creation of Detsky Mir Group



Retail Business Development

The retail concept of the Detsky Mir chain is a combination of five key elements.

- 1

A multi-category children’s store offering a most extensive and unique product assortment
- 2

Convenient stores located in modern shopping malls and densely populated residential areas
- 3

Affordable prices focused on the medium/lower-medium segment
- 4

Carefully planned visual merchandizing, tailored to the needs of children and parents
- 5

Building long-term relationships with customers through a loyalty program

Selling floor of Detsky Mir store



Detsky Mir’s Assortment Strategy

The cornerstone of Detsky Mir’s strategy is splitting the assortment into two key groups: traffic drivers and revenue drivers. Each product category has its own development strategy and in-store positioning depending on the group it belongs to.

Traffic Generator

Products for Newborns

Share in revenue : **31%**
Share of private labels : **3.2%**
SKUs: **4,000**
The Company’s market share: **29.9%***
Key competition: food retail and online stores



Products for newborns include baby food, diapers and childcare products.

This category qualifies as FMCG (fast-moving consumer goods), which are purchased with the highest frequency — about several times a week. Products for newborns is a strategically important category, as it drives a significant portion of customer traffic to the chain stores.

The key goal for this category is to boost retail sales by offering a wide choice of products for newborns at the best prices compared to direct competition.

In addition, products for newborns can reduce the seasonality impact felt by all non-food retail chains, as sales of products for newborns are not seasonally based.

*Source: Ipsos Comcon data (“Estimated Size of the Children’s Goods Market in Russian Cities with over 100,000 Inhabitants.”)



Assortment of products for babies 0–24 months at the Detsky Mir store

Profit Generator

Toys

Share in revenue : **32 %**
Share of private labels : **17 %**
SKUs: **5,640**
The Company’s market share: **51.3 %***

Key competition: specialty children’s retail chains and online stores

Toys are one of the largest product categories for the Detsky Mir retail chain. These products not only drive customer traffic and build customer loyalty but also contribute to higher sales margins in comparable stores. Our extensive product assortment and affordable prices in toys increase the Company’s resilience to competition from other retail players.

According to Ipsos Comcon, Detsky Mir is leading the market in this product category with a market share of over 50 %. This enables the Company to negotiate the best deals and access to exclusive products with major global manufacturers such as Lego, Hasbro and Mattel.

Detsky Mir is also actively developing its private labels in this product category, thereby maintaining competitive pricing and high sales margins.

Large-Size Products

Share in revenue : **3 %**
Share of private labels : **54.8 %***
SKUs: **200**

Key competition: specialized children’s stores and online stores

Large-size products include children’s car seats, strollers, and children’s furniture.

The Company primarily offers branded products in this category, along with extensive ranges of Detsky Mir’s private labels.

Stationery and Other Products

Share in revenue: **7 %**
Share of private labels: **28.6 %**
SKUs: **2,250**
The Company’s market share: **8.5 %***

Key competition: specialized children’s stores and online stores

Stationery and other products include books, multimedia, sports goods, and the New Year’s product ranges.

Stationery sales are highly seasonal. Peak sales are during the Back to School season in August and September.

Apparel and Footwear

Share in revenue : **25 %**
Share of private labels: **87 %**
SKUs: **7,500**
The Company’s market share: **17.8 %*** (Apparel), **16.2 %*** (Footwear)

Key competition: apparel and footwear retailers, sportswear stores, and online stores

Detsky Mir’s apparel offering includes outerwear, underwear and other clothing, as well as socks and accessories.

The footwear offering includes classic and casual styles, sports and walking shoes, as well as beach footwear.

Detsky Mir is focused on offering a large number of fast-fashion collections and expanding the range in each.

Eight fast-fashion collections were launched throughout 2019: Spring, Summer, Hot Summer, School, Early Fall, Fall, Winter, and New Year.

Private label development is essential for Detsky Mir’s growth in this category. At the end of 2019, Detsky Mir operated 25 private label brands, accounting for the largest share of total sales in apparel and footwear.

Detsky Mir also offers products by leading international brands, such as Lassie (manufactured by Reima) and Blue Seven (manufactured by Obermeyer).

Apparel and footwear is Detsky Mir’s highest-margin category within the overall assortment. In line with Detsky Mir’s approved strategy, the Company is planning to expand its product assortment by launching a marketplace and further developing private labels.



*Source: Ipsos Comcon data (“Estimated Size of the Children’s Goods Market in Russian Cities with over 100,000 Inhabitants.”)

Detsky Mir's Multi-Format Strategy

In 2014, Detsky Mir stores were refreshed with a unique, distinctive design concept developed in line with latest best practice.

The new design concept draws on the international experience of embedding interactive activities into selling space, with children's play areas installed in-store.

Functionality was a key consideration when developing the design concept, including right-sizing shelf heights and aisle widths to accommodate customers with strollers.

The new design features, along with a uniform zoning concept, an improved store layout and a more vibrant overall style were rolled out across the entire Detsky Mir chain.

A particular focus was made on product display policy to make store displays more clear to customers and facilitate their search for discounted products and special offers by aggregating them in dedicated promo areas. Through combining shopping experience and

entertainment, Detsky Mir has enhanced its shopping experience by making a visit to a Detsky Mir store an exciting and useful opportunity for quality family-time.

One of the key improvements was the deployment of in-te-ractive children's play areas in Detsky Mir's flagship stores

Mature stores are refreshed in line with the new concept, with all stores grouped into four categories based on the selling space and number of SKUs:

Store size	Selling space, sq. m	Average number of SKUs (excluding apparel and footwear)
Mini	600–800	6,500
Super	800–1,500	11,000–14,000
Hyper	> 1,500	16,000
Flagship	> 2,000	18,500

The overall format features a standard product assortment of 20–30 thousand SKUs (including apparel and footwear), dedicated areas for each product category, and a separate area for advertising.

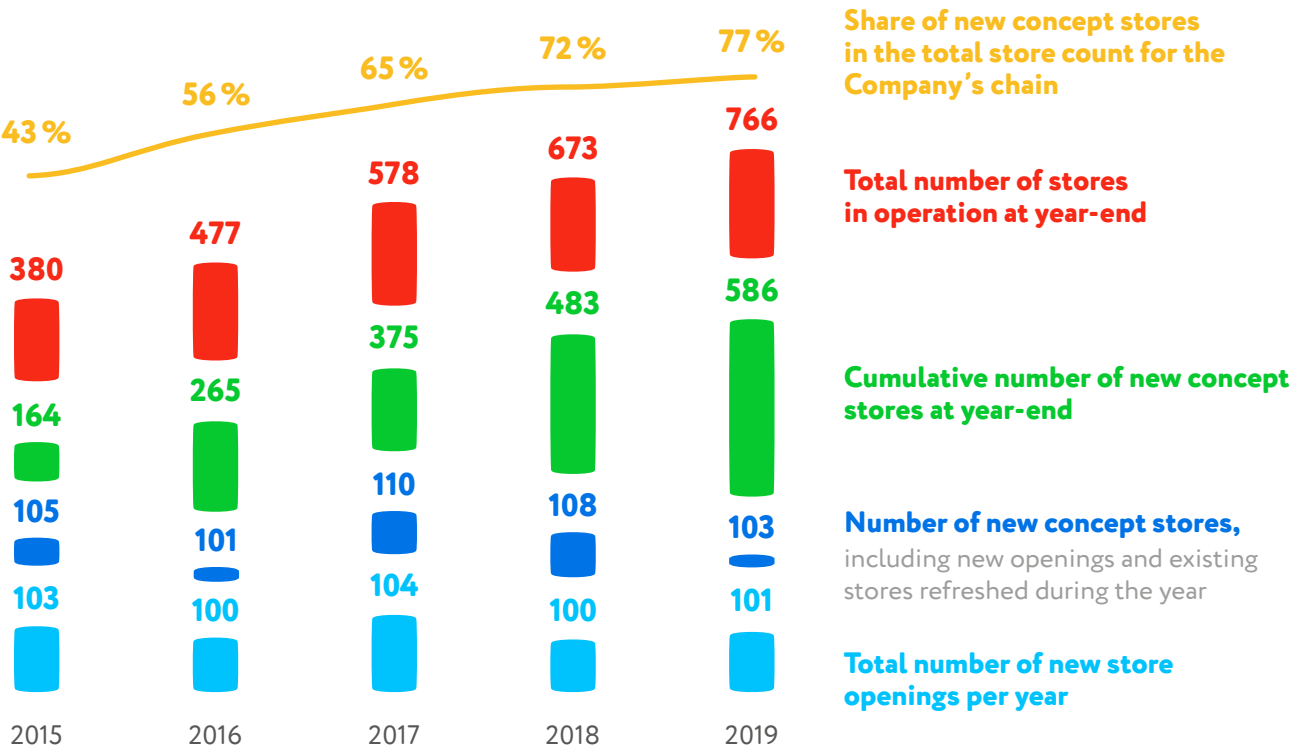
The average size of Detsky Mir stores is approximately 1,100 square meters of selling space, and about 72 % of all stores in the chain have a selling space of 800–1,500 square me-ters.

The Company's stores are mainly located in modern shopping malls and densely pop-ulated residential areas near main traffic arteries or metro and railroad stations.

As at 31 December 2019, the Company operated 766 Detsky Mir stores in shop-ping malls and 19 stand-alone stores (street retail).

The average size of Detsky Mir stores is approximately 1,100 square meters of selling space

Detsky Mir New Concept Store Count



In Q2 2019, the Company opened a Detsky Mir flagship store in the Valday shopping mall on the New Arbat Avenue in the center of Moscow. Detsky Mir decided to make an exception to its asset-light business model and acquire property to secure a prime location for its new flagship store.

The total investment in the commercial property purchase and the opening of the flagship store was approximately RUB 1 billion. The property has a total selling space of 3,642 square meters.

In the mid-2020, Detsky Mir is planning to renovate the newly acquired building in line with the new design concept and open its new flagship store featuring children’s play areas, experimental and creative spaces, and comfortable rest areas along with sales, service, themed and brand areas.

While adults see the world through the narrow lenses of own life experiences, stereotypes and social rules, children are more open-minded, willing to indulge in a flight of fancy and try things adults would not even think possible.

This concept will be expressed metaphorically through the store layout, architectural design, services and extra activities for visitors, store equipment, signage and messaging.

“ I am confident that Detsky Mir’s many years of children’s retail experience and latest solutions in retail will enable us to create a unique children’s store that combines shopping with an exciting and useful opportunity for quality family-time and will become one of Moscow’s tourist magnets. ”

Vladimir Chirakhov,
CEO of Detsky Mir Group



The visualization of the external elevation of the new flagship store in Moscow



The concept behind the new store — Exploration Into the World of Child’s Perception — is based on the differences in how adults and children see the world around them

Advantage 1

- One-of-a-kind store in Russia
- ★ Unique children’s play area
- ★ Event space
- ★ Cafes, rest areas and other services
- ★ Potentially an international award winner

Advantage 2

- A major event in the children’s retail space
- ★ Best practice in children’s education implemented
- ★ Store that highlights the uses of toys
- ★ Favorite cartoon characters

Advantage 3

- Prime location
- ★ One of Moscow’s tourist destinations
- ★ Historical building
- ★ Steady tourist footfall of Russian and international visitors

As part of its efforts to develop the Company's omnichannel business model which seeks to accelerate the children's goods market consolidation, in late 2019 Detsky Mir decided to launch active trials of a new compact format, Detmir Pickup, combining an offline retail store and a pickup point.

This format of 130–170 square meters stores will prioritize small towns between 10,000 and 40,000 inhabitants as well as individual locations in areas not accessible to standard Detsky Mir stores.

The total market capacity of such locations is estimated at 2,000 Detmir Pickup stores. Ipsos Comcon estimates the children's goods retail market in Russia, including towns and cities with over 10,000 inhabitants, at more than RUB 700 billion (30 %+ addition to the addressable market).

In 2019, Detsky Mir piloted four compact stores in the Moscow region, with at least five Detmir Pickup pilot stores planned to be in operation by the end of Q1 2020.

Based on Detmir Pickup performance for 1H 2020, Detsky Mir will decide on the format's full-scale rollout.

The new format trials will analyze multiple assortment matrix options as well as the pickup process and the speeds of online order delivery.

Our online store detmir.ru is generating an increasingly higher percentage of sales to our customers. The share of online sales in Detsky Mir's total revenue reached 15.7 % in Q4 2019. About 90 % of our online orders are picked up at retail stores, which confirms high customer demand for this service. At the same time, we have developed a service providing direct delivery from stores, leveraging our retail chain. Now our customers in large Russian cities can receive their orders within a few hours of making a purchase on our website. All this confirms the strength of our omnichannel business model. The new format will enable us to increase our penetration of smaller towns as well as improve the online order delivery service. //

Vladimir Chirakhov,
CEO of PJSC Detsky Mir

The visualization of the external elevation of the new flagship store in Moscow



Regional and International Expansion

Detsky Mir is planning to further consolidate the children’s goods market in Russia, Kazakhstan and Belarus by launching stores in both existing and new cities for Detsky Mir.

The Russian, Kazakhstan and Belarus markets offer opportunities for opening at least 300 new stores (with a selling space of around 1,000 square meters) over the next three to four years, including at least 80 stores in 2020:

- ★ At least 85 cities with a population under 100,000 not covered by the Company or its key competitors
- ★ At least 70 stores owned by specialty retail competitors that the Company plans to replace
- ★ At least 70 stores in Detsky Mir’s existing cities with at least 100,000 inhabitants
- ★ At least 14 stores in the Russian Far East
- ★ At least 24 stores in Kazakhstan
- ★ At least 37 stores in Belarus

Detsky Mir Chain Mid-Term Expansion Program in CIS

In line with its international expansion strategy, Detsky Mir Group successfully entered the Belarusian market in 2019, with eight Detmir stores opened in the largest shopping malls of Minsk, Brest, Homyel, Maladzyechna and Mahilyow.

The Belarusian business exceeded its initial targets and already achieved EBITDA break-even in 2019.

Detsky Mir continued market consolidation in Kazakhstan, opening eight new supermarkets and increasing the chain’s LFL sales by 35.5%.

Detsky Mir’s positive expansion experience in Kazakhstan and Belarus demonstrates the Company’s potential to successfully grow its business outside Russia.

This strong performance prompted Detsky Mir’s late 2019 decision to enter the Kyrgyz market.

Detsky Mir’s target is to open its first store in Kyrgyzstan already in 2020 and become the market leader in the mid-term.

We will be able to offer our Kyrgyz customers high-quality goods at very attractive prices by leveraging our strong bargaining power. //

Vladimir Chirakhov,
CEO of PJSC Detsky Mir

Detsky Mir Chain Mid-Term Expansion Program in CIS

- 766 Existing Detsky Mir stores (31.12.2019)
- 85 Cities with no DM Presence (40k – 100k inhabitants)
- 70 Cities with DM Presence (>100k inhabitants)
- 14 New stores in Russia’s Far East Federal District
- 70 Replacing competitors (specialized stores)
- 24 Medium-term target stores in Kazakhstan
- 37 Medium-term target stores in Belarus

Based on 40 % IRR target

Moscow and Moscow Region



Center



Siberia and Far East



South



Volga region



North-West



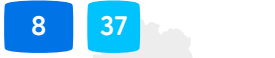
Ural



Kazakhstan



Belarus



// Our strong performance in Kazakhstan and Belarus prompted our decision to continue geographical expansion in the CIS.

With its low competition, favorable demography and attractive economic opportunities, the Kyrgyz market offers great potential for us to expand.

Seeking new opportunities to drive the Company's value and diversify its business is Detsky Mir's key strategic priority.

At the end of 2018, the Company made a strategic decision to enter the pet supplies market.

This segment offers great opportunities in terms of its size, expected growth, and a high degree of fragmentation, and will provide an opportunity for Detsky Mir's management team to leverage their extensive experience gained in the children's goods market.

Between late 2018 and end-2019, Detsky Mir opened ten pilot Zoozavr chain stores measuring between 100 and 250 square meters in various location types, including shopping malls and stand-alone stores, mainly in Moscow and the Moscow Region.

Pet supplies were also made available at detmir.ru online store, with Zoozavr online order delivery footprint covering all Russian regions.

Detsky Mir customers can add Zoozavr products to children's goods in their online basket on Detsky Mir's website and pick up their orders at any Detsky Mir or Zoozavr store or make use of the courier delivery service.

Zoozavr also translates its omnichannel strategy into its pricing policy, thus creating the best value proposition among all specialty retail players now active in the market.

A decision on further developing the chain will be made based on the pilot stores' performance in 2020.

Магазин «ЗООЗАВР»



Principles and Criteria Underlying New Detsky Mir Store Openings

When deciding on the store opening pipeline, Detsky Mir's team of professionals is guided solely by the results of analyses and evaluation of potential opportunities for new store openings based on the level of a country's economic development, as well as consumer income, population density, and competitive environment in respective regions and cities.

Almost all stores are located in leased premises, mostly in modern shopping malls. Due to low capital requirements, this business model has secured high returns on capital for the Company and allowed Detsky Mir to promptly change locations in response to changes in local demand or customer traffic.

Detsky Mir's asset-light business model is the key element of its retail chain expansion strategy, with its relatively low capex per store. As a result, the Company generates a significant positive cash flow from operations to finance expansion plans from its own funds.

When launching new stores, the Company uses the set of the strict investment criteria focusing on return on investment, specifically:

- ★ The Internal Rate of Return (IRR) under the new store's financial model should be at least 40 % based on a projected 7-year cash flow and excluding the terminal value
- ★ EBITDA break-even achieved typically within four months after opening
- ★ Store ramp-up (achieving targets such as customer traffic and gross profit per square meter) within 18 to 24 months

Most openings take place during the fourth quarter, which allows Detsky Mir to benefit from higher year-end seasonal sales and thus facilitate store ramp-ups while maintaining strong returns on capital employed.



The ongoing performance monitoring of every store is central to managing the overall retail chain

If a store fails to meet KPI targets over time, the Company's management can consider closing or, where possible, moving it to a nearby location where better lease terms can be negotiated or higher customer traffic can be secured.

Over the past few years, the Company has closed or relocated only a handful of Detsky Mir stores (eight in 2019).

Growing Omnichannel Sales

The full product assortment offered by Detsky Mir Group is available for purchase not only through Detsky Mir’s brick-and-mortar retail stores, but also online at detmir.ru and elc-russia.ru.

Detsky Mir’s online business was launched in 2011 and has since been its fastest growing sales channel. The Company recorded over 238 million online visits and fulfilled over 9.8 million online orders in 2019.



Online Order Pickup Options in 2019*



In-store pickup

90 % of online revenue

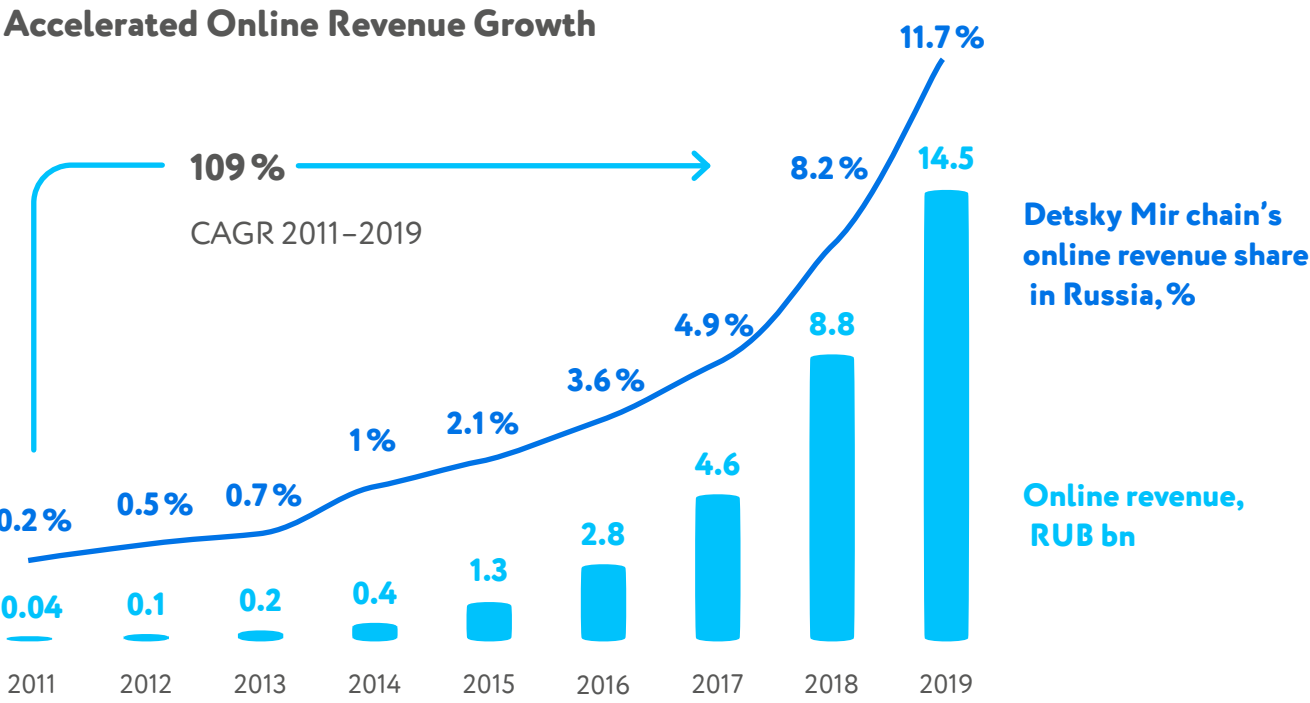


Courier delivery

10 % of online revenue

* Courier delivery options include home delivery and delivery to a partner’s pickup point. In-store pickup options cover online orders for products offered in retail stores and products which are out of stock at the time of the order but can be delivered through the Company’s logistics system from a warehouse to the store selected by the customer.

Accelerated Online Revenue Growth



In 2019, Detsky Mir’s online revenue increased by 65.2 % year-on-year to RUB 14.5 bn. The share of Detsky Mir’s online store in the chain’s total revenue in Russia was 11.7 % while in Q4 2019 it grew to 15.7 %.

In 2019, 90 % of online revenue came from in-store pickup at Detsky Mir retail stores, with orders picked in-store or at a warehouse and collected by customers at Detsky Mir stores.

The Company offers a superior order fulfillment service: 95 % of all online orders picked in-store can be collected by the customer at checkout within 60 minutes after the online purchase.

The in-store pickup service growth has an impact on the online revenue breakdown

by product, with newborn products (mainly diapers) making up almost a half of the total sales through the online store.

The improved shopping experience has provided a key competitive advantage, particularly in food retail, while toys and large-size products also remain top performers in this channel.

As delivery and in-store pickup services grow in regional markets, the share of revenue from Russian regions other than Moscow, the Moscow Region and Saint Petersburg is also growing, reaching 53 % of the total in 2019 (2016: 39 %).



The detmir.ru online store has a 19 % revenue share in the online children’s retail market in Russia

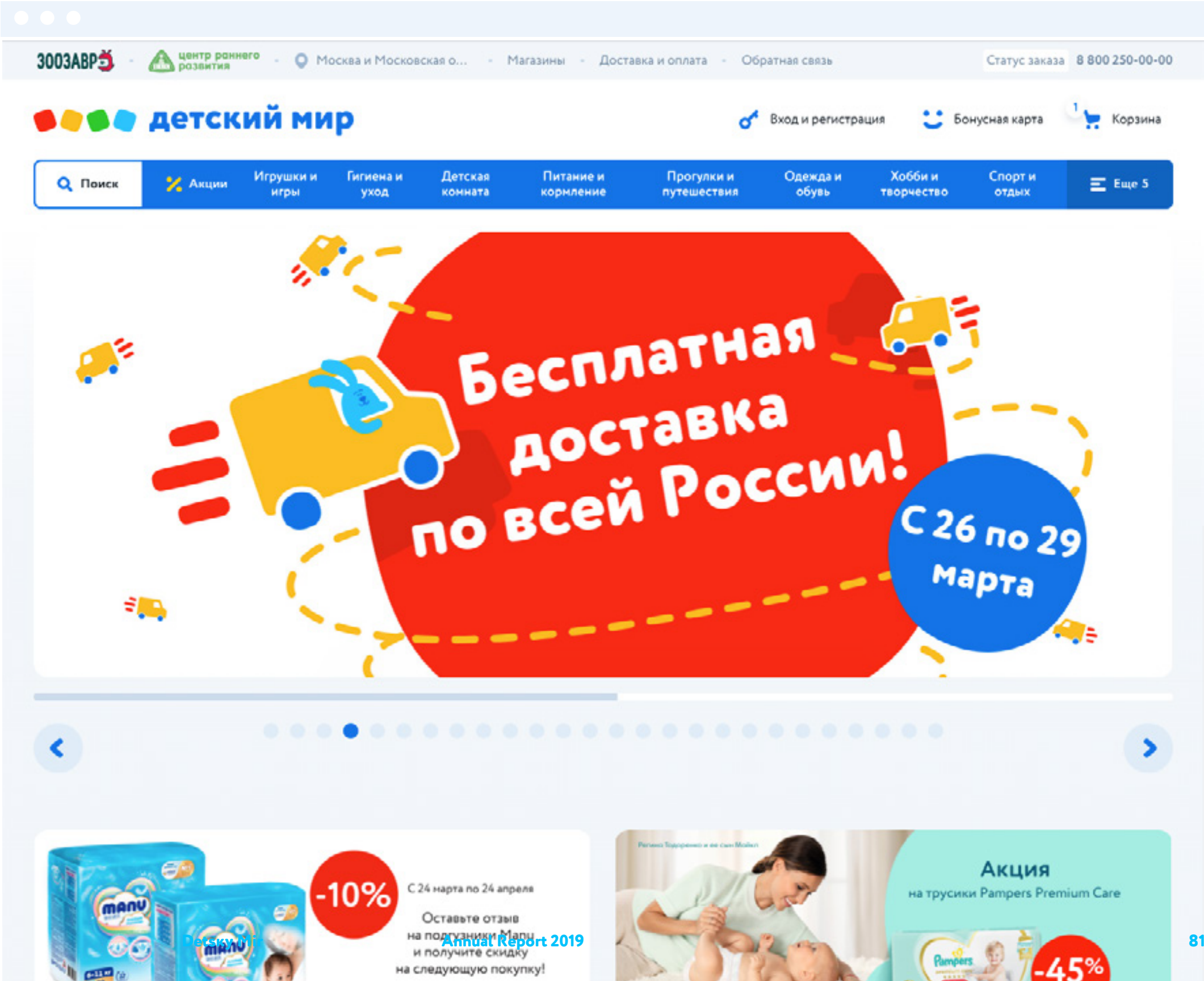
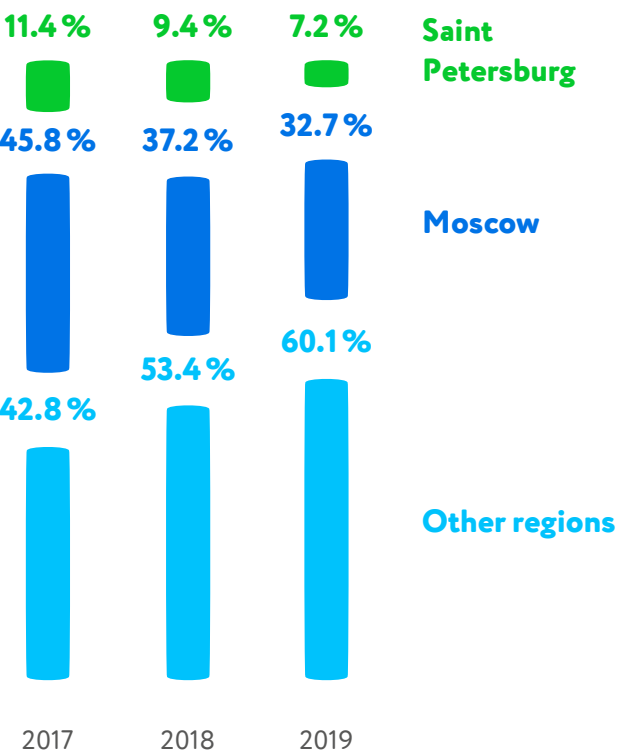
Online store website – detmir.ru

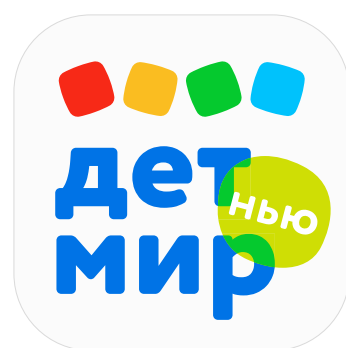
Updated website design

In order to increase conversion rates and boost mobile orders, the Company adopted a new design for the detmir.ru website in early 2019. The transition took place in phases, with the new website first made available to 5 % of users, then 33 % and ultimately 100 %.

The AAB testing has enabled smooth transition to the new website, driving an 11 % increase in the conversion rate. In addition, in 2019, the Company launched Detsky Mir’s online store in Kazakhstan: kz.detmir.com.

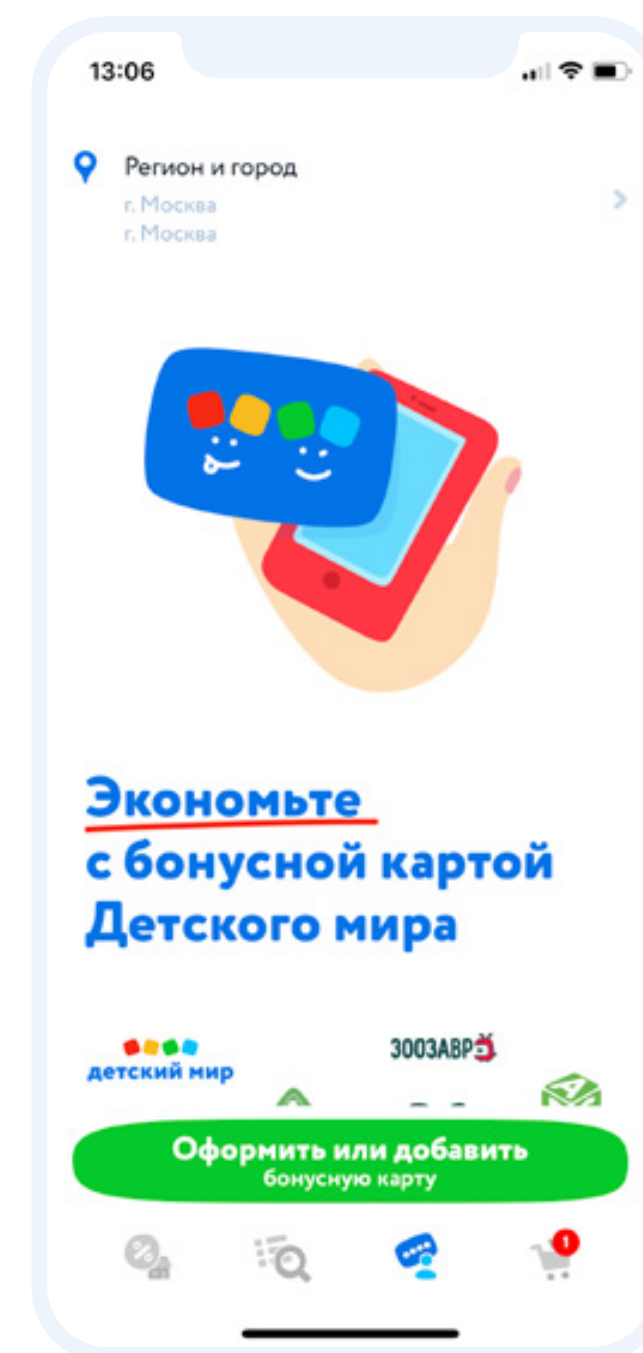
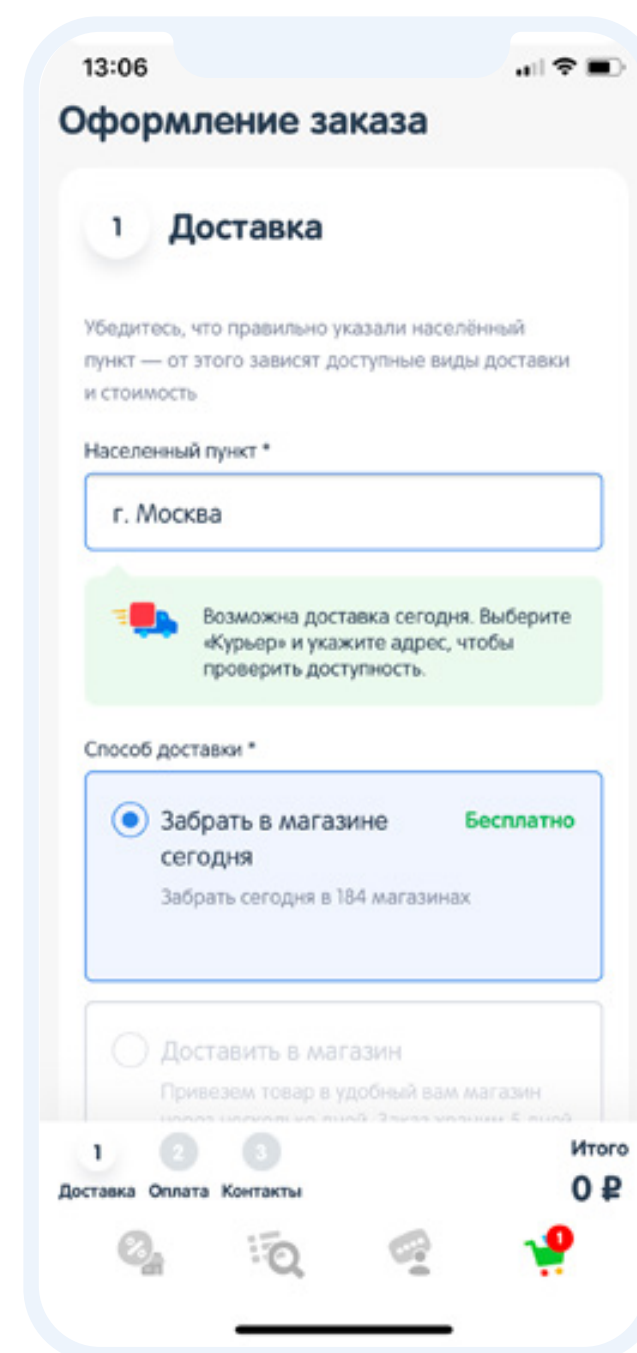
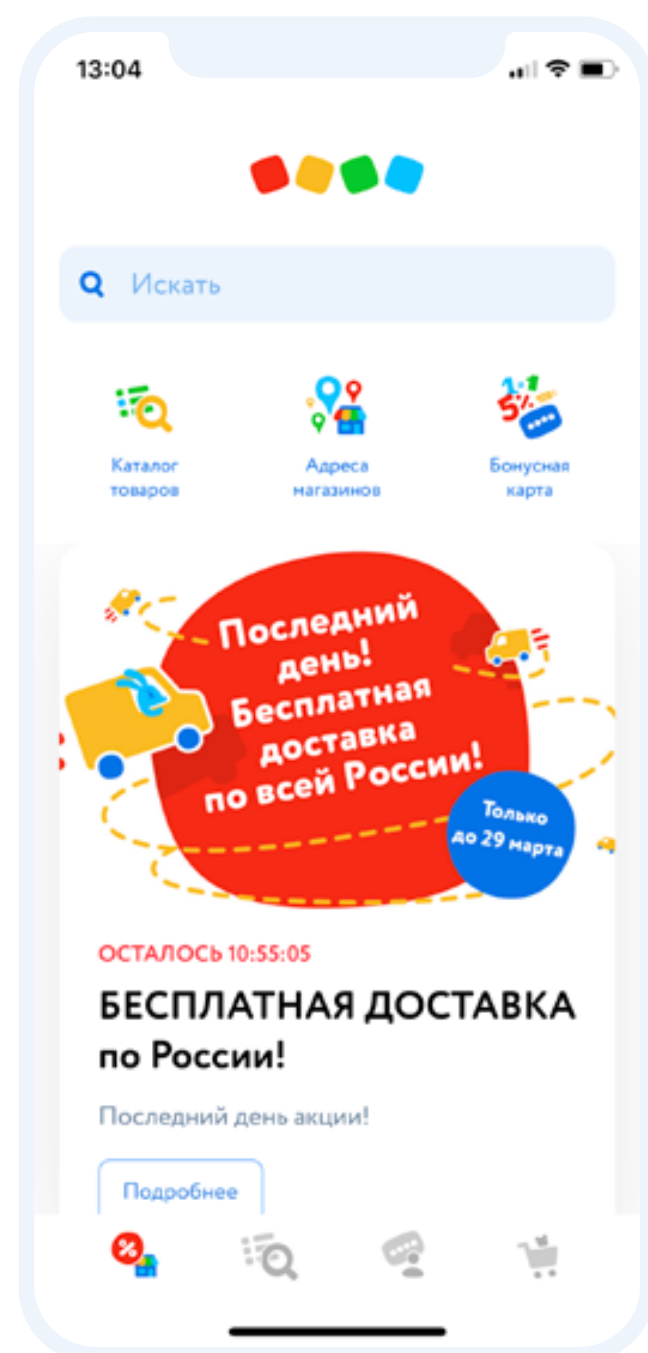
Online Store Revenue Breakdown, %





New mobile application

In December 2019, Detsky Mir launched a mobile app featuring a full-fledged online store, with the number of downloads exceeding 850,000 at end-2019 and the share of online sales via the app reaching 10 %.



The share of online revenue from the Cyber-Days sales event grew from 32 % to 58 % in 2019 while the active engagement of suppliers on discount offers and marketing activities helped sustain high margins.

The [detmir.ru](#) online store was the main channel for Detsky Mir’s annual Black Friday sales event: between 25 November and 1 December, the online store took RUB 1.4 billion worth of orders, up 30 % year-on-year.

The Company’s online marketing and advertising strategy is based on developing free and freemium traffic channels such as SEO, email, app push, and web push.

As part of this strategy, in 2019, Detsky Mir implemented the product filtering functionality and the option to enter product details on the product flypage, which increased the total amount of orders placed via the SEO channel by 90.5 % year-on-year.

In 2019, the share of free and freemium (fixed-cost) traffic generation channels was 98.3 %.

As part of developing the email channel, in 2019, the Company implemented a CRM system (see the Customer Service and Brand Management section) which aggregates omnichannel data from the online store website and mobile app, as well as data on purchases

in Detsky Mir stores and data from various communication channels (email, app push).

The total amount of orders placed via the email channel was up 61 % year-on-year.

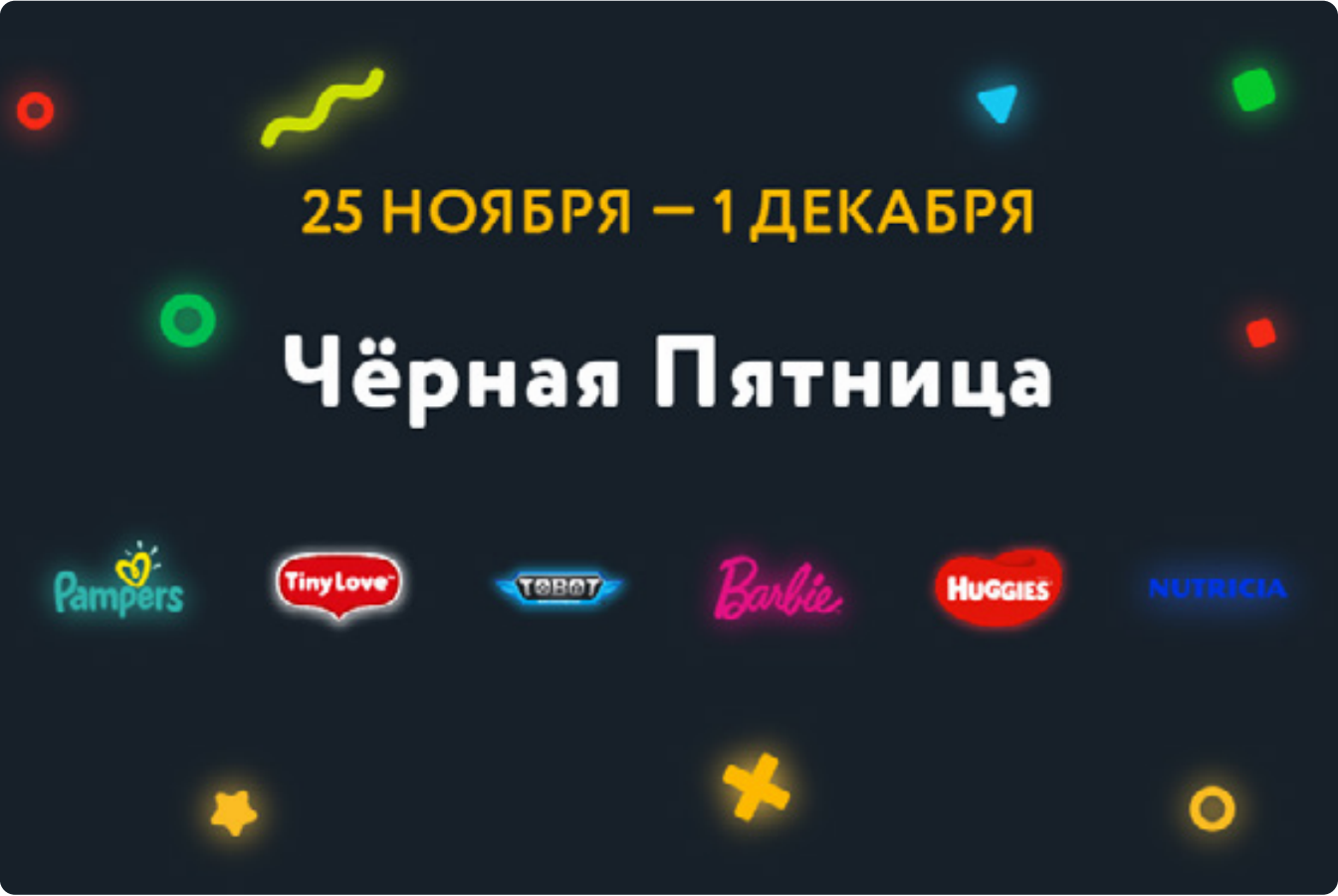
Two new services, subscription for regular purchases and wish list, are to be launched in 2020 as part of the effort to develop online products.

The subscription service targets customers with newborns making regular purchases every week or two, primarily diapers and baby food. A customer will be able to put together a basket and specify its delivery schedule.

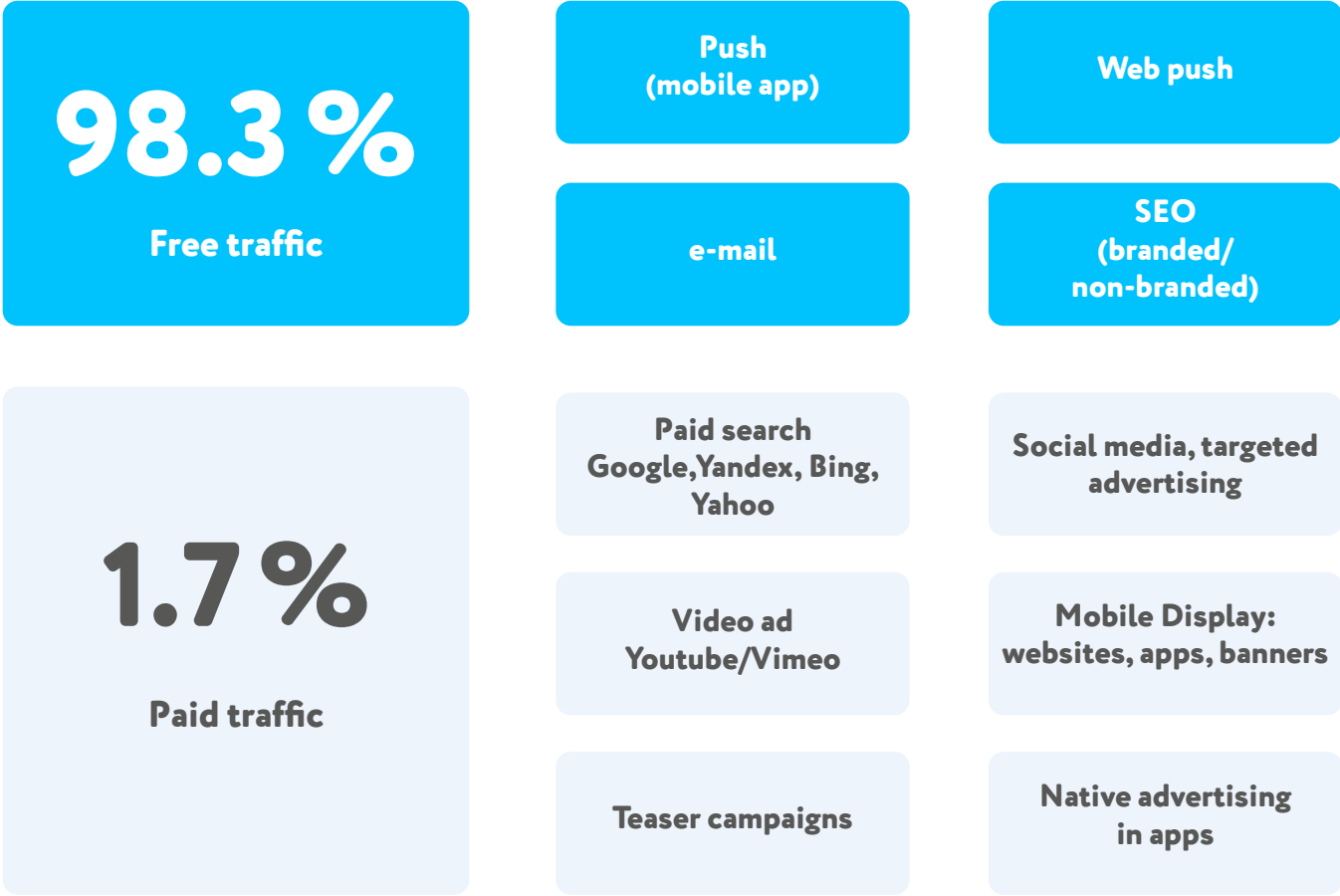
The wish list service covers gifts for children. A list itemizing desired gifts can be made up prior to a kid’s birthday and shared with relatives and friends. When one of the gifts is purchased, it will be shown on the wish list.

The number of visitors to Detsky Mir’s online store is constantly growing: in 2019, it was up by 34 % year-on-year while the number of orders rose by 92 %.

Black Friday at Detsky Mir online store



Traffic channels in 2019



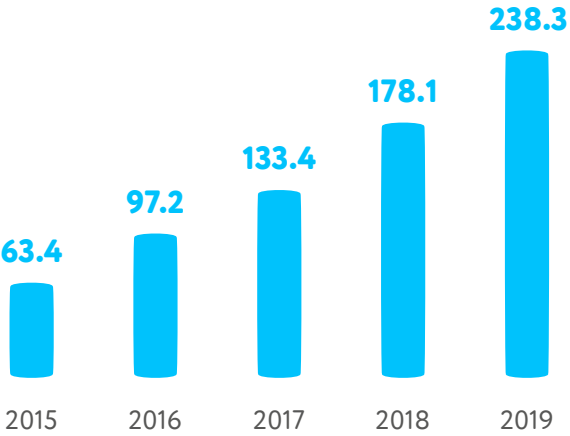
Service level is a key performance metric for an online store. To enable day-to-day online service level management, the Company has in place the Composite SL indicator comprising data on service levels across order processing stages and order delivery options, and reflecting their contribution to the total online revenue.

The share of orders ready for pickup in-store within 60 minutes after the online purchase is an important element of the Composite SL. In 2019, this indicator stood at 95%. In 2020, the Company will continue to improve its processes to ensure seamless order delivery. With improved in-store pickup service level, the Company gained ample opportunities to arrange courier delivery of online orders from Detsky Mir stores.



In 2019, Detsky Mir launched express delivery in 19 cities across Russia

Online Visits, m



Orders are picked at a store nearest to the customer and delivered within a few hours after the online purchase. The service has become very popular in Moscow and other cities.

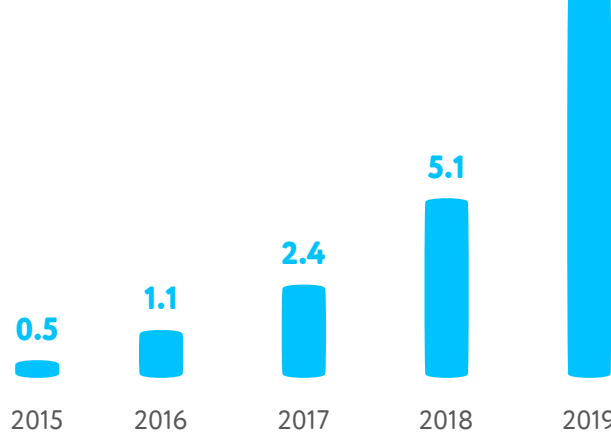
Along with express delivery, Detsky Mir launched next-day delivery in 30 largest cities. For this delivery option, orders are picked and consolidated in a major store in the relevant city, and then routed by a partner courier delivery company.

Express delivery enabled us to expand the choice of delivered products (a large store + no limits on the order size and weight) and the service footprint, which now extends to cities and towns beyond regional centers.

The Company plans to continue developing new services and formats.

In 2020, in addition to next-day delivery, Detsky Mir intends to launch an in-store pickup service enabling customers to choose between home delivery and delivery to the store of the customer's choice.

Orders Fulfilled, m



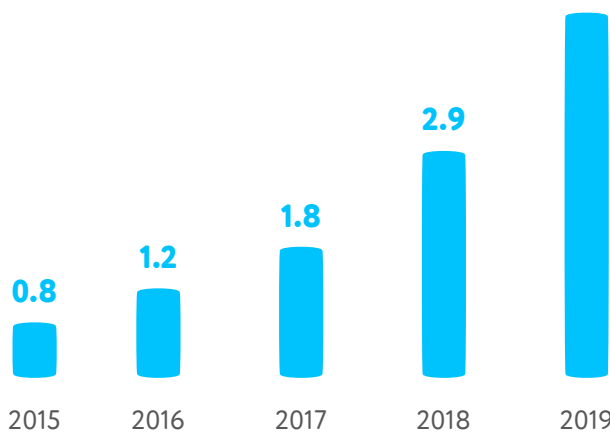
Also, in 2020, Detsky Mir plans to open its first regional warehouse supporting both courier delivery and in-store pickup services in regions. The format will enable significant expansion of available assortment and delivery footprint in regions where demand exceeds the capacity of the store-based delivery service.


In one of Detsky Mir's operating regions where a regional warehouse would be unviable, the Company plans to pilot a Hub Store, or Darkstore, in 2020.

These larger stores will feature an expanded assortment, by far surpassing that of standard stores, and will support regional next-day delivery services, acting as platforms to move products to other stores within the same region.


The new format will provide customers with access to a wider assortment of products with fast and low-cost delivery, further sharpening Detsky Mir's competitive edge.

Online Conversion Rate, %






Забрать в 182 магазинах
Через час — бесплатно




Привезти в 27 магазинов
Завтра — бесплатно




Экспресс доставка из магазина
Сегодня — бесплатно

Проверить мой адрес



Доставка со склада
Завтра — бесплатно



Пункты выдачи
Завтра — бесплатно

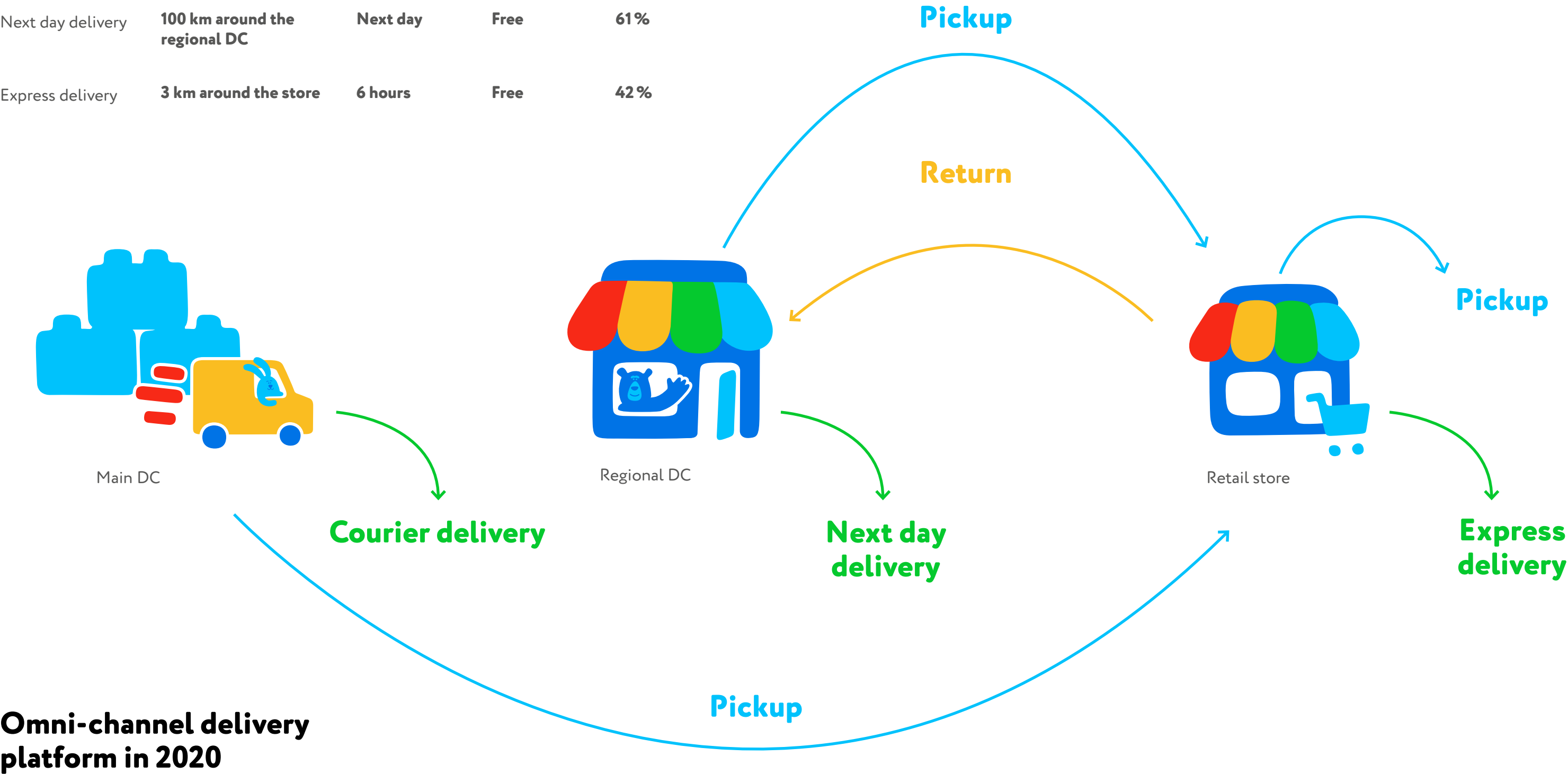
The delivery options at the detmr.ru website



The share of orders ready for pickup in-store within 60 minutes after the online purchase is an important element of the Composite Service Level



	Location	Time	Delivery price	Geographic coverage
Courier delivery (from main DC)	All Russia	Up to 14 days	Free	100 %
Next day delivery	100 km around the regional DC	Next day	Free	61 %
Express delivery	3 km around the store	6 hours	Free	42 %



Marketplace



Detsky Mir intends to launch the Marketplace project in 2020 to enable suppliers to offer their products in the Detsky Mir online store directly, with minimal involvement of Detsky Mir employees.

Logistics Model

- ★ Products delivered to Detsky Mir’s distribution centers by the sellers
- ★ Products delivered to customers from Detsky Mir’s warehouse by Detsky Mir staff (courier delivery or pickup)
- ★ A regional warehouse to be launched in 2021

Price Segment of New Products in the Assortment (Only Apparel and Footwear)

- ★ Medium/upper-medium
- ★ Local producers
- ★ All major apparel brands represented in the Russian market
- ★ International players absent from the Russian market. Exclusive product assortment

Commercial Terms Offered to Sellers

- ★ Commission-based sales model
- ★ Fixed comission rate
- ★ Opportunity for suppliers to participate in campaigns and promotions
- ★ Free returns from stores or a distribution center

Seller’s Personal Account Features

- ★ Product catalogue and delivery management (automated orders)
- ★ Promotional activity management, product promotion on the website
- ★ Financial reports and operational analytics


Detsky Mir’s 2022 target is to bring the share of apparel and footwear sales via the marketplace to 30 %


Detsky Mir plans to focus primarily on promoting apparel and footwear sales via the marketplace.


The Company also plans to provide access to the marketplace to suppliers of other categories, finalizing its targets in terms of assortment and the number of suppliers.


The marketplace product strategy offers a product management tool via a supplier’s personal account.


Pilot marketplace focused on children's fashion to diversify SKUs and underpin future growth in online


**Assortment**
Local manufacturers and well-known international brands

**Marketing**
Full integration into Detsky Mir marketing and promotions

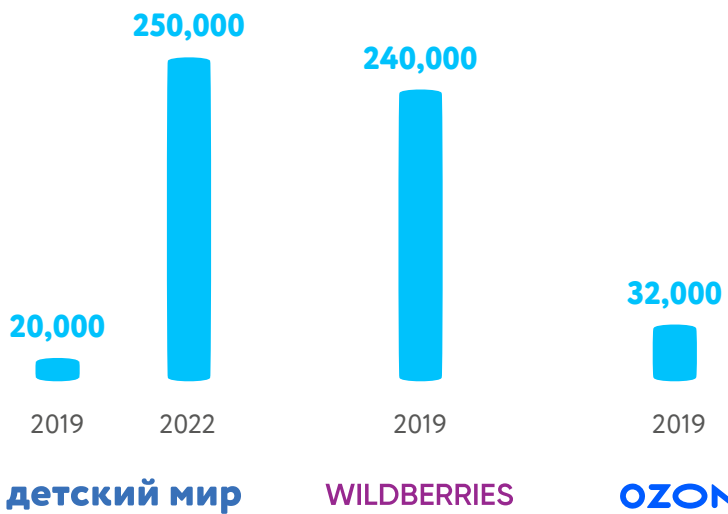
**Pricing**
Price segments:medium to medium-high

**Vendors interface**
Marketing and data-analytics tools

**Economics**
Commission based 3PL model

**New verticals**
FMCG segment will be added in H2 2020

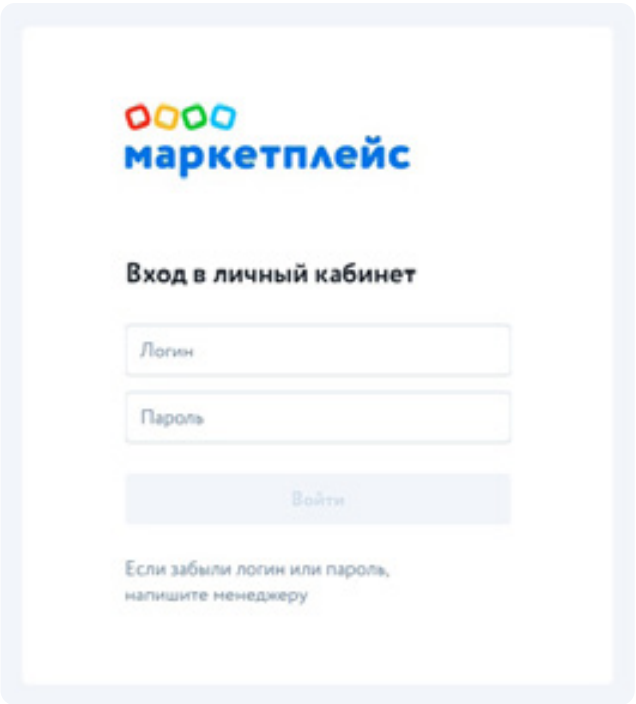
Marketplace to drive leadership in breadth of children's fashion assortment by leveraging existing infrastructure



Children's fashion assortment (SKU ths)

The Company expects an increase in the number of SKU up to 1 million positions in the long-term.

300+ vendors in mid-term



Login and Marketplace interface

Главная страница

Товары

Список товаров

Загрузить товары

Загрузить фото

Обновить цены

Сертификаты

Поставить на склад

Уведомления

Помощь

ИП «Пищиков и компания»

Список товаров

Все 1 849В продаже 471Снято с продажи 27На складе 484Нет на складе 310Черновик 182Готово к проверке 82На проверке 7Исправить 18

	Название	Артикул	Штрих код	Статус	Склад	Цена, Р	Ц. со скидкой, Р	Скидка	На сайте	Сертификаты	Бренд	Создан
<input type="checkbox"/>	<div>Куртка Futurino Cool серая 6 размеров</div>	79101		Одобрено	26	2 999	1 999	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	RU C-IT.MO05.A.03431 RU Л-РВ.M09.A.9901	Futurino	07.08.20
	Размер 128		4627162380663		2							
	Размер 134		4627162380670		5							
	Размер 140		4627162380687		0							
	Размер 146		4627162380694		4							
	Размер 152		4627162380700		4							
	Размер 158		4627162380717		6							
<input type="checkbox"/>	<div>Куртка LUHTA синяя 6 размеров</div>	76201		На проверке	0	8 999	7 999	<input type="checkbox"/>	<input type="checkbox"/>	RU C-IT.MO05.A.03431	LUHTA	14.09.20
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<input type="checkbox"/>	<div>Куртка LUHTA чёрная 6 размеров</div>	78201		На проверке	0	9 999	8 499	<input type="checkbox"/>	<input type="checkbox"/>	RU C-IT.MO05.A.03431	LUHTA	14.09.20
<input type="checkbox"/>	<div>Куртка ICEPEAK синяя 4 размера</div>	76701		Готово к проверке	0	8 499	7 199	<input type="checkbox"/>	<input type="checkbox"/>	RU C-IT.MO05.A.03431	ICEPEAK	14.09.20
<input type="checkbox"/>	<div>Нет фото Куртка ICEPEAK синяя 4 размера</div>	76801		Черновик	0	8 199	6 999	<input type="checkbox"/>	<input type="checkbox"/>	Нужен сертификат	ICEPEAK	23.09.20
<input type="checkbox"/>	<div>Нет фото Куртка ICEPEAK тёмно-синяя 4 размера</div>	72501		Черновик	0	8 499	7 199	<input type="checkbox"/>	<input type="checkbox"/>	Нужен сертификат	ICEPEAK	23.09.20
<input type="checkbox"/>	<div>Нет фото Куртка ICEPEAK тёмно-синяя 4 размера</div>	75701		Черновик	0	6 999	5 499	<input type="checkbox"/>	<input type="checkbox"/>	Нужен сертификат	ICEPEAK	23.09.20
<input type="checkbox"/>	<div>Брюки Futurino чёрные 7 размеров</div>	72801		Исправить	7	1 199	599	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	RU Л-РВ.M09.A.9901	Futurino	05.09.20
<input type="checkbox"/>	<div>Куртка Futurino Cool тёмно-синяя 6 размеров</div>	79102		Исправить	0	4 599	2 999	<input type="checkbox"/>	<input type="checkbox"/>	RU C-IT.MO05.A.03431	Futurino	23.09.20
<input type="checkbox"/>	<div>Куртка ICEPEAK синяя 4 размера</div>	77202		Отклонено	0	5 999	4 499	<input type="checkbox"/>	<input type="checkbox"/>	RU Л-РВ.M09.A.9901	ICEPEAK	12.09.20
<input type="checkbox"/>	<div>Куртка Futurino серая 6 размеров</div>	78102		Отклонено	0	1 799	1 099	<input type="checkbox"/>	<input type="checkbox"/>	RU Л-РВ.M09.A.9901	Futurino	12.09.20

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Customer Service and Brand Management

Since its inception, the Detsky Mir chain has been guided by a principle that has become its motto: “A happy childhood for everyone!” The Group’s primary goal and mission is to make the entire diverse range of children’s goods accessible to Detsky Mir customers at the best prices.

Since its inception, the Detsky Mir chain has been guided by a principle that has become its motto: “A happy childhood for everyone!” The Group’s primary goal and mission is to make the entire diverse range of children’s goods accessible to Detsky Mir customers at the best prices.

The Company has made it a point to have a presence in the capitals and regional centers of Russia, Kazakhstan, and Belarus through operating an extensive retail chain.

This approach enables the Company to make essential children’s goods easily accessible at all times for the vast majority of people in these countries. In addition, the Company is constantly working to increase choice on the shelves of its retail stores, numbering at present over 50,000 SKUs.

All Detsky Mir stores have a uniform product assortment and pricing across the chain, regardless of the region in which they are found.

To achieve that, the Company’s management is constantly working to optimize internal business processes and supplier relations while further growing sales in the online channel.

Year after year, the Company has been ensuring affordable prices for its products through:

- ★ expanding its assortment by adding a great number of domestically manufactured, high-quality products priced lower than similar imports;
- ★ developing private labels, with goods produced in-house offered with the best price guarantee;
- ★ offering discounts and promo offers to loyal customers, as well as running seasonal sales events;
- ★ ongoing monitoring of competitors’ in-store and online pricing for comparable goods;
- ★ providing a 2 % discount on goods in Moscow for customers holding a Moscow Resident Social Card;
- ★ allowing customers to pay 100 % of the purchase price using bonus points earned through Detsky Mir’s loyalty program;
- ★ actively participating in regional social programs in Moscow and Saint Petersburg to support families with children.

Loyalty Program

The number of loyalty program members has been growing in Russia, with loyalty card holders totaling 24 million (up by 3.3 million year-on-year) at end-2019.

The share of purchases made by members amounted to 71 % in total tickets and 78 % in total sales.

The loyalty program has proven a success, with a card holder’s average ticket almost 50 % higher than that of a customer with no loyalty card.



Loyalty card

The loyalty program at Detsky Mir stores in Kazakhstan is also rapidly gaining traction, with 505,000 members registered as at end-2019 (up by 210,000 year-on-year).

The share of purchases made by loyalty card holders amounted to 75 % in total sales, and 66 % in total tickets. The strong performance of Detsky Mir’s loyalty program is due to the

option of using the customer’s mobile phone number at check-out instead of presenting the actual loyalty card.

The option was made available in December 2018. The average ticket paid for with a loyalty card is 60 % higher than non-member tickets.

Detsky Mir’s loyalty program also covers the ELC chain (LLC Kub-Market), where it is also rapidly growing. Total number of loyalty card holders: 222,000. The share of purchases made by loyalty card holders amounted to 51 % in total tickets, and 57 % in total sales.

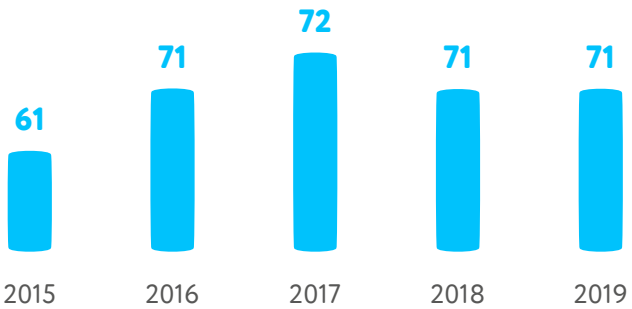
The shared reward program also covers the new Zoozavr pet supplies stores, with customers earning the same 2 % of the total purchase price in bonus points as they do when shopping at Detsky Mir or ELC stores. Bonus points can be used to pay for up to 100 % of a purchase.

Total number of loyalty card holders as at end-2019: 41,000. The share of purchases made by loyalty card holders amounted to 70 % in total tickets, and 77 % in total sales.

The average ticket paid for with a loyalty card is 45 % higher than non-member tickets.

Share of Card Holder Tickets in Total Tickets (in Russia), %

Based on reporting prepared as per the new form and including detmir.ru online store data.

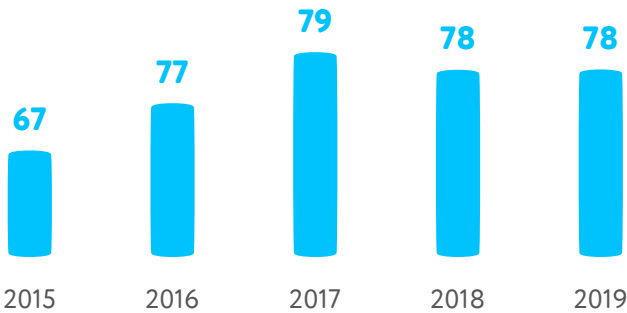


The launch of the Detmir retail chain in Belarus was a key 2019 event for the Group. Since its launch, the Detmir chain has run a loyalty program, which was designed to offer the best opportunities offered by Detsky Mir’s loyalty programs in Russia and Kazakhstan.

At the end of 2019, a total 68,000 customers had a loyalty card issued to them. The share of purchases made by loyalty card holders amounted to 51 % in total tickets, and 62 % in total sales. The average ticket paid for with a loyalty card is 60 % higher than non-member tickets.

Share of Card Holder Purchases in Total Sales (in Russia), %

Based on reporting prepared as per the new form and including detmir.ru online store data.



Support for Families With Children

Every year, Detsky Mir Group carries out social projects supported by the government. Detsky Mir’s involvement in social initiatives stems from its minimal retail markups on socially significant categories, including products for newborns.

Since 2005, the Detsky Mir chain has been involved in the Government of Saint Petersburg’s social initiative to support families with children.

The local government provides welfare payments to families: a one-off payment when a child is born, followed by monthly payments until he or she is seven years old. This financial aid is deposited to “Newborn” and “Preschool” bank cards issued by PJSC Bank Saint Petersburg.

The money can then be used to purchase children’s goods at retail chains accredited by the Administration of Saint Petersburg, including the Detsky Mir chain. In 2019, the Detsky Mir chain’s sales to holders of these

social cards amounted to RUB 2.2 billion. Since March 2016, Detsky Mir Group has been a partner in a social project run by the Moscow Government’s Department of Labor and Social Protection.

As part of the project, certificates are transferred to Moscow Resident Social Cards held by low-income families with children, which can be used to cover up to 100 % of purchases (excluding baby food) in accredited retail chains.

Certificates worth a total of RUB 153.6 million were used in Detsky Mir stores throughout 2019.

As of May 2019, PJSC Detsky Mir has been partner of the Saint Petersburg Resident Universal Card project.

The project enables the use of Saint Petersburg Resident Universal Cards as loyalty cards at Detsky Mir stores.

Customer Relationship Management (CRM) System

In 2019, the Company deployed the CRM Mindbox system. CRM Mindbox is a platform which integrates all customer data into a single profile and ensures data deduplication, cleaning, analytics, and segmentation by behavior and purchases.

By deploying this system, the Company aggregated in one place all omnichannel data for its customers:

- ★ Purchases in online and offline stores
- ★ Customer behaviors in the online store and mobile application
- ★ Communication channels: email, push notifications, web push, SMS and Viber messages

These data have enabled the Company to set up automated customer communication channels.

Marketing communications are now personalized, with subscribers receiving offers tailored to their needs in certain product categories.

After the new system’s rollout in 2019, the value of orders received through the email channel showed a 61 % year-on-year growth.

In 2019, the customer lifetime value increased by 14 % year-on-year.

In 2020, the Company intends to boost its direct communication channel revenue by implementing a range of initiatives detailed below.

Message Personalization

By analyzing various data from the CRM system (customer segmentation by loyalty, child age, interest in product categories), the Company is able to tailor messages that are more relevant to each customer.

Multichannel Messaging With Automatic Communication Channel and Timing Selection

By analyzing the time of email opening, the Company is able to deliver all subsequent communications to the customers at times convenient to them. If a customer makes a purchase in an offline or online store upon receiving an email, other channels will not be used.

Marketing Campaign Automation

Over 60 trigger series will be deployed for various action types (encouraging first-time purchases, loyal customer retention, customer win-back, etc.)

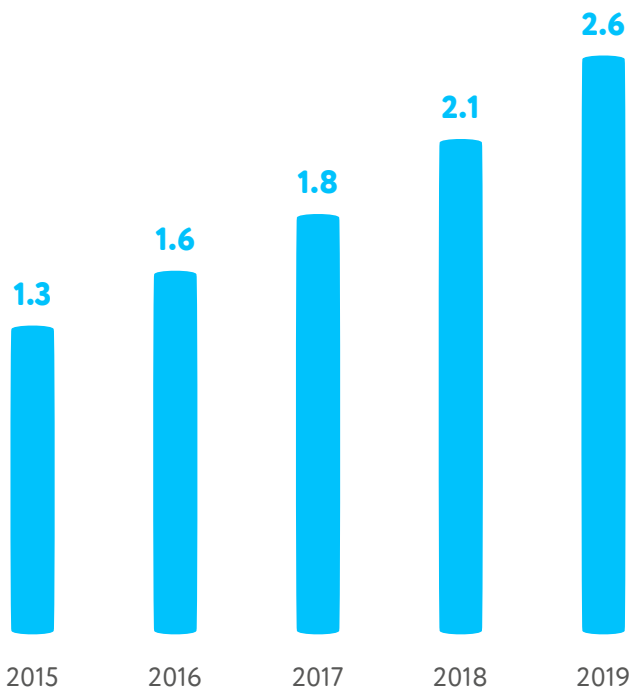
Gift Cards

Detsky Mir Group is expanding its projects aimed at improving the customer service level.

Gift cards and electronic gift certificates remain an important sales driver in the Business-to-Customer (B2C) and Business-to-Business (B2B) segments.

As at the end of 2019, the Detsky Mir chain’s revenue from the sale of gift cards and electronic gift certificates in the B2C and B2B segments increased by 25 % year-on-year to RUB 2.6 billion.

Revenue From the Sale of Gift Cards and Electronic Gift Certificates, Including B2B Sales, RUB bn



B2B sales increased by 67 % year-on-year, which demonstrates the product’s popularity, including among Detsky Mir’s corporate customers.

Gift card sales not only showed a robust growth in Russia but were also actively promoted in Kazakhstan. In this country, gift card sales doubled year-on-year in 2019 to KZT 253 million.

The strong gift card sales in Russia and Kazakhstan have prompted Detsky Mir to launch gift cards in the Detmir retail chain in Belarus and in the ELC/ABC chain (LLC Kub-Market) in 2019.

This offer is not limited to individuals, but is also available to corporate customers as well.

Gift cards can be used to make purchases at any store within the Detsky Mir retail chain regardless of its location.

Gift cards and electronic gift certificates with a fixed value of RUB 300, 500, 1,000, 1,500, 2,000, 3,000, and 5,000 are available, as well as gift cards with a flexible value between RUB 300 and 50,000, offered in increments of RUB 100.

A gift card is valid for 12 months from the date of purchase and can be used an unlimited number of times until its balance is zero. Electronic gift certificates are for single use only.

To deliver a seamless customer experience, dedicated services have been developed, enabling users to check the balance of their gift cards in real time on the detmir.ru website or in-store using a price checker.

Customers can also enquire about their card balance at checkout.

The detmir.ru online store and partner platforms offer electronic gift certificates valid at all Detsky Mir stores across Russia.



The share of electronic gift certificates in the total revenue from the sale of gift cards and certificates almost doubled in 2019 to 14 %

In 2019, Detsky Mir Group offered electronic gift certificates on the websites kz.detmir.com and elc-russia.ru.

Depending on the occasion, such as the birth

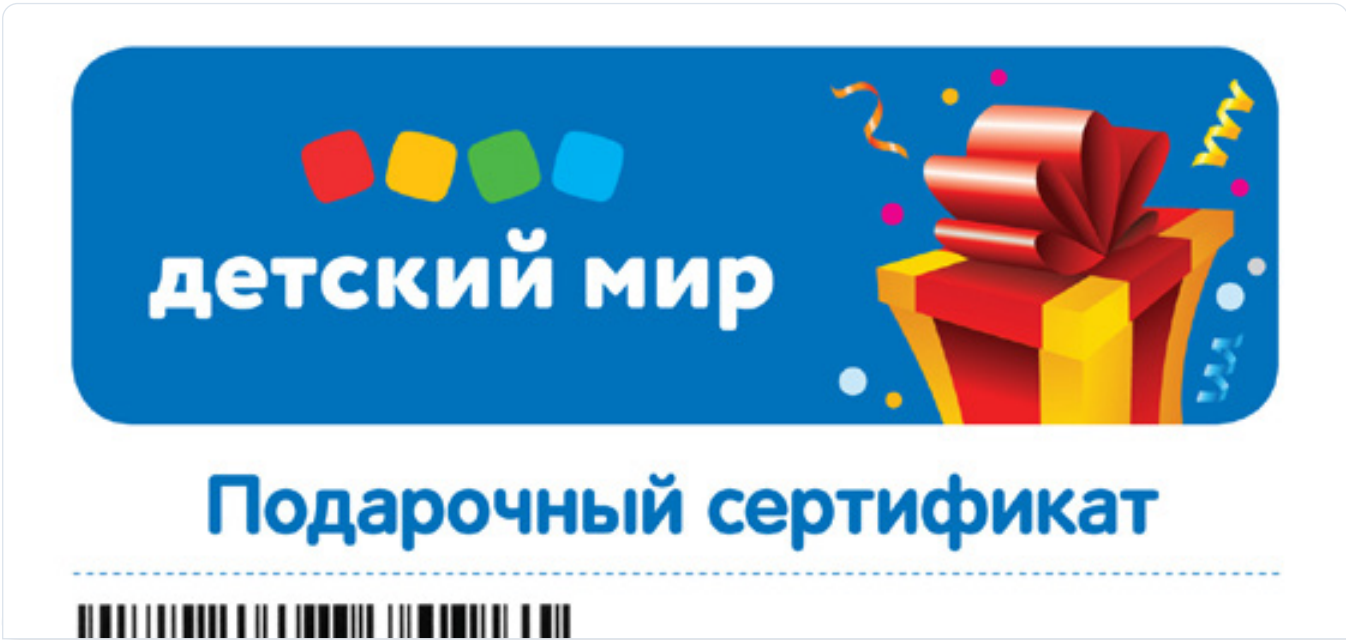
of a child or a boy’s or girl’s birthday, customers can select free gift wrapping in a corresponding design.

Gift cards and electronic gift certificates are extremely popular, as they save time on selecting a gift and allow the recipient to purchase something that they are more likely to appreciate and make use of.



Gift cards and electronic gift certificates are an effective solution in employee loyalty programs, customer and partner incentives, and promotions and marketing events for products and services

Electronic gift certificate



Enhancing the Customer Experience

“Listening to the customer” is a philosophy Detsky Mir is committed to.

Building a positive customer experience is among the top priorities for Detsky Mir Group.

Therefore, the Company is focused on running customer satisfaction surveys and developing feedback loops.

Data collected by the Company enables it to optimize its business processes and enhance the customer experience (service quality).

The key tools used by the Company to monitor customer satisfaction:

- ★ measuring customer loyalty using the NPS metric (NPS surveys);
- ★ developing customer feedback channels and conducting feedback analytics.

NPS (Net Promoter Score) is the key metric used in customer surveys run by the Company.

NPS is a customer loyalty and affinity metric that predicts the likelihood of a customer’s repeat purchases through willingness to refer a company to an acquaintance, relative, or friend. NPS is an important indicator of the Company’s performance, along with traffic, sales, average ticket size, and other metrics.

An NPS survey is designed to collect customer feedback in order to improve the brand loyalty and the customer experience.

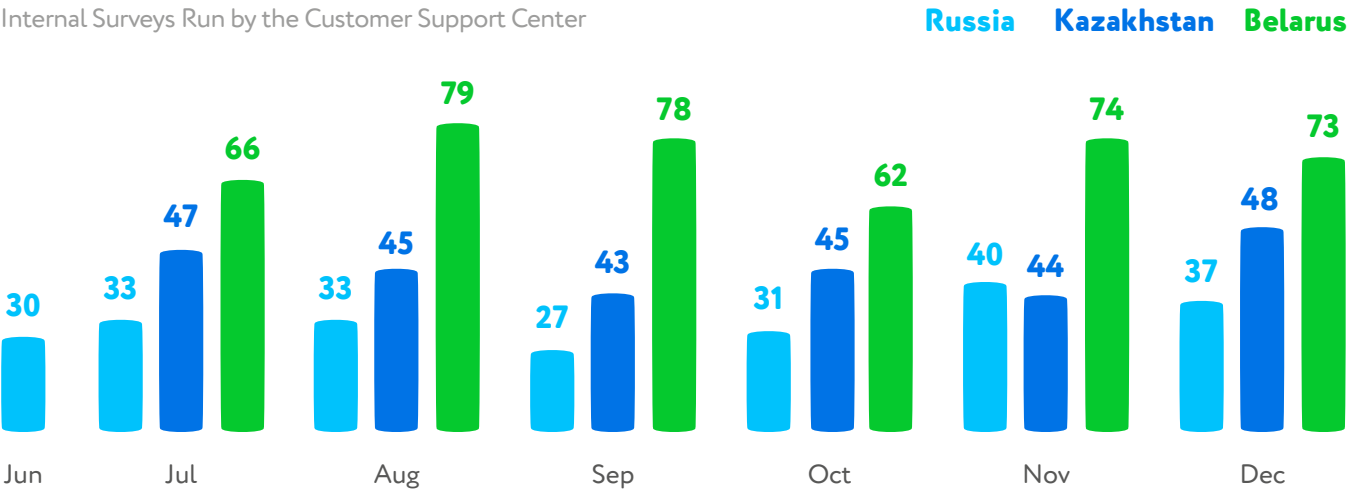
The insights generated by a survey can be used to adjust Detsky Mir’s offline and online store operations as well as identify the

The following key customer surveys were run in 2019:

Store/customer type	Run by	Survey format	Frequency	Sample size
Retail stores	Independent survey	Store exit interviews	Quarterly	A sample of 7,500 customers. 150 respondents from each, of 50 retail stores in Russia
	Internal survey (run by the Customer Support Center)	An email survey	Next day after purchase	All Detsky Mir stores (in Russia, Kazakhstan, and Belarus). The project was launched in June 2019
Online store (customers making a purchase)	Independent survey	An email survey run across Detsky Mir’s customer base	Quarterly	A sample of 3,000 customers
	Internal survey (run by the Customer Support Center)	An email survey	End-of-month survey covering all orders purchased during the month	All customers
Online store (customers making no purchases)	Independent survey	An email survey run across Detsky Mir’s customer base	Quarterly	A sample of 500 to 800 customers
Online store (key online competition)	Independent survey	External panel of respondents	Quarterly	A sample of 1,000 to 1,300 customers

Results of NPS Surveys Held at Retail Stores in 2019

Internal Surveys Run by the Customer Support Center

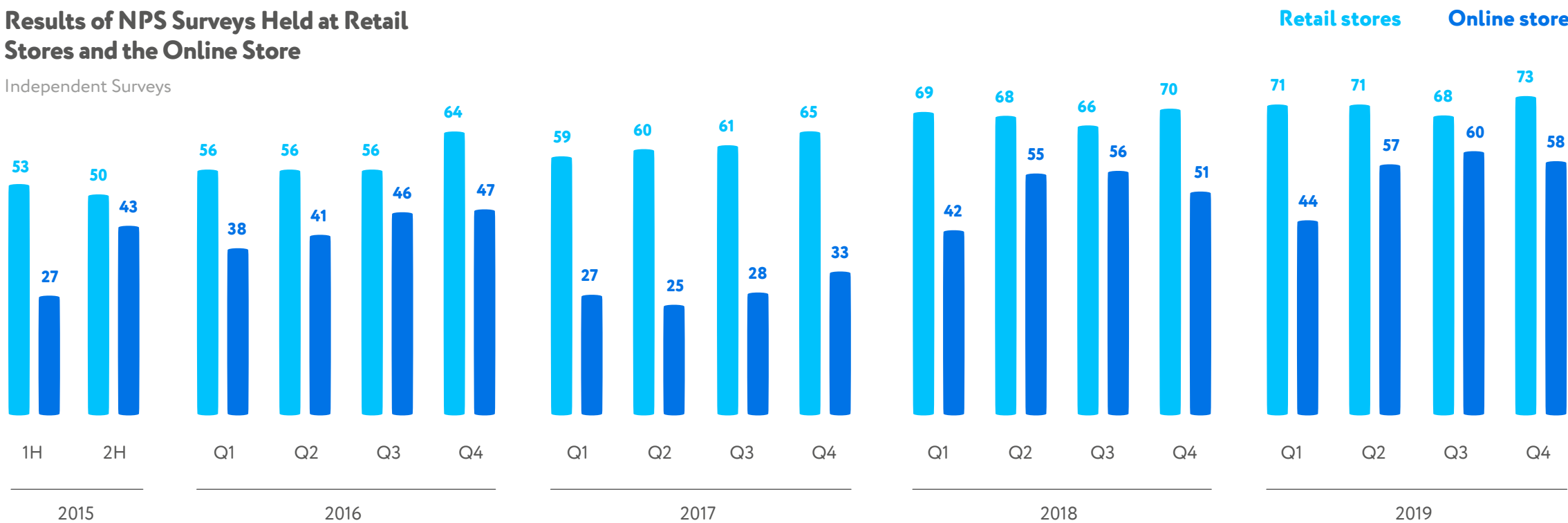


Company’s strengths and weaknesses based on direct customer feedback to ultimately boost both customer satisfaction and the Company’s performance



Results of NPS Surveys Held at Retail Stores and the Online Store

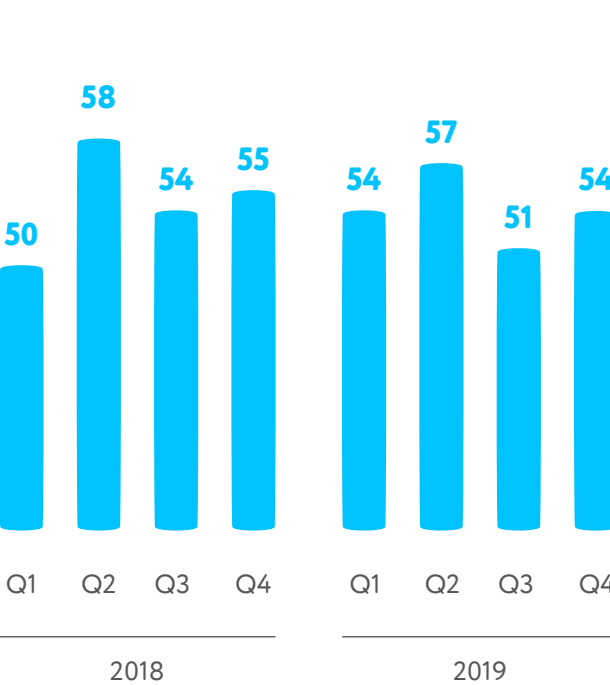
Independent Surveys



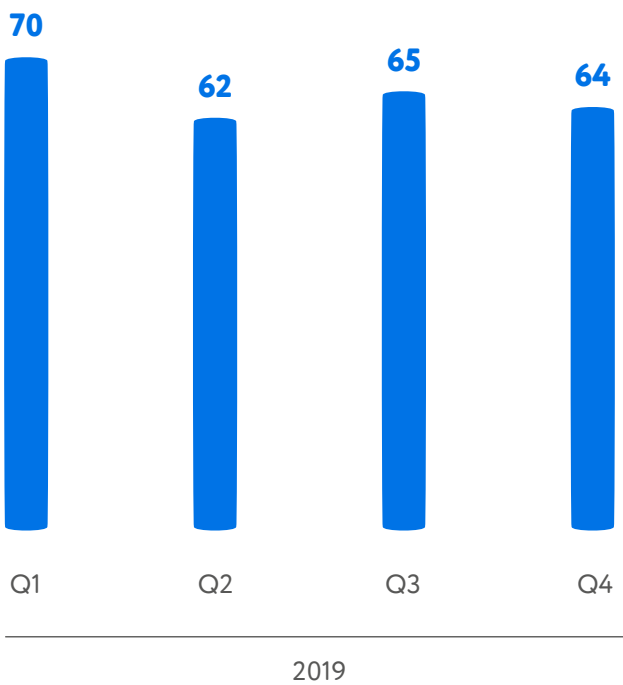
Starting from 2019, customer satisfaction surveys based on an external panel of respondents have been run to measure customer satisfaction for key online competition and the detmir.ru online store. In 2018, the external panel was used only for key online competition survey.

The survey is designed to collect feedback from Detsky Mir customers. Collecting customer feedback is a key focus for Detsky Mir Group, with Detsky Mir Customer Support Center established in 2017 to operate as a one-stop-shop, aggregating all customer inquiries within a single system.

Results of NPS Surveys Held on the Online Store (Internal Surveys Run by the Customer Support Center)



Results of NPS Surveys Held on the detmir.ru Online Store Using the External Panel of Respondents



Customer Support Center

Detsky Mir customers can contact the Company via the following channels:



- ★ Social media (VK, Facebook, and Instagram)
- ★ Reviews on Yandex.Market and other review websites (otzovik.com, flamp.ru, and others)
- ★ Reviews on the Detsky Mir Group website's product flypages
- ★ Inquiries made through the call center 8 800 250 0000
- ★ Feedback form on the Detsky Mir Group website
- ★ Email shop@detmir.ru

In 2019, introduced new communication channels:

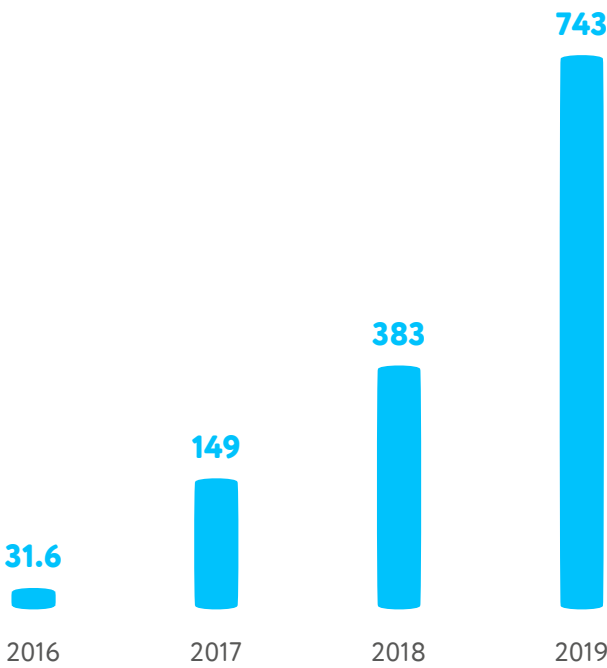


- ★ Messengers: Official WhatsApp business account, Viber
- ★ Mobile application reviews submitted to AppStore and Google Play



The number of inquiries received by the Customer Support Center has been growing annually as Detsky Mir constantly increases its retail store count, pursues aggressive online store expansion, and launches new communication channels to engage its customers.

Customer Inquiries per Year, '000



Detsky Mir Group is focused on reducing its contact rate, i.e. the ratio of customer inquiries to the number of transactions made within the Detsky Mir retail chain.

In 2019, this ratio stood at 2 %. Further ration reduction will be achieved by improving the Group’s existing business processes.

The Company receives thousands of customer inquiries every day, both over the phone and via written communication channels.

A single inquiry management system enables Detsky Mir Group to promptly handle all customer inquiries, keeping its response times in line with best market practice:

Average first response time

VK, WhatsApp, Viber, and Facebook

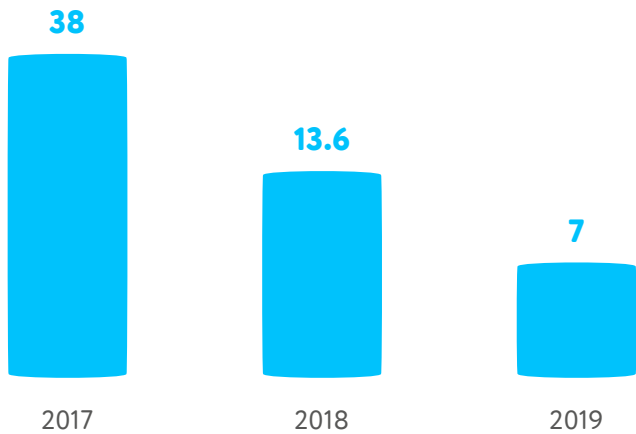
15 min

For inquiries made through the call center, website feedback form, and email

2 h

Business process automation and improvements have enabled the Company to reduce the missed call rate from 9.0 % in 2017 to 6.6 % in 2019, while driving down the order processing cost from RUB 38 in 2017 to just RUB 7 in 2019.

Order Processing Cost, RUB



Fair Advertising

Detsky Mir’s Legal Department vets all Detsky Mir Group’s advertising prior to publication, guided by the Company’s key advertising principles of openness, integrity, and regulatory compliance.

Advertising example



Supply Chain

Today Detsky Mir Group has ambitious global targets. Achieving them effectively requires leveraging industry-specific trends, enhancing supply chain management, and building long-term partnerships with suppliers.

Direct Contracts

Direct contacts are concluded to optimize purchase prices and effectively manage the chain’s assortment and product quality.

The Company is reducing the share of distributors in its supply chain in favor of direct contracts with major specialized manufacturers and their representatives in Russia.

As a result, Detsky Mir is able to lock in attractive prices for its customers as well as mitigate FX risks and also secure direct access to supplied goods.

About 74 % of the goods available at Detsky Mir stores in 2019 were sourced outside Russia, mostly from China, India, Vietnam, and Bangladesh, with approximately 65 % of these products purchased from international companies’ representatives or distributors.

The remaining 35% are predominantly Detsky Mir’s private labels sourced directly from foreign manufacturers. Top seven apparel and footwear suppliers account for 50 % of total deliveries in this category.



Leading suppliers of toys, products for newborns, and large-size products make up another 51 % of supplies

Over the past year, the Company made significant progress in direct imports of toys. For instance, in August 2019, the Company signed a direct contract with MGA Entertainment (owner of brands such as L.O.L., Poopsie, and others), the world’s fourth largest toy producer by sales. The share of direct toy imports increased from 6 % in 2017 to 12 % in 2019. This had a positive impact on the toy category’s profitability, which is comparable to that of Detsky Mir’s private labels for the same period.

As at 31 December 2019, Detsky Mir’s direct suppliers included 95 for toys, 38 for products for newborns, 76 for large-size products, and 54 for stationery and other products.



LEGO toys corner at the Detsky Mir store

Detsky Mir also seeks to secure special terms with its suppliers for a unique product assortment which drives traffic, increases LFL sales growth, fosters customer loyalty, and protects against price competition during the pre-sale period. So far, special terms have been achieved with Mattel, Hasbro, Lego, MacLaren, and Artsana.

This drives both profit margins and revenue while boosting our service level due to uninterrupted deliveries. Exclusive products also allow Detsky Mir to differentiate from its competition, maintaining and boosting its profile as a specialized store with the largest assortment of children’s goods.



Apparel and footwear are supplied to Detsky Mir by about 90 companies from 15 countries including Russia, China, India, Bangladesh, and Germany

Brands That Switched to Direct Import Contracts for Toy Supplies with Detsky Mir



Large, Exclusive Contracts Signed in 2019

Mattel: strong support with exclusive assortment and brands

- ★ Hot Wheels, Barbie and Sunny Day, Toy Story, Mecard – full exclusive brand license
- ★ Matchbox – full exclusive license until 2020

Clementoni and Trefl

- ★ Direct contracts for Clementoni-branded products (arts and crafts kits) – available exclusively at Detsky Mir stores
- ★ Direct contracts for Trefl-branded products (puzzles, board games)

Silverlit

- ★ Exclusive tech products showing dynamic growth

In 2019, Detsky Mir consolidated its leadership in school apparel and footwear. Consistent efforts to improve our product assortment and supplier relations led to a significant 31 % growth in unit sales year-on-year. A record of 8.2 million items of

Spin Master

- ★ Support for the key launch of the How to Train Your Dragon toy line
- ★ New season of PAW Patrol – 30 % of exclusive licenses
- ★ Relaunch of Bakugan – 10 % of exclusive licenses

MGA and Zapf Creation

- Launching of direct imports:
- ★ MGA Entertainment (L.O.L.) – from August 2019
 - ★ Zapf Creation – from September 2019

Hasbro

- ★ Strong support with Nerf and FurReal Friends exclusive brand licenses

school apparel and footwear were sold (only at Detsky Mir stores in Russia). As before, sales are largely concentrated in high-margin Detsky Mir’s private labels Chessford (produced in Russia, Bangladesh, Uzbekistan, Armenia) and Futurino School (produced in China).

Private Labels

Private label development is a strategic area for Detsky Mir Group.

The Company currently owns 25 private labels in apparel and footwear, each with its own target audience, range, and price positioning.

Collections are developed by the in-house design studio launched in July 2016, and by external designers commissioned by Detsky Mir Group on an exclusive basis.

In addition to its unique design, the key strength of the Futurino Fashion label (fully developed in-house) is the ability to offer a higher-quality product at lower prices by getting quotes for each new completed design from five to ten manufacturers.

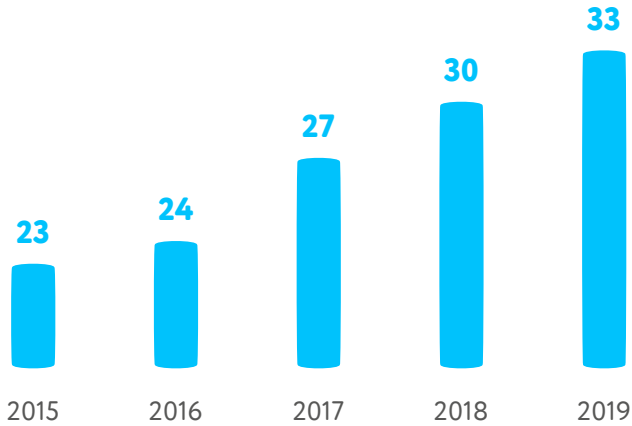
Private label brands create value mostly through offering customers the most popular products at market-leading prices thanks to high production volumes.

By selling products under private labels sourced in Russia and abroad Detsky Mir can

effectively control pricing, carefully monitor the quality of materials used to manufacture these products, and significantly speed up inventory turnover. In turn, private label manufacturers benefit from a stable flow of orders and reduced branding and logistics costs.

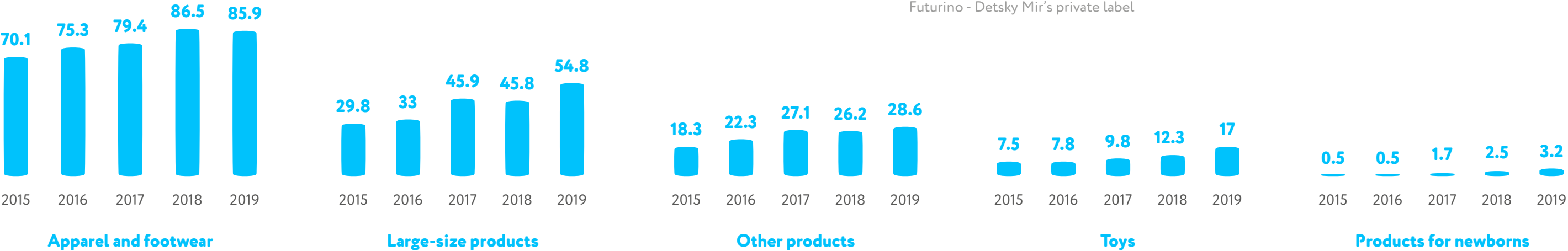
The share of private labels in Detsky Mir Group’s sales of apparel and footwear is about 86 %, while in toys and newborn products it is 17 % and 3 %, respectively. On average, private labels accounted for 33 % of Detsky Mir’s product assortment in 2019.

Share of Private Labels in Detsky Mir’s Sales, %



The new collections developed by the design studio accounted for 6 % of total apparel and footwear sales and comprised over 380 models

Share of Private Labels in Sales by Category, %



Futurino - Detsky Mir’s private label

Detsky Mir Group’s Private Labels in FMCG



Price segment: low
Product category: arts and crafts



Price segment: low
Product category: hygiene, feeding, and care



Price segment: low
Product category: large-size products



Price segment: low
Product category: toys for boys



Price segment: low
Product category: toys for girls



Price segment: low
Product category: toys for boys



Price segment: low
Product category: soft toys



Price segment: low
Product category: sports



Price segment: low
Product category: stationery



In 2020, the Company plans to implement a number of green initiatives in apparel and footwear:

- ★ launch a collection of apparel for newborns made of organic cotton (under the Moya Goroshinka (My Little Pea) brand),
- ★ launch a line of sneakers made from recycled plastic (under the Run brand),
- ★ stop using individual polyethylene packaging,
- ★ start selling eco-bags.

The Moya Goroshinka (My Little Pea) Environment-Conscious Capsule Collection for Infants Is Now on Sale

These clothes are made from 100 % organic cotton, which is absolutely safe for infants, does not cause skin irritation or allergy.

It is ideal for newborns and infants with sensitive skin.

The porous structure is known for high air permeability and helping the child’s skin to breathe.

The fabric is very soft and pleasant to the touch and at the same time it is particularly durable and resilient, while withstanding daily wear and ensuring the lasting comfort for a child.

Organic cotton is grown using sustainable technology without synthetic chemicals such as pesticides and fertilizers, and the resulting textile is not treated with hard bleaching agents or dyes.

In 2020, the Company plans to launch a trade-in pilot in apparel and footwear (a recycling initiative encouraging shoppers to donate shoes and clothing and receive a discount voucher for new collections in apparel and footwear).

In 2020, a pilot batch of eco hangers made from recycled plastic and straw hangers is scheduled to be used.

In 2020, the Company plans to implement a number of green initiatives in apparel and footwear.

Radio controlled toys enjoyed a significant consumer demand in 2019. Detsky Mir sold over 1.8 million products in this category, with three brands accounting for more than 81 % of total sales: Mobicaro (private label), Rastar (direct import), and New Bright (direct import).

The share of the BabyGo private label in diapers increased to 6.2 % in 2019. We plan to continue developing the BabyGo brand through rebranding, active promotions, and improving quality while keeping the price the same.

The Moya Goroshinka (My Little Pea)



Detsky Mir plans to launch Manu, a new private-label brand of diapers, in the children’s goods markets of Russia, Kazakhstan and Belarus.

Developed in partnership with Unicharm, Japan’s largest diaper manufacturer, Manu offers premium Japanese quality for a medium price, giving it a competitive edge over other global brands. In 2020, the Manu product line will consist of 10 SKUs.

The size chart will include five main sizes, from Newborn to XL. Customers will be offered two package sizes. Detsky Mir has plans to actively push the Manu PL brand through promotions and TV commercials.

Detsky Mir intends to increase the depth of ranges across its stores in the medium term, including by increasing the number of unique products, building on the quality of our private labels, and boosting the share of products in the lower-medium segment. In addition, we aim to reduce procurement and retail prices, and improve payment terms for Detsky Mir.

Manu — premium diaper at an affordable price



Private label expansion is a key strategic goal for Detsky Mir Group, and we see considerable growth potential for private label sales in toys and diapers.

Through Manu, Detsky Mir is offering its customers an exclusive, high-quality, low-price product while also achieving higher sales margins.

Our goal in the med-term is to double private label sales in diapers.

Vladimir Chirakhov,
CEO of Detsky Mir Group

Eco-bag of Detsky Mir



Key Detsky Mir Group’s Private Labels in Apparel and Footwear



Price segment: lower-medium
Category: apparel and footwear
Design: in-house design
Products: infants’ apparel and footwear



Price segment: lower-medium
Category: Apparel and footwear
Design: in-house design
Products: school apparel and footwear



Price segment: lower-medium
Category: footwear
Design: in-house design
Products: girls’ footwear



Price segment: lower-medium
Category: apparel
Design: in-house design
Products: everyday apparel and accessories



Price segment: lower-medium
Category: apparel
Design: in-house design
Products: capsule apparel



Price segment: lower-medium
Category: apparel
Design: in-house design
Products: sports apparel



Price segment: medium
Category: footwear
Design: in-house design
Products: footwear for children under 6



Price segment: lower-medium
Category: Apparel and footwear
Design: in-house design
Products: sports apparel and footwear



Price segment: lower-medium
Category: footwear
Design: in-house design
Products: walking footwear



Price segment: lower-medium
Category: apparel
Design: in-house design
Products: maternity apparel



Price segment: medium
Category: apparel
Design: in-house design
Products: festive apparel



Price segment: lower-medium
Category: apparel
Design: in-house design
Products: baby clothes for children aged 0 to 2



Price segment: lower-medium
Category: footwear
Design: in-house design
Products: flip-flops, rubber shoes and boots

Logistics infrastructure

Consistently high levels of on-shelf availability are ensured through the effective control of inventory levels and movements of goods.

Therefore, one of Detsky Mir’s key objectives is to maintain its supply centralization ratio, defined as the share of the flow of goods passing through the Company’s owned distribution center (DC).



In 2019, Detsky Mir’s centralization ratio was over 75 %, with the online store’s ratio at 100 %, and the ELC chain’s ratio at about 99 %

Prior to launching the Company’s Bekasovo Distribution Center and migrating to the SAP platform, Detsky Mir’s centralization ratio was 26 % in 2014.

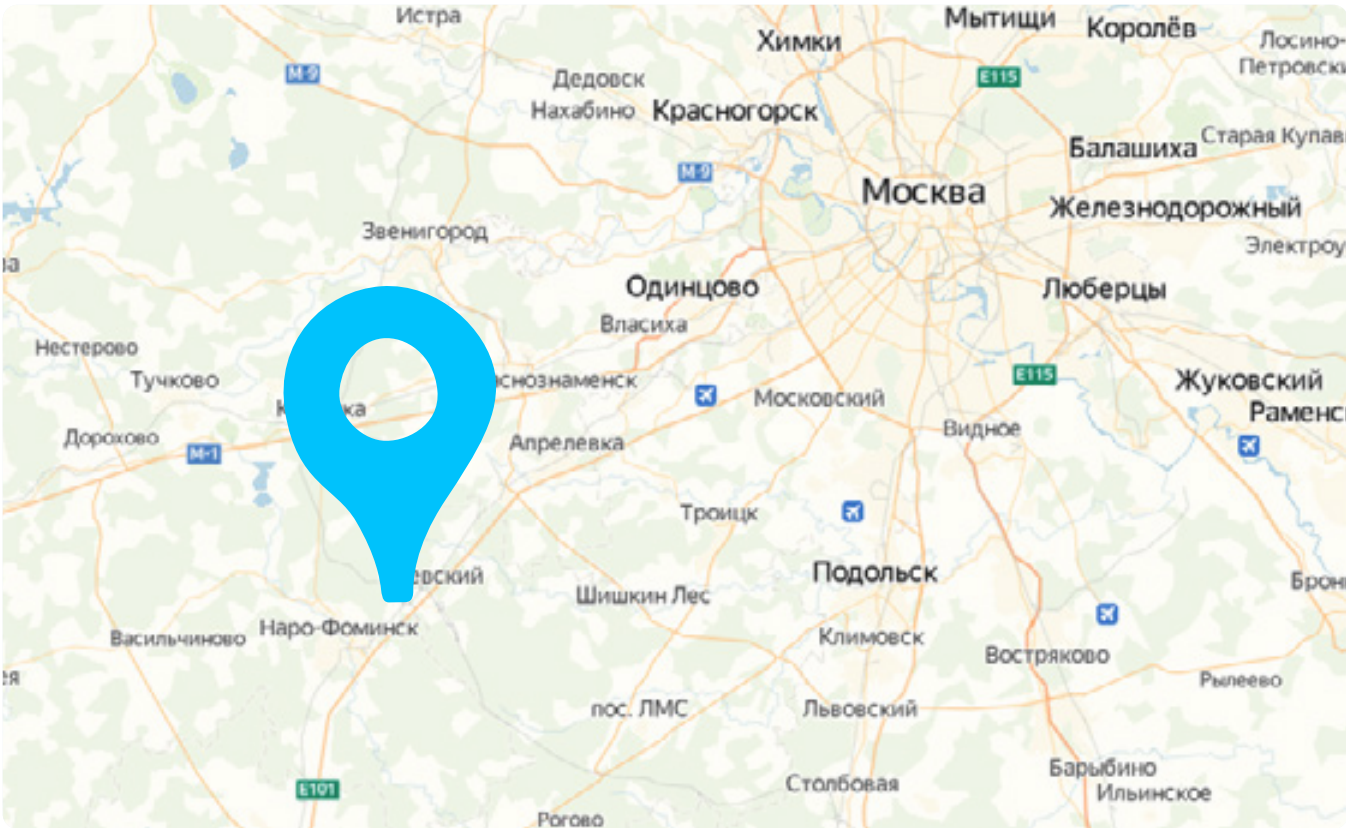
In 2019, Detsky Mir’s imports from South-East Asia and Europe accounted for about one third of all supplies passing through the Company’s distribution center. The remaining portion comprised goods sourced from Russian suppliers.

Goods from South-East Asia are mostly delivered by sea on a FOB/FCA basis and unloaded at ports on the Baltic Sea (Saint Petersburg, Ust-Luga), while goods from Europe are delivered by road mostly on an FCA/EXW basis.

Customs document processing is mostly electronic (through Electronic Declaration Centers of the Federal Customs Service of the Russian Federation), or at customs posts in the Moscow Region.

Carriers (freight forwarders) for freight delivery from South-East Asia and Europe are selected through annual open requests for quotation with further monthly rate quotations.

Deliveries from Russian suppliers to Detsky Mir’s distribution centers are made at the



Second Distribution Center "PNK Bekasovo"

suppliers’ expense and using their own resources. Deliveries from distribution centers to Detsky Mir stores are based on the principle of the “full assortment in one load”.

Orders are created in the SAP ERP system using the push principle (initial delivery of new and/or seasonal assortments) and pull principle (further automated order), and are sent to a corresponding distribution center’s SAP EWM system, where the order is picked and prepared for shipment.

Trip routing is automated in the TMS system (Transportation Management System, a solution developed in-house based on SAP ERP), factoring in shipment and delivery schedules, store’s opening hours, as well as other requirements and constraints.

Deliveries from distribution centers to stores are mostly by road, although multimodal deliveries are also used (e.g. by road and rail; or by road, rail, and water).

In 2018, Detsky Mir’s second distribution center was put into operation within the Class A+ industrial PNK Park Bekasovo in the Naro-Fominsk District of the Moscow Region. Since 2019, the ELC chain and Detsky Mir online store transactions were migrated to PNK Park Bekasovo-1, while the lease of the Krekshino Distribution Center was terminated. Detsky Mir currently owns PNK Park Bekasovo-1 and Bekasovo-2 DCs with a combined area of 132,500 square meters. The current configuration will allow Detsky Mir to maintain its logistics centralization ratio at about 75 %.

In 2020, driving further operational efficiency gains in logistics will be a top strategic priority for the Company.

As part of these improvements, Detsky Mir is planning to introduce a piece-rate pay system for warehouse staff, revise the existing and introduce new business processes to boost the Company's online sales and develop its marketplace, as well as to speed up warehouse operations through designing new UIs for data collection terminals.

As part of the Company's strategy to increase online sales efficiency, the Company has been annually reducing its warehouse costs for picking online orders.

Detsky Mir has cut warehouse costs per online order from RUB 255 in 2018 to RUB 172 in 2019 through increasing the Company's labor productivity and automating business processes. In 2020, the Company is planning to pilot a regional warehouse measuring about 6,000 square meters to service its online store in the Southern Federal District.

The warehouse will maximize the footprint of the Company's same-day and next-day delivery services in the Southern Federal District.



In 2021, the Company plans to open a new distribution center in the Urals to support the chain's further expansion

The new center will potentially measure about 60,000 square meters and leverage the local well-developed transportation network

to effectively cover the Urals, Siberia, the Volga region, and Kazakhstan. Its location also offers the opportunity to receive direct rail supplies from China.

During 2020, Detsky Mir will decide on the ownership model for the new distribution center in the Urals (acquisition vs lease).

Detsky Mir seeks to maintain a high centralization ratio, which will allow it to speed up in-store turnover, eliminate stock-outs, and build a robust logistics platform to support further business scale-up.

Loading area
in "PNK Bekasovo-1"



Information Technology

The Information Technology (IT) Department is a reliable strategic business partner supporting the Company’s continuous growth and business process automation.

The IT Department provides support for the implementation of virtually all projects pursued by business.

In 2019, communication between IT and business was greatly improved with significant progress made toward proactive collaboration across major projects.

A shared information space was created for data exchange between customers, suppliers, Group companies and their key units, driving transparency and efficiency of business processes.

In 2019, Detsky Mir focused on minimizing project lead times and prioritizing business needs in project implementation plans.

Major IT projects launched by Detsky Mir Group in 2019:

★ **Transitioning to joint storage of online and retail inventories**

The legacy system of storing online and retail inventories in separate warehouses (Bekasovo-1 and Krekshino distribution centers) no longer met the Company’s evolving business needs, leading to logistics cost inefficiencies, and preventing the full-scale launch and use of distribution centers planned to be opened in 2019 and 2020. A number of projects were completed in 2019, including the joint storage of online and retail stocks at the Bekasovo Distribution Center,

changing business processes in commerce function, and changing the methods and processes for preparing financial statements and management reporting.

★ **Belarus project**

As part of the project, the IT department has improved SAP system automation software, launched regional instances of 1C:Accounting and 1C:Payroll&HR, and improved and registered Profi-T POS software to launch retail stores in Belarus.

The first store in Belarus was launched in Minsk in spring 2019.

★ **E-commerce projects**

In 2019, the IT Department continued its cooperation with the Company’s E-Commerce Department to drive strong growth in online sales.

A Kazakhstan website was launched with click-and-collect optionality, and the functionality of the Detsky Mir.

Points and Promos mobile app was expanded to a full-fledged online store.

The Next-Day Delivery project has been launched to implement online express delivery from hub stores in 30 large cities.

The project has reduced to one day delivery times for most online orders.

★ **Shutdown of the Krekshino Distribution Center project**

In early 2019, the IT Department supported business in transferring all the inventories to the Bekasovo-1 and Bekasovo-2 distribution centers, as well as shutting down the Krekshino Distribution Center IT systems.

Forward-Looking Plans in Information Technology

★ **Marketplace**

In 2020, Detsky Mir is planning to design and launch a marketplace for Apparel and Footwear, significantly increasing the product ranges in these categories.

As part of the project, the IT Department will ensure the development of the necessary SAP-based processes, enable storage of leftover stocks from new suppliers at Bekasovo-1 and create an interface for personal accounts of new suppliers expanding the product ranges in the Apparel and Footwear categories.

★ **Kyrgyzstan project**

As part of the project, the IT department will improve SAP software, launch regional instances of 1C:Accounting and 1C:Payroll&HR, and improve and register Profi-T POS software to launch retail stores in the Kyrgyz Republic.

★ **E-commerce projects**

In 2020, the IT Department will further its cooperation with the Company’s E-Commerce Department to drive growth in online sales.

The Company is planning to launch its first regional warehouse to service its online store in the Southern Federal District.

Plans also include finalizing the Company’s e-commerce processes to deliver In-Store Pickup orders from a hub store and manage returns of the orders to the hub store.

The website’s basket is planned to be completely redesigned by making it more user-friendly and easier to navigate.

★ **Main Data Center Equipment Upgrade project**

In early 2020, the Information Technology Department will complete the upgrade of the Main Data Center’s equipment to unlock opportunities for further business scale-up and increase the fault tolerance of computing resources.

The newly acquired resources are operated via a Private Cloud model, with proprietary IT infrastructure provided to the Customer with quick scale-up optionality.

Financial Overview

In a challenging macroeconomic environment, Detsky Mir continues to demonstrate steady growth in the number of customers.

The Company has retained its leading position in the children’s goods market in 2019, with a double-digit increase in revenue and a strong growth in LFL number of tickets. Following the retail chain’s development, the ramp-up of new stores, and the increase in LFL sales, the Group’s revenue grew by 16.1%. Adjusted EBITDA margin remained high at 11.4 %.

Despite the unfavorable demographic situation and the continued decline in purchasing power, Detsky Mir was able to demonstrate impressive business growth.

In 2019, the Company accelerated its revenue growth rates to 16.1 % year-on-year, with consolidated revenue reaching RUB 128.8 billion. Detsky Mir’s revenue in Kazakhstan grew 1.5 times year-on-year. The online store saw high customer demand in 2019. Online revenue increased by 65.2 % year-on-year to RUB 14.5 billion. At the same time, the Company recorded over 238 million online visits and fulfilled over 9.8 million online orders in 2019. The share of online sales in Detsky Mir’s total revenue reached 15.7 % in the fourth quarter. About 90 % of the online orders are collected at retail stores, which confirms a high customer demand for this service

See the Growing Omnichannel Sales section for more details.

Revenue growth was supported by the opening of 101 stores in 2019, strong LFL sales growth of the Detsky Mir chain in Russia and Kazakhstan, and increased performance of the stores opened in 2018.

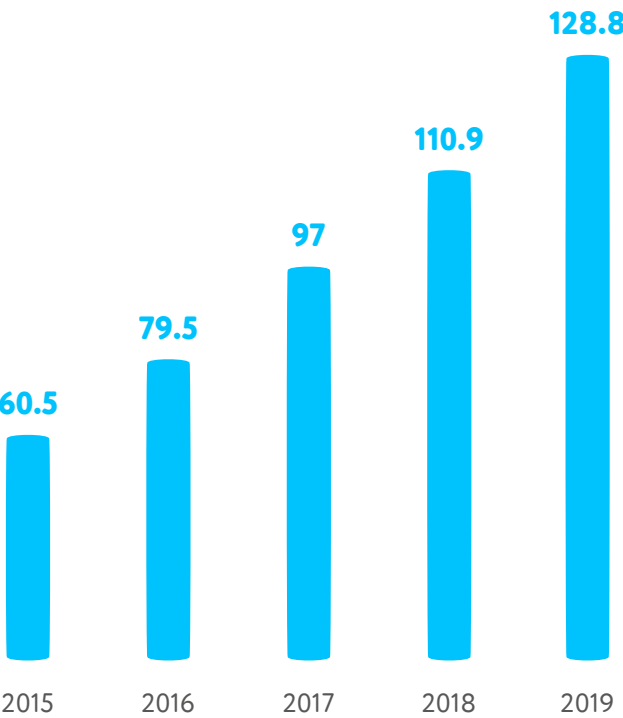
A 7.2 % increase in LFL sales in Detsky Mir stores in Russia and Kazakhstan was the main driver of revenue growth:

- ★ LFL number of tickets grew by 8.5 %
- ★ LFL average ticket decreased 1.2 %

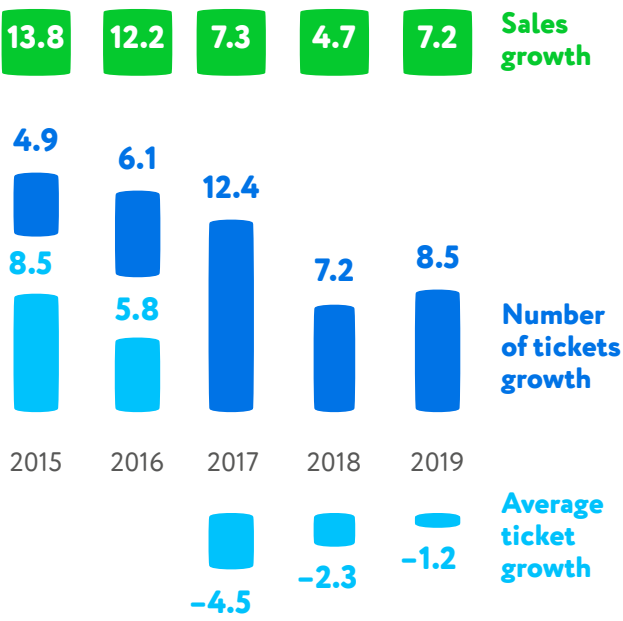
LFL sales growth in rubles, LFL number of tickets growth and LFL average ticket growth are based on Detsky Mir stores in operation for at least 12 full calendar months preceding the reporting date.

International expansion is a key strategic priority for the Company. During 2019, the Company successfully entered the Belarusian market with eight Detmir stores opened in the largest shopping malls in Minsk, Brest,

Detsky Mir Group’s Revenue, RUB bn



LFL Sales Growth in Detsky Mir Stores in Russia and Kazakhstan, %



Homyel, Maladzyechna and Mahilyow. The Belarusian business outperformed the initial targets and achieved operational breakeven by end-2019.

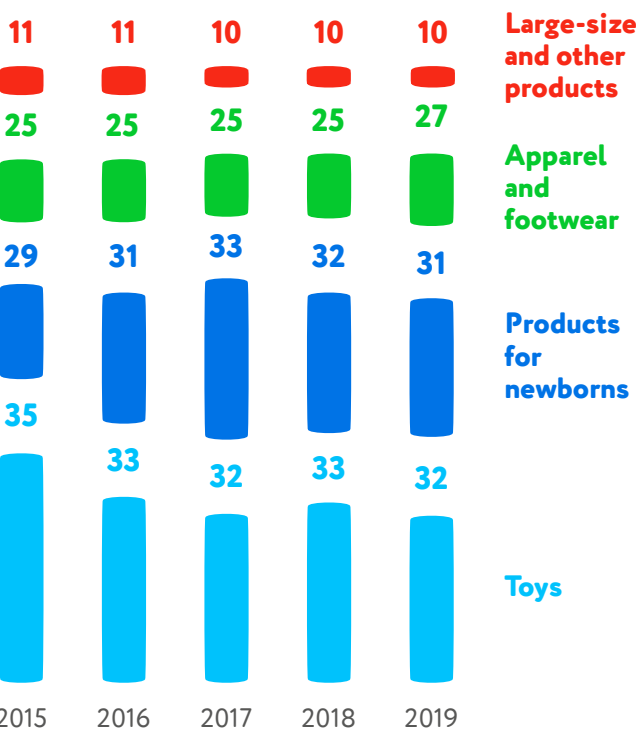
At the same time, the Company continued its market consolidation efforts in Kazakhstan, opening eight new supermarkets and increasing LFL sales by 35.5 %.

This strong performance prompted the Company’s decision to enter the Kyrgyz market in 2020.

Toys remain the key category demonstrating high LFL sales growth and accounting for 32 % of the Detsky Mir chain’s total sales in Russia in 2019. Apart from toys, other categories with significant shares are products for newborns (31 %), and apparel and footwear (27 %).

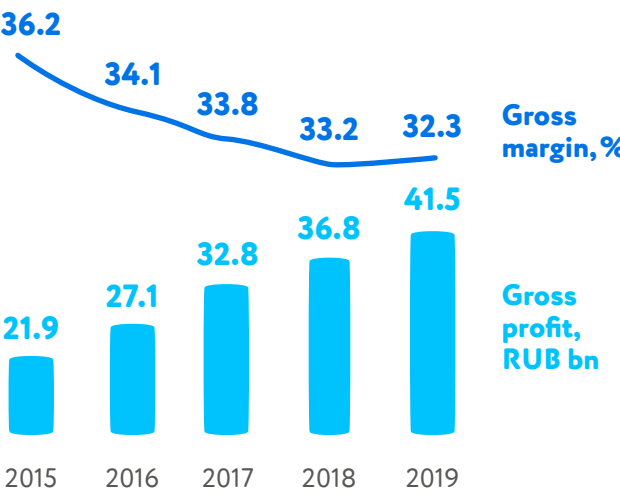
Detsky Mir Chain’s Revenue by Product Category, %

Revenue structure is presented for Detsky Mir stores in Russia.

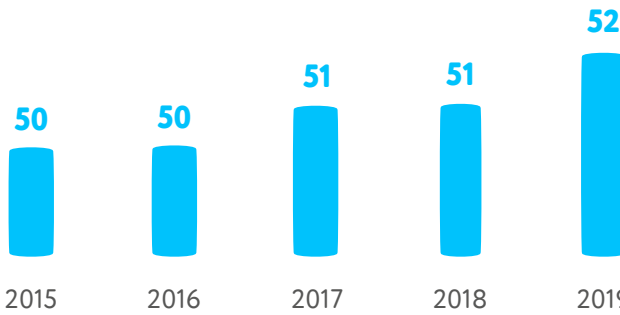


In the reporting year, the Company continued to focus on price leadership to attract new customers. As a result of this strategy, the gross profit margin decreased by 1.0 p. p. year-on-year to 32.3 %.

Detsky Mir Group’s Gross Profit



Gross Profit, RUB '000 per sq. m



At the same time, the Company developed private labels and switched to direct contracts, making it possible to offer customers popular goods at what the Company believes are the lowest prices on the market, while still maintaining high profit margins. Private labels and direct imports accounted for 41.6 % of total turnover (+5.7 p. p. year-on-year).

Detsky Mir is committed to the continuous enhancement of operational efficiency by reducing operating costs, primarily through improvement of commercial lease terms.

In 2019, rental expenses as a percentage of revenue decreased by 0.6 p. p. year-on-year. Replacement of paper marketing materials with electronic communications enabled the Company to cut marketing expenses as a percentage of revenue by 0.3 p. p. year-on-year.

Adjusted selling, general and administrative expenses less amortization, depreciation and LTI expenses as a percentage of revenue decreased in 2019 to 20.8 %, down 1.0 p. p. compared to the same period last year.

In 2019, Detsky Mir significantly increased its operating income. Strong revenue growth combined with increased operational efficiency enabled the Company to increase adjusted EBITDA by 16.3 % year-on-year to RUB 14.7 billion.

The Company maintained a high adjusted EBITDA margin of 11.4 %. EBITDA was RUB 13.8 billion, up 16.4 % year-on-year.

In 2019, net interest expenses as a percentage of revenue grew by 0.2 p. p. year-on-year due

to high debt at the beginning of the year, as well as seasonality factors.

Detsky Mir’s average weighted cost of debt as at the end of the reporting period declined by 1.3 p. p. to 8.0 % per annum.

In December 2019, the Company successfully issued a RUB 3 billion bond with a coupon rate of 7.25 % per annum at nominal value. In 2019, the effective income tax rate was flat

year-on-year (17.5 %) mainly due to accounted inventory shrinkage allowances in income tax, as well as the filing of an amended income tax return for 2018.

Costs related to depreciation of fixed assets and amortization of intangible assets as a percentage of revenue were stable in 2019 year-on-year, at 2.0 %.

During the same reporting period, Detsky Mir had FX losses totaling RUB 124 million, compared to RUB 106 million gained in 2018.

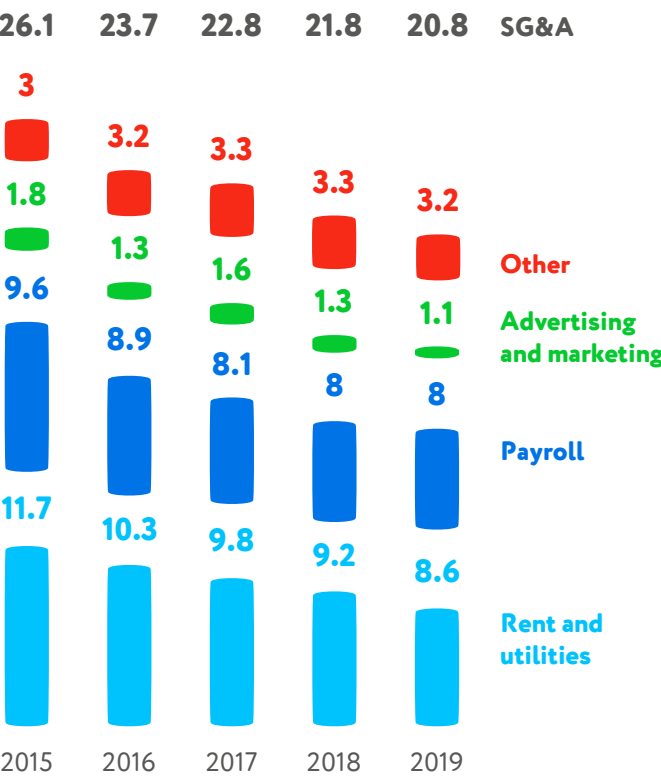
*Adjusted EBITDA is calculated as profit for the period before income tax expense, foreign exchange loss, finance expense, finance income, depreciation and amortization, adjusted for share-based compensation expense and cash bonuses under the LTI program.

Adjusted net profit in 2019 rose by 11.0 % year-on-year to RUB 8.0 billion. Adjusted net profit margin was 6.2 % (–0.3 p. p. year-on-year).

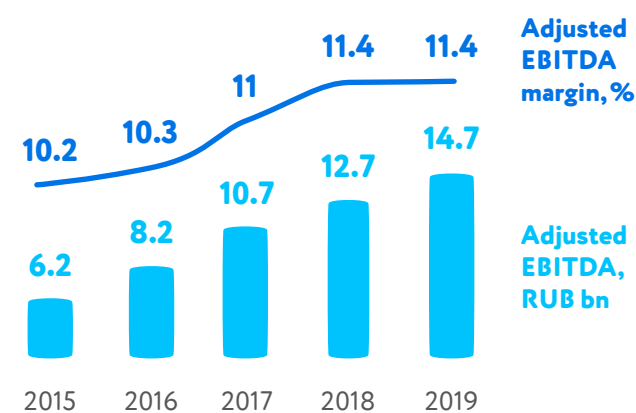
Adjusted profit for the period (net profit) does not include share-based bonus payments and payments under the LTI program for the Company’s management.

Share of Selling, General and Administrative Expenses in Total Revenue, %

Selling, general and administrative expenses do not include amortization and depreciation, or bonus payments to management under the LTI program.

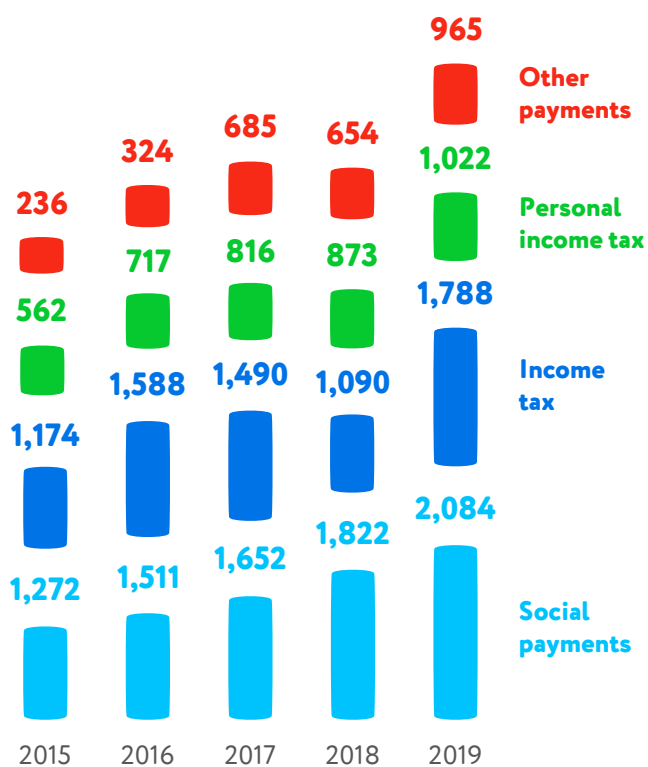


Adjusted EBITDA



Tax Payments to the Federal and Regional Budgets, RUB m

In Russia, social payments are made to the Federal Compulsory Medical Insurance Fund, the Social Insurance Fund and the Pension Fund of the Russian Federation. In Kazakhstan, these include social contributions, mandatory pension contributions, and the social tax. Personal income tax includes personal income tax in Russia and individual income tax in Kazakhstan.



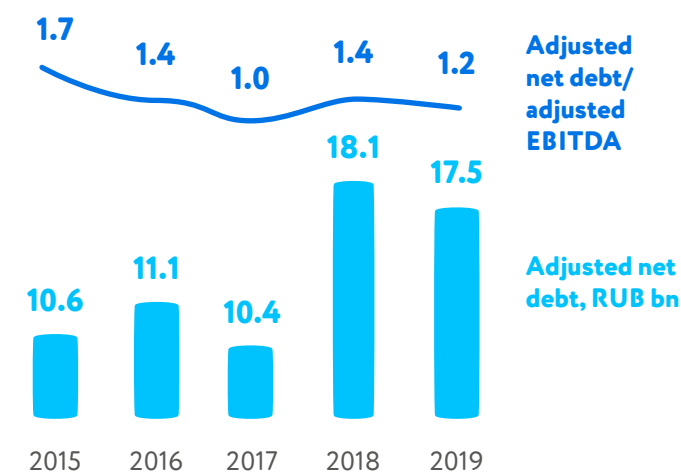
In 2019, operating cash flow before changes in working capital (adjusted EBITDA) grew by 16.3 % year-on-year, reaching RUB 14.7 billion. The Company reduced its investment in working capital to RUB 132 million, versus RUB 7,156 million in 2018.

Changes in working capital were driven by stock optimization, as well as the collection of supplier bonuses. Net interest expenses and income tax in the reporting period increased by 37.4 % year-on-year, reaching RUB 3.7 billion. As a result, cash generated from operating activities increased 3.2 times year-on-year to RUB 11.2 billion in 2019.

Cash used to finance investment activities and acquire fixed and intangible assets increased by 8.6 % year-on-year to RUB 3.5 billion in 2019. The change in capital expenses was driven by a RUB 844 million payment (net of VAT) for the property acquired for the Company's new flagship store in Moscow.

Net Debt and Financial Leverage

Adjusted net debt is net debt adjusted for the amount of loan granted to CJSC DM-Finance (a subsidiary of PJSC Sistema) in 2013, which was fully repaid on 27 February 2017.



The Company also invested RUB 449 million in equipment purchases for its Bekasovo-1 and Bekasovo-2 distribution centers (launched in Q4 2018). The chain expansion capex totaled RUB 1,009 million in 2019.

As at 31 December 2019, Detsky Mir's total debt was RUB 19.3 billion, of which short-term loans accounted for 53.4 % and long-term loans for 46.6 %. Net debt decreased by 3.6 % year-on-year to RUB 17.5 billion.

All of the Company's debt is denominated in Russian rubles. As at 31 December 2019, the

Company's available undrawn credit limit with leading Russian and international banks totaled RUB 34.4 billion.

Net debt/adjusted EBITDA declined to 1.2x, mostly due to efficient working capital management. In 2019, Detsky Mir paid RUB 7.0 billion of dividends, which corresponds to the dividend yield of 10.4 %.

Consolidated Cash Flow Statement Highlights, RUB m

Metric	2015	2016	2017	2018	2019
Adjusted EBITDA	6,185	8,203	10,663	12,665	14,725
Changes in working capital	-4,300	-405	-1,123	-7,156	132
Net interest and income tax paid	-3,069	-3,281	-3,168	-2,707	-3,719
Other operating cash flows	505	1,328	708	688	348
Net cash flows generated from operating activities	-679	5,844	7,080	3,489	11,222
Net cash used in investing activities	-5,218	-3,122	-1,370	-3,793	-3,467
Net cash used from financing activities	-6,160	-8,455	-5,001	483	-9,322
Increase/(decrease) in cash and cash equivalents	264	512	710	180	-1,567

Corporate Governance

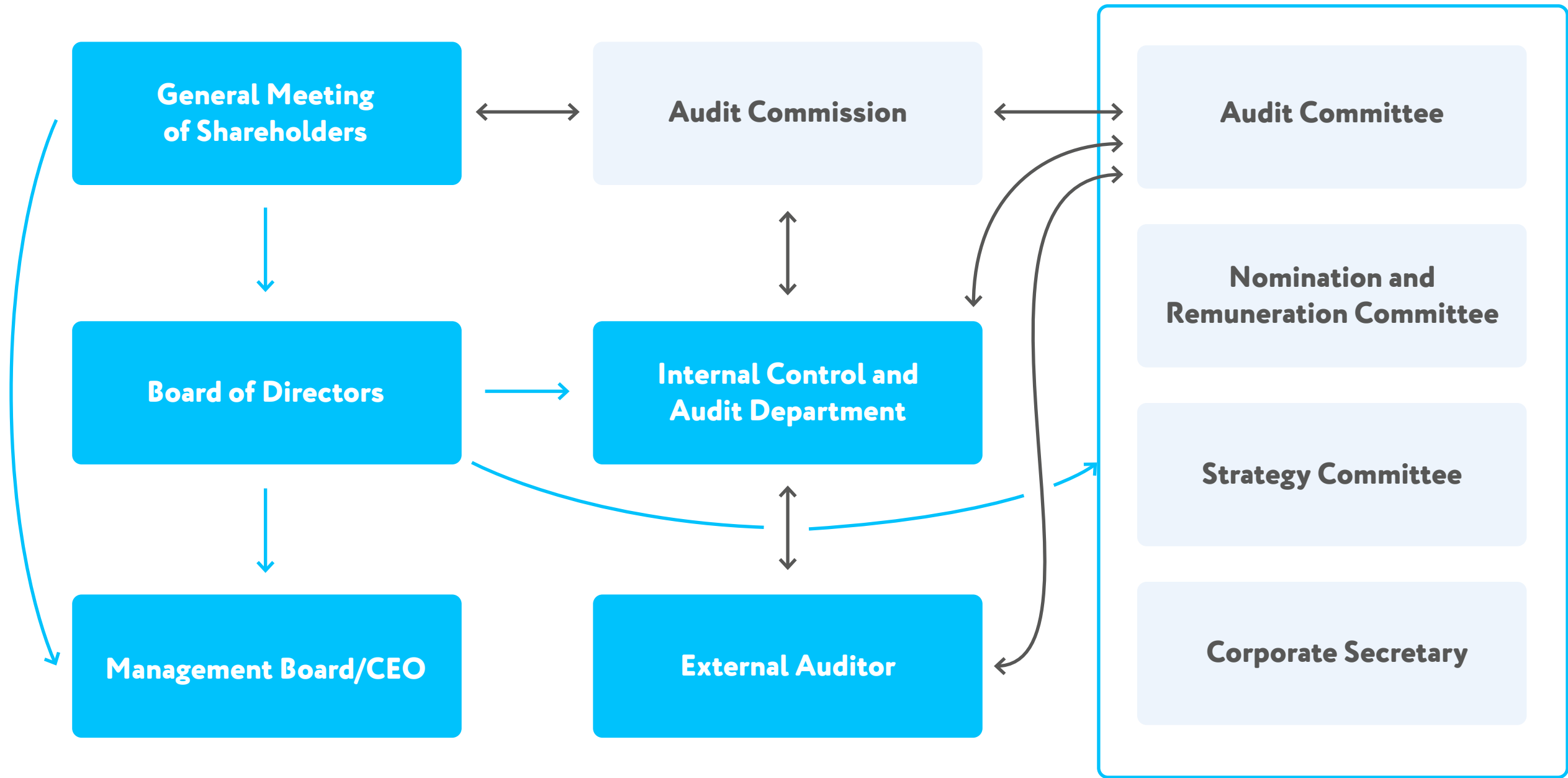


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Corporate Governance Bodies

PJSC Detsky Mir’s corporate governance system is aimed at creating and maintaining reliable and honest shareholder and investor relations to promote further enhancement of the Company’s investment appeal.

→ Subordination, accountability
→ Interaction



General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body acting pursuant to PJSC Detsky Mir’s Articles of Association, internal documents approved by the General Meeting of Shareholders, and the Russian legislation.

Each year, PJSC Detsky Mir holds an Annual (Ordinary) General Meeting of Shareholders which makes decisions on the election of the Board of Directors and the Audit Commission, approves the auditor, and considers other matters reserved for the supreme governing body.

One Annual General Meeting of Shareholders and one Extraordinary Meeting were held in 2019, at which the following decisions were made:

- ★ Approval of PJSC Detsky Mir 2018 Annual Report
- ★ Approval of the 2018 annual accounting (financial) statements
- ★ Distribution of profits and losses (including dividend payout) for FY2018 and 9M 2019
- ★ Election of the Board of Directors and the Audit Commission
- ★ Approval of the Company’s auditor for 2019
- ★ Approval of the new version of the Articles of Association and other internal documents

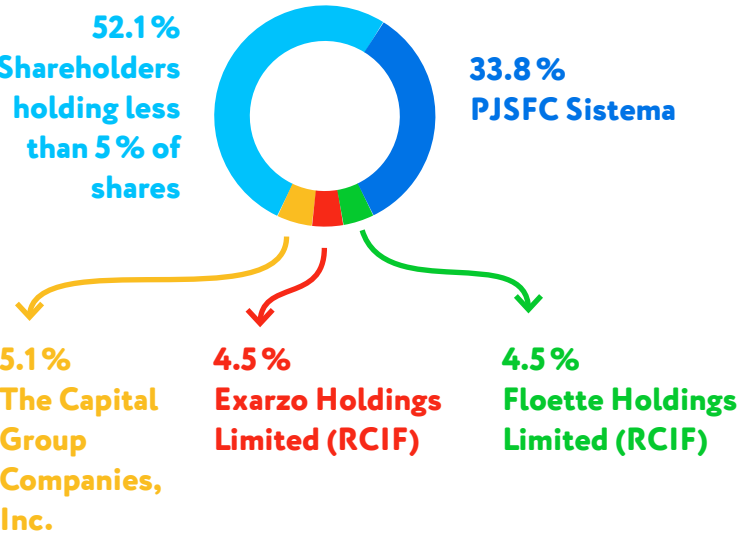
Board of Directors

The Board of Directors is PJSC Detsky Mir’s collegial governing body responsible for general management of the Company’s operations, except for the matters reserved to the General Meeting of Shareholders.

The Board of Directors is guided by the Russian legislation, PJSC Detsky Mir’s Articles of Association, decisions made by the General Meetings of Shareholders, the Regulations on the Board of Directors, and other internal regulations.

The key matters reserved to the Board of Directors are as follows: strategic business development, control over the implementation of financial and budget plans, risk management, personnel and top management incentive and remuneration, internal audit, major and material transactions.

Shareholder Structure as at 31 December 2019



PJSC Detsky Mir’s Board of Directors held 11 meetings in 2019 (including 6 meetings in the form of absentee voting) to consider 55 matters.

The meetings of the Board of Directors were preceded by 9 meetings held by the Committees of the Board of Directors to consider 32 matters.

The size of the Board of Directors is established by the General Meeting of Shareholders. Currently the Board has ten members.

The current Board of Directors has ten members, including three independent directors, six non-executive directors, and one executive director.

PJSC Detsky Mir’s Board of Directors in 2019

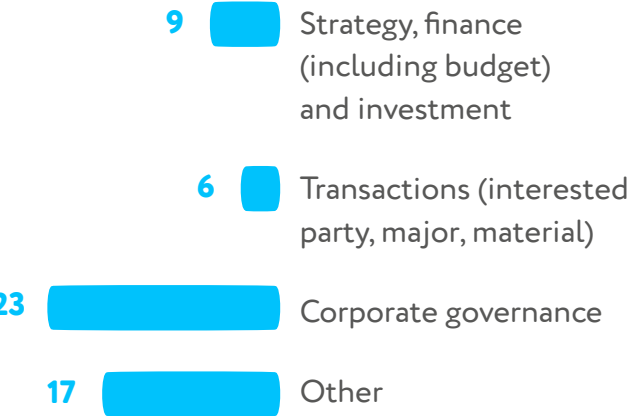
Directors elected on 20 Sept. 2018

1. Pavel Boyarinov
2. Alexey Katkov
3. Stanislav Kotomkin
4. Evgeniy Madorskiy
5. Tony Maher
6. Olga Ryzhkova
7. Vyacheslav Khvan
8. Vladimir Chirakhov
9. Alexander Shevchuk
10. Alexander Shulgin

Directors elected on 16 May 2019

1. Pavel Boyarinov
2. Alexey Katkov
3. Stanislav Kotomkin
4. Evgeniy Madorskiy
5. Tony Maher
6. Olga Ryzhkova
7. Vyacheslav Khvan
8. Vladimir Chirakhov
9. Alexander Shevchuk
10. Alexander Shulgin

Matters Considered by the Board of Directors in 2019



Biographical Details of the Members of the Board of Directors



Alexey Katkov

Chairman of the Board of Directors, Non-Executive Director, member of the Strategy Committee

Born in 1977.

Chairman of the Company’s Board of Directors since 2018.

CEO and President of Sistema Venture Capital established in 2016 by PJSC Sistema to invest in early stage high-tech startups. Managing Partner at PJSC Sistema, responsible for the digital segment.

Prior to that, he worked in Russia’s largest IT company, Mail.ru Group, where he had started his career in 2000 as an account manager.

Between 2007 and 2015, he served as Commercial Director and Vice President at Mail.ru Group.

In 1999, he graduated from the Academy of National Economy under the Government of the Russian Federation, and in 2008, he completed an Executive MBA program at Harvard Business School.

Percentage ownership in the Company: 0.05 %

Percentage of the Company’s ordinary shares held: 0.05 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

President of Sistema Venture Capital, Managing Partner at PJSC Sistema, Board member at MTS, Board member at Internet Solutions (ozon.ru online store)



Vladimir Chirakhov

Executive Director, member of the Strategy Committee

Born in 1974.

Member of the Company’s Board of Directors and CEO since 2012.

Prior to joining PJSC Detsky Mir in March 2012, he had worked at Korablik since 2009, where he had been promoted from Commercial Director to CEO.

In 2009, he served as Commercial Director at Lindex (the management company of the Expert chain, one of the biggest retail chains in the home appliances segment).

From 2001 to 2009, he worked in leading retail companies, Partiya Elektronika and M.Video.

In 1996, he graduated with honors from the Academy of the Federal Security Service of Russia as an engineering mathematics specialist, majoring in Applied Mathematics.

In 2000, he received additional education at Moscow International Higher Business School MIRBIS under the System Analysis and Project Management in Business program. In 2001, he graduated with honors from the Academy of National Economy under the Government of the Russian Federation majoring in Management.

In 2013, he completed an Executive MBA program at Moscow School of Management Skolkovo.

Percentage ownership in the Company: 1.7 %

Percentage of the Company’s ordinary shares held: 1.7 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

Board member at Progress (FrutoNyanya brand), Board member at Internet Solutions (ozon.ru online store)



Stanislav Kotomkin

Independent Director, Chairman of the Nomination and Remuneration Committee

Born in 1973.

Member of the Company’s Board of Directors since 2018.

Since 1999, he has been a co-founder of AMF International Flower Delivery Network, where he served as CEO and Managing Owner, and was a Board member. He has been a private investor since 2013.

Prior to that, he was a co-founder and co-manager of the Unishop online store.

In 1996, he graduated from Bauman Moscow State Technical University as a specialist in mechanical engineering majoring in Special Machine Building.

From 2007 to 2008, he attended an MBA course at Synergy Business School. In 2013, he completed an Executive MBA program at Moscow School of Management Skolkovo.

In 2014, he completed the IoD Chartered Director international qualification program.

Percentage ownership in the Company: 0.0012 %

Percentage of the Company’s ordinary shares held: 0.0012 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

co-owner of AMF International Flower Delivery Network



Evgeniy Madorskiy

Deputy Chairman of the Board of Directors, Non-Executive Director, member of the Audit Committee, member of the Nomination and Remuneration Committee

Born in 1975.

Member of the Company’s Board of Directors since 2018.

He has been employed by PJSFC Sistema since 2006 and has been promoted from Executive Director for Corporate Development to Executive Vice President (appointed in 2011).

From 2014 to 2018, he was Deputy Chairman of MTS Bank’s Board of Directors.

He has a long track record in corporate governance. Since 2012, he has served on the boards of directors at Stream, Kosmos-TV, SG-Trading, Sistema Venture Capital, and East-West United Bank S.A.

In 1996, he graduated from the Saint Petersburg University of Economics and Finance as an economist majoring in Global Economy, and from Université Paris-Dauphine majoring in Management.

In 2004, he completed an MBA program at HEC Paris School of Management. Ph.D. in Economics.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 10/1

Membership in governing bodies of other organizations:

Board member at Sitronics



Pavel Boyarinov

Independent Director, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee

Born in 1986.

Member of the Company’s Board of Directors since 2018.

Co-founder and CEO of Production Company Orion (Matras.ru online store), the largest multi-brand mattress store.

Prior to that, he was responsible for search engine optimization for corporate clients at RBS Corporation and founded the Yunigrafik design studio.

In 2009, he graduated from Bauman Moscow State Technical University majoring in IT and Management Systems.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

CEO of Production Company Orion (Matras.ru online store)



Alexander Shevchuk

Independent Director, member of the Audit Committee

Born in 1983.

Member of the Company’s Board of Directors since 2018.

Executive Director at the Association of Professional Investors (API). Since 2002, he has been representing investors’ interests before state authorities, public companies and majority shareholders in Russia.

He has over 15 years of experience in corporate governance, including membership on the boards of directors of Bryansk Energy Management Company, the Bank of Russia, and the Listing Committee of Moscow Exchange.

Over the last ten years, he has served as independent director at 17 public companies, including CenterTelecom, Mostotrest, Ulyanovsk Automobile Plant (UAZ), OGC-2, and IDGC of Center and Volga Region.

He graduated from the Financial University under the Government of the Russian Federation majoring in Finance.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

Executive Director at the Association of Professional Investors



Alexander Shulgin

Non-Executive Director, member of the Strategy Committee

Born in 1977.

Member of the Company’s Board of Directors since 2018. In 2017, he was appointed CEO of Internet Solutions (ozon.ru online store).

Prior to that, he had worked at Yandex having joined it as CFO in 2007.

From 2014 to 2017, he served as CEO of Yandex, and in 2011, he was involved in preparing the company’s IPO at New-York’s Nasdaq exchange.

Prior to that, he was CFO at Coca-Cola HBC Eurasia (Coca-Cola Hellenic Bottling Company).

He graduated from Rostov State University in 2000 majoring in Management.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 10/1

Membership in governing bodies of other organizations:

CEO of Internet Solutions (ozon.ru online store)



Olga Ryzhkova

Non-Executive Director, member of the Strategy Committee

Born in 1983.

Member of the Company’s Board of Directors since 2018.

Senior Vice President at RCIF Investment Management since 2015, Board member at Progress since 2012.

From 2012 to 2015 she was Vice President at Sberbank CIB. From 2010 to 2012, she worked as a consultant and then Vice President at Troika Dialog.

From 2008 to 2010, she was a leading analyst at the representative office of UFG Capital Partners Limited.

Between 2006 and 2008, she worked as a consultant at KPMG.

She graduated from the Financial University under the Government of the Russian Federation majoring in Public Administration and Municipal Management.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 9/2

Membership in governing bodies of other organizations:

Senior Vice President at RCIF Investment Management, Board member at Progress (FrutoNyanya brand)



Tony Maher

Non-Executive Director, member of the Strategy Committee

Born in 1956.

Member of the Company’s Board of Directors since 2018.

Board Chairman at Progress and Nash Khleb Bakery Group and Board member at Da Vinci Capital.

Tony Maher has almost 30 years of experience in international food and beverage retail.

From 2013 to 2015, he was CEO of O’KEY. Between 2006 and 2011, he served as Chairman of the Management Board of Wimm-Bill-Dann where he was responsible for the Company’s operations in 11 countries across Eastern and Western Europe, including Russia.

Before Wimm-Bill-Dann he had worked at Coca-Cola HBC Eurasia (Coca-Cola Hellenic Bottling Company) for 30 years, managing its business in Russia, Belarus, Ukraine, and Armenia.

Percentage ownership in the Company: 0 %

Percentage of the Company’s ordinary shares held: 0 %

Attendance at meetings (presence/absence): 10/1

Membership in governing bodies of other organizations:

Board Chairman at Progress (FrutoNyanya brand)



Vyacheslav Khvan

Non-Executive Director

Born in 1983.

Member of the Company’s Board of Directors since 2018.

He currently serves as CEO of Business Nedvizhimost.

In 2017, he was Managing Director at MC LandProfit.

He has over 13 years of experience in retail.

From 2005 to 2008, he served as a purchasing manager at AM-Kommerts and Euroset Opt.

From 2008 to 2011, he was Deputy CEO and CEO of Irina and Saime companies.

After that, he served as Executive Director at Korado for two years.

From 2013 to 2017, he was a member of the Management Board and Deputy CEO for Business Development at PJSC Detsky Mir.

In 2004, he graduated from the Moscow State Institute of Steel and Alloys as an engineer majoring in Standardization and Specification (in Metallurgy).

Percentage ownership in the Company: 0.004 %

Percentage of the Company’s ordinary shares held: 0.004 %

Attendance at meetings (presence/absence): 11/0

Membership in governing bodies of other organizations:

CEO of Business Nedvizhimost

Pursuant to the Federal Law On Joint Stock Companies, the Board of Directors plays an important role in protecting shareholders’ rights, preparing and implementing the Company’s development strategy, as well as ensuring strong financial and business performance.

PJSC Detsky Mir’s Board of Directors followed the approved activities plan, and the execution of the Board’s decisions was monitored on a regular basis.

When exercising their powers, all members of the Board of Directors acted reasonably and in good faith in the best interests of Detsky Mir and participated actively in the meetings of the Board of Directors and its Committees.

In the years to come, PJSC Detsky Mir’s Board of Directors will place a particular emphasis on improving the quality of business management, increasing the value of Detsky Mir shares, as well as enhancing the financial stability and competitive edge.

Committees of the Board of Directors

The Board of Directors has three permanent committees: the Audit Committee, the Nomination and Remuneration Committee, and the Strategy Committee. Committee members are elected from among the Board members, and their rights and duties are

stipulated by regulations on committees.

Audit Committee

The Audit Committee previews matters related to audit, control and financial reporting, as well as assessment of interested party transactions and major transactions, further considered by the Board of Directors.

The Committee’s decisions are of an advisory nature for the Board of Directors.

The Committee is comprised of three members of the Board of Directors.

The majority of Committee members should comply with the independence criteria outlined in the Company’s internal documents and the applicable listing rules of PJSC Moscow Exchange.

Other Committee members may be members of the Board of Directors who are not the sole executive body and/or members of the collective executive body of the Company.

Composition of the Audit Committee:

- 1. Pavel Boyarinov – Chairman of the Committee, Independent Director
- 2. Evgeniy Madorskiy – member of the Committee, Non-Executive Director
- 3. Alexander Shevchuk – member of the Committee, Independent Director

Nomination and Remuneration Committee

The Nomination and Remuneration Committee previews matters related to nomination and remuneration of the Company’s management team, further considered by the Board of Directors. The

Committee’s decisions are of an advisory nature for the Board of Directors.

The Committee is comprised of three members of the Board of Directors.

The majority of Committee members should comply with the independence criteria outlined in the Company’s internal documents and the applicable listing rules of PJSC Moscow Exchange.

Other Committee members may be members of the Board of Directors who are not the sole executive body and/or members of the collective executive body of the Company.

Composition of the Nomination and Remuneration Committee:

- 1. Stanislav Kotomkin – Chairman of the Committee, Independent Director
- 2. Evgeniy Madorskiy – member of the Committee, Non-Executive Director
- 3. Pavel Boyarinov – member of the Committee, Independent Director
- 4. Alexander Shevchuk – regular participant, Independent Director

Strategy Committee

The Strategy Committee previews and analyses matters related to the Company’s strategy, further considered by the Board of Directors.

The Committee’s decisions are of an advisory nature for the Board of Directors. The Committee is comprised of five members of the Board of Directors. Any Board member, including executive directors, may be a Committee member, whether or not he/she complies with independence criteria.

Composition of the Strategy Committee:

- 1. Alexey Katkov – Chairman of the Committee, Non-Executive Director
- 2. Vladimir Chirakhov – member of the Committee, Executive Director
- 3. Olga Ryzhkova – member of the Committee, Non-Executive Director
- 4. Alexander Shulgin – member of the Committee, Non-Executive Director
- 5. Tony Maher – member of the Committee, Non-Executive Director

The internal audit function is assigned to a separate business unit, the Internal Control and Audit Department. The department head reports to the Board of Directors and is appointed or removed by the Board.

The Corporate Secretary is appointed and removed by the CEO based on the decision of the Board of Directors approved by the majority of votes.

The Corporate Secretary is accountable to, and controlled by, the Board of Directors.

The primary responsibility of the Corporate Secretary is to ensure effective day-to-day interaction with PJSC Detsky Mir’s shareholders, coordinate the Company’s actions aimed at protecting its shareholders’ rights and interests, and support the efficient work of the Board of Directors..

Executive Bodies

PJSC Detsky Mir’s sole executive body, the CEO, and collective executive body, the Management Board, are charged with running its day-to-day operations, ensuring efficient performance of current tasks and implementation of the development strategy to promote the Company’s profitability and competitive edge, maintain financial and economic stability, protect shareholders’ rights, and secure employees’ social guarantees.

The scope of authority of PJSC Detsky Mir’s executive bodies covers all matters related to day-to-day operations, except for matters reserved to the General Meeting of Shareholders or the Board of Directors.

The CEO and members of the Management Board are guided by the applicable legislation, PJSC Detsky Mir’s Articles of Association and other internal regulations.

Appointment of the Chairman of the Management Board and early termination of his/her powers is reserved to the Board of Directors.

The Chairman and other members of the Management Board are accountable to the Board of Directors and regularly report on their performance.

In 2019, PJSC Detsky Mir’s Management Board held 51 meetings and considered 267 matters.

Biographical Details of the Members of the Management Board



Vladimir Chirakhov

Chairman of the Management Board, Chief Executive Officer

Born in 1974. He has been employed by PJSC Detsky Mir since March 2012. Prior to that, he had worked at Korablik since 2009, where he had been promoted from Commercial Director to CEO. In 2009, he served as Commercial Director at Lindex (the management company of the Expert chain, one of the largest retail chains in the home appliances segment). From 2001 to 2009, he worked in leading retail companies, Partiya Elektronika and M.Video.

In 1996, he graduated with honors from the Academy of the Federal Security Service of Russia as an engineering mathematics specialist, majoring in Applied Mathematics. In 2000, he received additional education at Moscow International Higher Business School MIRBIS under the System Analysis and Project Management in Business program.



Tatyana Mudretsova

Marketing Director

Born in 1973. From 2012 to 2014, prior to joining Detsky Mir Group, she served as Marketing Director (Russia) at Osnova Telecom. From 2005 to 2011, she worked at Beeline, where she was promoted from Marketing Manager for the Moscow region to Director for Mass Market Marketing in Russia. From 1999 to 2005, she worked in DDB and Publicis creative agencies, where she was promoted from an account manager to Group Account Director.

In 1995, she graduated from the International Economic Relations Department of the State University of Management majoring in Information Technologies in Management.

Percentage ownership in the Company: 0.01 %

Percentage of the Company’s ordinary shares held: 0.01 %



Maria Davydova

Deputy Chief Executive Officer for Commercial Activities

Born in 1974. In 1998, she graduated from the Institute of Humanities majoring in Economics. From 2006 to 2011, she was Commercial Director for exclusive contracts and private labels at NTS Gradient (gradient.ru), a leader in consumer goods

distribution. Maria was directly involved in launching the Merries and Pigeon brands in the Russian market.

From 2011 to 2013, she served as Commercial Director for Home and Recreation Products at Enter Svyaznoy where she worked her way from the Director of the Children's Goods business unit to the Director for Home and Recreation Products.

Since 2013, Maria Davydova has been working in Detsky Mir Group, having started as Director for Toys Assortment Procurement.

In March 2015, the Company's Board of Directors appointed Maria Davydova member of the Management Board, Deputy CEO for Commercial Activities, and Head of Consumer Goods at the Commercial Directorate.

During her seven years in management, Maria has helped bring Detsky Mir's market share in products for newborns and toys to 29.9% and 51.3%, respectively, making the Company a leading toy retailer in Russia.

Percentage ownership in the Company: 0.022 %

Percentage of the Company's ordinary shares held: 0.022 %



Maria Volodina

Commercial Director for Apparel and Footwear

Born in 1973. She has been working in Detsky Mir Group since 2011. From 2010 to 2011, she was Head of Assortment Planning at SELA Corporation.

From 2007 to 2010, she acted as Product Department Head at Kira Plastinina Style. From 2005 to 2007, she served as Head of Apparel and Accessories at Sport and Fashion Group (exclusive distributor of Reebok products in the CIS).

From 2000 to 2005, she was Head of Apparel Wholesale and Retail at TJ Retail.

She graduated from the Moscow State University of Design and Technology majoring in Fashion Design, and from HSE



Anna Garmanova

Chief Financial Officer

Born in 1976. She has been working in Detsky Mir Group since April 2008. Throughout the years, she was responsible for accounting methodology development, business process introduction and automation, and tax and accounting statements preparation. In 2014, she was appointed Head of Corporate Accounting. From March 2015, she served as Acting CFO until she was appointed CFO in October 2015.

Prior to that, she had worked in a number of commercial entities and an audit company. She was Deputy Head of Finance and Economics at the Foundation for Mutual Understanding and Reconciliation established by the Government of the Russian Federation.

Since 2007, she has been working in retail, starting as Chief Accountant in the Podruzhka retail chain.

In 1998, she graduated from Lomonosov Moscow State University. In 2002, she graduated with honors from the Plekhanov Russian University of Economics majoring in Economics (Accounting, Analysis and Audit).

Percentage ownership in the Company: 0.012 %

Percentage of the Company's ordinary shares held: 0.012 %



Farid Kamalov

Deputy Chief Operating Officer

Born in 1980. He joined Detsky Mir Group as Deputy Director of the Trade Department in 2012. In March 2014, he was appointed COO of the Detsky Mir retail chain. He has over 15 years of experience in retail.

From 2003 to 2010, he worked in the M.Video consumer electronics hypermarket chain, where he was promoted from a sales assistant to the director of the flagship hypermarket. From 2010 to 2012, he served as Head of Retail Sales in the Korablik retail chain (children’s goods).

In 2003, he graduated with honors from the National Research University of Electronic Technology. He obtained an MBA from Moscow International Higher Business School MIRBIS under the Strategic Management and Entrepreneurship program.

Percentage ownership in the Company: 0.089 %

**Percentage of the Company’s
ordinary shares held: 0.089 %**



Artem Gubanov

Director for Real Estate and Development

Born in 1983. Overall, he has ten years of experience with Detsky Mir Group. From 2014, he acted as Deputy Director and in 2015 he was appointed Director for Real Estate and Development. He has been working in retail since 2005. Throughout the years, he held various positions in real estate and development in Ramstore, Walmart International and Korablik.

He graduated from the departments of Law and Linguistics of Ulyanovsk State University.

Percentage ownership in the Company: 0 %

**Percentage of the Company’s
ordinary shares held: 0 %**



Anastasia Yaroshevskaya

HR Director

Born in 1984. Since 2016, she has served as HR Director of Detsky Mir Group.

From 2004 to 2007, she worked in retail and consulting companies as a training manager and a training and development manager. From 2008 to 2016, she worked in the Hoff furniture and home accessories retail chain where she was responsible for training and development, recruitment and onboarding, as well as compensations and benefits. She was promoted from a training manager to Deputy Head of HR. From 2015 to 2016, she was also engaged in a number of consulting projects with Talent Code. In 2006, she graduated from the Moscow State University of Psychology and Education majoring in Social Psychology.

Percentage ownership in the Company: 0.001 %

**Percentage of the Company’s
ordinary shares held: 0.001 %**



Pavel Pishchikov

E-Commerce Director

Born in 1976. He has been working in Detsky Mir since February 2017. From 2011 to 2017, he served as E-Commerce Director in the Dochki-Sinochki retail chain. Under his leadership, the chain’s online store was launched and later included in Russia’s Top 100 online stores. From 2009 to 2011, he served as Commercial Director of the www.003.ru online store (X5 Retail Group). From 1996 to 2009, he held various managerial positions in wholesale and retail companies specializing in electronics.

In 1996, he graduated from the Department of Chemistry of Dnepropetrovsk State University.

Percentage ownership in the Company: 0.0003 %

**Percentage of the Company’s
ordinary shares held: 0.0003 %**



Vladimir Ilmetov

Security Director

Born in 1958. He has been working in Detsky Mir Group since 2014. Prior to that, from 2010 to 2014, he had served as Senior Vice President — Head of Security at Moscow Bank for Reconstruction and Development. In 2009, he was Deputy Director at OGK-3.

In 2008, he worked at the Presidential Executive Office at the executive office of the Presidential Plenipotentiary Envoy to the Far Eastern Federal District, and later served as Deputy Presidential Plenipotentiary Envoy to the Far Eastern Federal District. From 2005 to 2008, he was Vice President at Novikombank. He also worked for Russian embassies in Costa Rica, Cuba and Brazil.

Percentage ownership in the Company: 0.014 %

Percentage of the Company's ordinary shares held: 0.014 %



Vyacheslav Mikhnenko

Logistics Director

Born in 1977. He joined Detsky Mir Group as Logistics Director in 2012.

From 1999 to 2010, he worked in the Kopeika retail chain and was eventually promoted from a distribution center acceptance/delivery inspector to Logistics Director. From 2011 until 2012, he served as Operating Director for Logistics at X5 Retail Group.

He graduated from the Plekhanov Russian University of Economics with a degree in Finance and Credit in 2007.

Percentage ownership in the Company: 0.023 %

Percentage of the Company's ordinary shares held: 0.023 %

The Board of Directors at a meeting on 10 March 2020 passed the following resolutions:

- ★ The early termination of the appointment of Vladimir Chirakhov, CEO of PJSC Detsky Mir effective 2 April 2020.
- ★ The appointment of Maria Davydova as CEO of PJSC Detsky Mir effective 3 April 2020.
- ★ The appointment of Vladimir Chirakhov as Chairman of the Board of Directors of PJSC Detsky Mir effective 3 April 2020.

Corporate Governance Practices

PJSC Detsky Mir takes responsibility for compliance with corporate governance regulations. Information disclosure allows the Company to comply with the requirements of the Russian legislation and continuously improve its corporate governance practices.

In corporate governance, PJSC Detsky Mir adheres to the principles set out in the Corporate Governance Code, which provides shareholders with every opportunity to participate in corporate governance, as well as with access to all the information on the Company’s activities in accordance with the Federal Law On Joint Stock Companies, the Federal Law On the Securities Market, and the regulations of the Bank of Russia.

The Company’s main principle in building shareholder and investor relations is a reasonable balance of its interests as a business entity and as a joint stock company willing to protect its shareholders’ rights and legitimate interests.

Detailed information on compliance with the corporate governance principles is available in the Appendix to this Report.

Corporate Governance Model

There were no amendments to PJSC Detsky Mir’s corporate governance model in 2019.

Three independent directors participated in the work of the Board of Directors and

its Committees, in line with the listing rules of PJSC Moscow Exchange. The governance structure is three-tiered and includes the General Meeting of Shareholders, the Board of Directors, the collective executive body (the Management Board), and the sole executive body (the CEO).

The Board of Directors has set up the Audit Committee, the Nomination and Remuneration Committee, and the Strategy Committee.

Corporate Governance Quality Assessment

The assessment was based on the Methodology for Self-Assessment of the Quality of Corporate Governance in Public Companies and Joint Stock Companies approved by Order No. 306 of the Federal Agency for State Property Management (Rosimushchestvo) dated 22 August 2014.

In accordance with this methodology, the maximum score is 548 points (100 %), and the minimum allowable score is 356.2 points (65 %). PJSC Detsky Mir scored 431,5 points (80 %) in corporate governance quality assessment.



Statement of PJSC Detsky Mir’s Board of Directors on compliance with the corporate governance principles set out in the Corporate Governance Code

Recommended by the Bank of Russia in Letter No. 06-52/2463
On the Corporate Governance Code dated 10 April 2014.

Corporate Governance Improvement Plans

In 2020, the Company intends to propose that shareholders update the regulations on the Company’s governing bodies.

Corporate Governance Quality Self-Assessment Components

Component	Assessment				
	Number of questions	Component weight in the total score	Actual score	Maximum score	Level of compliance
Shareholders’ rights	22	14 %	67	79	12 %
Board of Directors	56	37 %	151,5	202	28 %
Executive management	5	7 %	27	38	5 %
Transparency and information disclosure	15	25 %	117	135	22 %
Risk management, internal control and internal audit	16	11 %	42	63	8 %
Corporate social responsibility and business ethics	6	6 %	27	31	5 %
Total score	120	100 %	431,5	548	80 %

Remuneration

Remuneration System for the CEO and Members of the Management Board

The CEO and members of the Management Board of PJSC Detsky Mir are full-time employees, and their remuneration consists of a salary and an annual bonus for the achievement of key performance indicators set by the Board of Directors (see the Personnel section for more details).

The size of the salary is determined in the staffing list. The size of other payments – additional payments, compensations and bonuses – is subject to the Regulations on Remuneration, the Regulations on Bonus System, and the Regulations on Procurement. In 2019, remuneration paid to members of PJSC Detsky Mir’s Management Board totaled RUB 1,227.3 million (salary: RUB 464.2 million, bonuses: RUB 763.1 million), and

compensations totaled RUB 7.4 million.

Detsky Mir has in place a long-term incentive (LTI) program for key employees. The program is aimed at increasing Detsky Mir’s market capitalization.

In October 2019, the Board of Directors resolved to approve a new long-term incentive program for the Company employees for a new three-year period starting from February 2020.

The program covers employees in managerial positions and the CEO.

Information on Remuneration and Compensation Paid to the CEO and Members of the Management Board

	2015	2016	2017	2018	2019
Total remuneration paid to members of the Management Board, including	689.2	725.0	898.2	836.2	1,227.3
Salary	297.8	331.6	227.2	409.0	464.2
Bonuses	391.5	393.4	671.1	427.2	763.1
Compensations	3.3	7.9	8.1	6.4	7.4

LTI from 2016 to 2018

Objective: to prepare for the IPO and increase Detsky Mir’s value during the program.

- ★ Participants: 15 key employees of Detsky Mir
- ★ The program’s budget was calculated as 3 % of the difference between the IPO price and the share price paid by the Russian-Chinese Investment Fund in 2015
- ★ Payable in cash and/or Detsky Mir shares (through buying shares in the open market) at the ratio approved by the Board of Directors

In early 2017, Detsky Mir launched its IPO. Payments under the program were made from 2018 to 2020.

LTI from 2020 to 2023

Objective: to further increase Detsky Mir’s market capitalization.

- ★ The program spans three years until February 2023
- ★ Participants: 22 key employees of Detsky Mir
- ★ The program’s budget was calculated as 4.6 % of Detsky Mir’s market value growth (including dividend payout) during the program
- ★ Payable in cash and/or Detsky Mir shares (through buying shares in the open market) at the ratio approved by the Board of Directors from 2021 to 2024

LTI from 2017 to 2020

Objective: to increase Detsky Mir’s post-IPO market capitalization.

- ★ The program spans three years until February 2020
- ★ Participants: 21 key employees of Detsky Mir
- ★ The program’s budget was calculated as 4.6 % of Detsky Mir’s market value growth (including dividend payout) during the program
- ★ Payable in cash and/or Detsky Mir shares (through buying shares in the open market) at the ratio approved by the Board of Directors
- ★ Additional RUB 500 million worth of payouts (exclusive of unified social tax) were paid from 2018 to 2019 pursuant to a separate decision of the Board of Directors

Remuneration System for Members of the Board of Directors

Remuneration for performing the duties of members of the Company’s Board of Directors is paid to:

- ★ members of the Board of Directors who meet the independence criteria determined by the listing rules of PJSC Moscow Exchange
- ★ the Chairman of the Company’s Board of Directors, provided that he is not an employee of a shareholder holding more than 5 % of the Company’s voting shares, and that in the past year he did not receive remuneration (in any form) from a shareholder holding more than 5 % of the Company’s voting shares, which exceeded 50 % of his base remuneration.

Types of remuneration payable to members of the Board of Directors:

- ★ Base remuneration
- ★ Remuneration for performing additional duties
- ★ Compensations

Base remuneration is paid in cash for performing the duties of members of the Board of Directors.

In accordance with the Regulations on Remuneration and Compensation, base remuneration is USD 60,000 (sixty thousand) for a corporate year. Base remuneration is paid monthly, in equal parts, based on an extract from the minutes of the General Meeting of Shareholders containing information on the election of the Board of Directors.

Members of the Company’s Board of Directors receive additional remuneration for serving on the Board of Directors’ Committees.

Board members of all categories are entitled to compensation of general expenses (travel expenses, accommodation rental costs, etc.) related to the performance of duties of a member of the Company’s Board of Directors.

Information on Remuneration Paid to Members of the Board of Directors, RUB m

	2015	2016	2017	2018	2019
Base remuneration for serving on a governing body	6.7	6.2	16.0	18.5	12.9
(payable only to independent directors)					
Remuneration for performing additional duties	9.3	10.2	–	2.5	3.9
Compensations	0.1	2.3	2.8	1.3	–

Risk Management and Internal Control

Risk Management

Detsky Mir’s risk management policy is aimed at building up a comprehensive system that helps promptly identify risks, assess their materiality, and take measures to minimize both likelihood of risks being realized and losses they can lead to.

Risk control is carried out across all management levels and functions. Risk management functions are distributed among the Board of Directors, the Management Board, the Risk Committee, and structural units of PJSC Detsky Mir. Detsky Mir has in place a separate position of Risk Manager responsible for:

- ★ overall coordination of risk management processes
- ★ development of guidelines to ensure risk management process
- ★ analysis of Detsky Mir’s risk portfolio and development of proposals on the response strategy and resource re-distribution to manage relevant risks
- ★ preparation of consolidated risk reports
- ★ day-to-day control over risk management processes in Detsky Mir’s structural units
- ★ preparation of materials and notification of Detsky Mir’s Board of Directors and executive bodies on the efficiency of the risk management process.

As part of its risk management policy, Detsky Mir identifies, assesses, monitors, and prevents

actual and possible threats in order to mitigate their likelihood and potential impact on the Company’s operations. Key methods of risk management:

- ★ elimination of risky investments
- ★ rejection of unreliable partners and customers
- ★ insurance
- ★ hedging
- ★ financial planning
- ★ diversification
- ★ compliance with, and adherence to, applicable standards
- ★ coordination and alignment of management programs and processes contributing to Detsky Mir’s development.

The Company is committed to continuous improvement of the risk management system through:

- ★ conducting quarterly thorough audits of internal and external risks
- ★ reviewing and reapproving risk tolerance levels
- ★ in addition to the qualitative assessment of the risk tolerance level, conducting an annual quantitative assessment of the impact of different types of risks
- ★ assessing risks for the Company’s strategic and short-term goals
- ★ implementing risk mitigation measures.

Managers at all levels are continuously involved in identifying, monitoring and managing relevant risks.

The Risk Manager engages the internal control team to ensure staff awareness of all risk-related issues at the Group level, participates in the development of risk management measures both in business and auxiliary units, and provides regular and timely notifications to the Management Board of any material risks and risk management options.

As part of the annual strategy reviewing and budgeting, the Company’s management re-assesses risks and develops response plans aimed at reducing the risk levels and allocating necessary resources.

Reassessment results are continuously monitored and discussed at quarterly meetings of the Audit Committee.

Probability of Occurrence

Score	Probability of occurrence (during the year)	Description	Probability range	
			From	To
5	Highly likely	Risk event is almost inevitable	80 %	
4	Likely	High probability of occurrence	60 %	80 %
3	Possible	Occasional (50/50) probability of occurrence	40 %	60 %
2	Unlikely	Remote probability of occurrence	20 %	40 %
1	Highly unlikely	Risk event is nearly impossible		20 %

The Company seeks to maintain effective risk management and acceptable risk levels.

Risk Ranking

The purpose of risk ranking is to identify the Company’s most critical risks and determine decision-making levels and priorities in risk management in the given period for all identified risks.

Risk ranking uses two key evaluation criteria related to any risk:

1. Risk event probability
2. Severity of risk impact (cash loss)

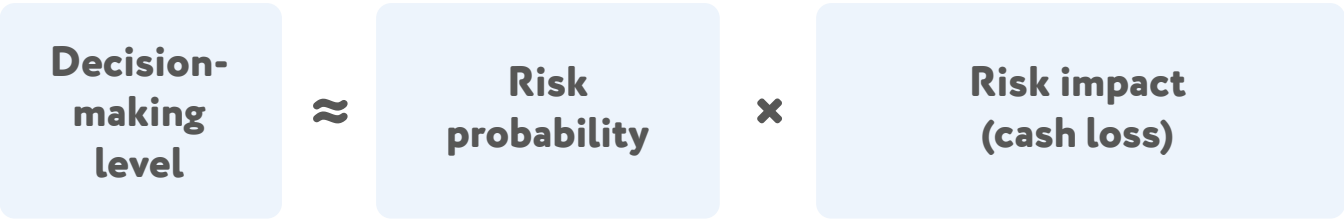
Severity of Risk Impact (Cash Loss)

In determining risk impact, it is proposed to consider up to five scenarios with different damage and probability options should the risk occur.

The next step is to use the linear interpolation method for determining the damage value which with 95 % probability will not be exceeded should the risk occur. The resulting damage value is assigned a score in accordance with the table above.

Score	Severity of impact (total for the year)	Description	Range of multipliers to the materiality limit used for IFRS reportin	
			From	To
5	Critical	Risk event significantly exceeds the materiality threshold <small>(The materiality threshold is set at RUB 100 million.)</small>	3	
4	Significant	Risk event exceeds the materiality threshold	1	3
3	Moderate	Risk event is material	0.2	1
2	Minor	Risk event is below the materiality threshold	0.01	0.2
1	Insignificant	Risk event is not material		0.01

The level of decision-making for an individual risk depends on multiplying the risk scores in two scales:



Criteria for determining the level of decision-making for an individual risk are established in the following table:

Decision-making level	Score product
Board of Directors, Management Board	>10
Risk Committee	≥5 и ≤10
Line management	<5

Key Risks

Country and Regional Risks

1. Deteriorating economic situation
in Russia, Kazakhstan and Belarus may lead to a slowdown in household income growth, and eventually may have a negative impact on the sales of children’s goods in Detsky Mir stores.

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. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies.

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. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption

of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

Decision-Making Level:

Board of Directors

Approach to Risk Management:

To timely prevent this risk, Detsky Mir monitors its markets on a weekly basis, analyzes financial and operational performance by country and individual region of Russia's federal districts, and, on a yearly basis, makes up a special anti-crisis budget providing for a possible drop in consumer demand.

At the same time, the experience of the crises in 2008, and from 2015 to 2016 shows that the children's goods market is less sensitive to unfavorable macroeconomic environment than other non-food retail sectors, since children's goods are an integral part of the family budget and, accordingly, are not the first item of cost reduction when disposable household income falls.

2. The unfavorable demographic situation, reflected in declining birth rates in a number of Russian regions and countries where the Company operates may lead to decreasing demand for children's goods and, as a result, declining sales volume.

Decision-Making Level:

Board of Directors

Approach to Risk Management:

In order to counterbalance this risk, Detsky

Mir pursues the strategy focused on the best price in the market and a wide assortment (including an expanded range of private label development), which helps attract additional traffic from other retail chains while offsetting the negative impact of weak social metrics in the country.

3. Inflation may have a negative impact on Detsky Mir's performance and cause an increase in expenses which are sensitive to the growth of the overall price level in the markets where the Company operates, for example, payroll expenses, transportation expenses, etc.

High growth rate of advertising costs may lead to an increase in Detsky Mir's marketing expenses to maintain competitive edge. In the context of growing competition, the impossibility of raising prices to maintain operational profitability in case of increasing costs may have material negative impact on Detsky Mir's performance.

Decision-Making Level:

Board of Directors

Approach to Risk Management:

Detsky Mir is the largest player in the children's goods market, which allows the Company to get the most attractive purchase prices offers. Should prices increase, the Company will offer goods to its customers at the best price in the market.

Detsky Mir believes that the inflation values at which it may face difficulties meeting its obligations are significantly above the value set in the Russian federal budget for the current year (the inflation of about 35%–40% per year can be deemed critical). If actual inflation is significantly above the forecasts of the Russian Government, and inflation becomes critical, Detsky Mir plans to take necessary measures to cap expenses and reduce receivables.

Industry Risks

1. Growing competition in the children's goods retail, including online sales, and the emergence of new market players may lead to changes in pricing and marketing policy, a decrease in operating profit, and market share reduction.

Decision-Making Level:

Board of Directors

Approach to Risk Management:

Detsky Mir constantly monitors the market environment and analyzes its competitors' activities — both specialized children's goods stores, food retailers and online players selling children's goods. Based on the data received, the Company adjusts its commercial policy, revises store formats and enhances the customer experience. Moreover, Detsky Mir is actively developing the omnichannel business model. In the future, the introduction of new formats will enhance Detsky Mir's competitive edge and allow the chain to compete successfully in the market.

2. Insufficient development of the transport infrastructure in Russian regions may create obstacles for regional development and subsequent chain store management due to increasing logistics costs.

Decision-Making Level:

Line management

Approach to Risk Management:

To eliminate the negative impact of this risk on the Group's business, Detsky Mir takes measures to increase the efficiency of logistics. These measures include boosting the operating capacity of the existing distribution centers, increasing logistics centralization, and considering options for building new warehouse facilities in Russian regions.

3. Rapidly changing consumer preferences

may result in the Company losing ground in product assortment and service quality, which may ultimately lead to lower sales and profitability of the business.

Decision-Making Level:

Risk Committee

Approach to Risk Management:

Detsky Mir constantly monitors consumer preferences to integrate them into procurement decisions and production of goods.

To support development of its private labels the Company develops collections of apparel and footwear using both its in-house design studio and external designers engaged on an exclusive basis.

4. Changes in the price of goods, purchased by Detsky Mir for resale may have an adverse effect on the Company's operations. The Company shares this risk with all other foreign and domestic market players.

Decision-Making Level:

Line management

Approach to Risk Management:

Short-term price fluctuations should have no major effect on Detsky Mir's activities as the Company generates sufficient reserves to mitigate the pressure of short-term price fluctuations.

Detsky Mir has a significant advantage over its competitors due to its high purchasing volumes. Purchasing is mainly centralized, which allows to obtain significant supplier discounts not available to other market players.

Developing private labels and switching to direct contracts enables us to offer our customers popular goods at the best prices, while maintaining high sales margins.

Business Risks

1. Reduction of customer traffic in malls where Detsky Mir stores are located may have a negative impact on the Company’s business.

Decision-Making Level:
Risk Committee

Approach to Risk Management:
The Company consistently monitors traffic levels in all shopping malls hosting the chain despite the fact that Detsky Mir stores are able to generate customer traffic on their own due to high brand awareness, competitive prices and a wide choice of products. At the same time, flexible terms of withdrawal from lease agreements help the Company actively relocate its stores to improve the terms of lease and the quality of its selling space.

2. Delayed delivery of imported goods may affect the Company’s operations.

Decision-Making Level:
Risk Committee

Approach to Risk Management:
The Company is continuously diversifying its portfolio of suppliers of goods and logistics services. Detsky Mir can use its effective procurement system to bind suppliers to accept higher levels of liability for late delivery and reimburse the Company in cash.

3. Failure to anticipate changes in demand, manage inventory levels, and make adjustments for seasonal fluctuations may have a negative effect the Company’s business.

Decision-Making Level:
Line management

Approach to Risk Management:
The shared SAP-based IT system and historical sales data help the Company effectively

forecast demand for each category and branded store. The Company has transparency into its full supply chain cycle: from ordering to warehouse or in-store fulfilment to delivery to the customer. In addition, a Transportation Management System was introduced in 2017 to optimize logistics costs, allowing for integrated transportation planning and management.

4. Insufficient supply of high-quality selling space suitable for retail development could restrain the rapid growth of the retail chain while increasing rental rates may put pressure on the profitability of the retail business.

Decision-Making Level:
Line management

Approach to Risk Management:
Detsky Mir is the largest player in the children’s goods market, which allows the Company to get the most attractive terms from lessors. The Company is a key anchor tenant that generates family traffic for shopping malls. A standard lease agreement has been developed providing for annual rent negotiations while capping price adjustments at 5 %. The agreement also provides for no-penalty unilateral withdrawal at the tenant’s discretion by sending the lessor a three months’ notice.

5. Malfunctions in the Company’s IT systems may have a negative impact on its business and future growth.

Decision-Making Level:
Line management

Approach to Risk Management:
The Company is proactively developing and implementing IT infrastructure development plans for future business growth. The standard three-level structure of SAP information systems (development, testing and productive systems) as well as the developed change pro-

cesses reduce the risks of failures associated with new software releases.

Financial Risks

1. Servicing and refinancing of Detsky Mir’s debt require cash. The Company has debt, mainly represented by bank loans and bonds. A banking crisis may significantly restrict Detsky Mir’s liquidity. In Russia, crises have led to a decrease in liquidity and an increase in the debt financing cost.

Decision-Making Level:
Risk Committee

Approach to Risk Management:
Early repayment of tranches with an increased rate. Most loan agreements do not provide for penalties for early termination. Diversification of banks (getting additional credit limits) and credit instruments.

2. The devaluation of the ruble may lead to a decrease in Detsky Mir’s profitability. A portion of procured goods (about 27 %) is denominated in US dollars, euros, and/or other foreign currency, while Detsky Mir’s income is denominated in rubles. Thus, the devaluation of the ruble may have a negative impact on Detsky Mir’s performance.

Decision-Making Level:
Line management

Approach to Risk Management:
The Company signs forward contracts with a fixed rate for a period of three to six months to hedge FX risks.

Reputational Risk

1. Detsky Mir has a reputation of the leader in the children’s goods market. According to polls, Detsky Mir brand awareness is close to 100 %.

Detsky Mir’s image and its perception by the population play a huge role in the children’s goods sector. Baby food, diapers, baby care products, and other similar goods are normally purchased only in reputable retail chains with an established reputation in the market. The loss of business reputation may adversely affect Detsky Mir’s financial performance, as it directly affects customer traffic in our stores.

Decision-Making Level:
Line management

Approach to Risk Management:
In Detsky Mir Group, safety and quality assurance are ensured throughout the entire lifecycle: from sourcing and ordering to shelving and getting feedback from customers. To reduce possible risks from unreliable suppliers, manufacturers were required to enhance quality assurance. In case of serious complaints about product quality and safety, the entire batch is returned to the supplier and cooperation is terminated.

Strategic Risks

1. Potential limited growth after the saturation of the children’s goods market by 2027 and the achievement of the children’s goods consumption level on par with developed economies. In this case, the development of the retail chain may slow down, and Detsky Mir will have to explore new niches and markets for growth.

Decision-Making Level:
Board of Directors

Approach to Risk Management:
Diversification of business — development of new categories (e. g. pet supplies) and entering new markets (e. g. in the Commonwealth of Independent States).

2. Risk of failure to meet the Company’s plans to expand its retail chain and enter new markets.

Decision-Making Level:
Board of Directors

Approach to Risk Management:
All members of the Company’s management team are highly qualified professional bringing experience and expertise in their focus areas.

The management team has an average of 12 years of experience in the Russian retail market.

The management team has successfully implemented an aggressive chain expansion plan, which has led to significant improvements in operational and financial performance since 2012.

Internal Controls

In order to provide reasonable assurance of achieving the Company’s goals, the Company has established and is operating an Internal Control System (ICS). The Company’s ICS is a set of internal control processes carried out by ICS units on the basis of the existing organizational structure, rules and policies, procedures and methods of internal control and risk management applied at all management levels and within all functional areas.

ICS Objectives:

- ★ Establish controls ensuring that the Company has functional business processes and implementable investment projects
- ★ Ensure asset integrity and efficient use of the Company’s resources
- ★ Protect the interests of the Company’s shareholders and prevent and mitigate conflicts of interest

- ★ Create the right environment for timely preparation and submission of reliable reports to be disclosed in accordance with applicable law
- ★ Ensure the Company’s compliance with legal and regulatory requirements.

ICS Principles:

- ★ Responsibility (ICS units are responsible for identifying, assessing, and analyzing relevant risks, as well as for development and implementation of risk management activities and their regulation within the scope of their authority).
- ★ Reasonable formalization (the Company seeks to formalize control activities at a level sufficient to maintain a functional and effective ICS)
- ★ Uniform methodology (internal controls are based on approaches and standards common for the entire Company)
- ★ Division of incompatible functions (to reduce the risk of error/fraud, roles and responsibilities are distributed to prevent one unit from combining development, approval, monitoring and assessment functions)
- ★ Economic feasibility (the cost of control activities may not exceed their benefits)
- ★ Reasonable assurance (controls are effective if the risk is reduced to its tolerance level).

ICS Structure (Based on the COSO Model)

- ★ Control environment (ownership and importance of ICS for employees and top management of the Company)

- ★ Risk assessment (identification and analysis of risks and their impact to ensure further risk management)
- ★ Control activities (actions that help reduce risks to their tolerance levels and ensure the achievement of the Company’s objectives)
- ★ Information and communication (conditions necessary for discharging management roles, making timely and informed decisions, and performing job duties by employees of the Company)
- ★ Monitoring activities (ongoing ICS evaluations to identify material deficiencies, as well as its ability to ensure the achievement of targets and objectives).

ICS Unit Responsibilities:

The Company’s Board of Directors is responsible for:

- ★ monitoring and evaluating activities of executive bodies and top management
- ★ approving of the Company’s financial and business plans, budgets, investment programs and regular discussions of progress reports submitted by the Company’s executive body and officers on the approved plans and decisions
- ★ regular reviewing and assessment of progress in implementing approved development strategies and annual and quarterly budgets, achieving targets, and management performance
- ★ assessment of management, financial, political and other risks affecting the Company’s operations and ensuring functional ICS
- ★ ensuring the Company’s compliance with statutory requirements, corporate gover-

nance principles, and disclosure of complete and accurate information about the Company

- ★ monitoring the implementation of decisions made by the Board of Directors.

The Audit Committee of the Board of Directors is responsible for:

- ★ assistance and control over preparing and auditing financial statements, including assessment of the external auditor’s performance
- ★ assessment of the risk management system and compliance with applicable legal requirements for financial reporting, auditing and planning
- ★ supporting the budgeting process and financial modeling, including previews of draft budgets before submission to the Board of Directors
- ★ approving the activities plan of the Internal Control and Audit Department and reviewing its annual and semi-annual performance reports
- ★ evaluation of interested party and major transactions.

The Company’s CEO is responsible for:

- ★ coordinating the implementation of decisions made by the General Meeting of Shareholders and the Board of Directors
- ★ establishing effective ICS and risk management
- ★ managing activities and effective communication between structural units
- ★ allocating responsibilities among structural units and monitoring performance

- ★ regulating budget development and monitoring performance
- ★ safeguarding the Company’s fixed assets and material resources
- ★ ensuring legislative compliance of the Company’s operations.

The Internal Control and Audit Department is responsible for:

- ★ assessment of ICS performance, risk management and corporate governance, as well as development of recommendations for their improvement
- ★ monitoring the implementation of recommendations on elimination of violations and deficiencies identified
- ★ supervising implementation practices
- ★ administration of the “Workforce Watch” corporate whistleblowing program (“Hotline”).

Heads of business units and top management of the Company are responsible for:

- ★ division of roles and responsibilities among employees subordinated to them administratively in accordance with the principle of segregation of duties
- ★ inclusion of functions and responsibilities for implementing control activities in job descriptions of employees
- ★ development of a uniform corporate culture strengthening the Company’s ICS
- ★ monitoring of compliance by employees of the Company’s structural units with the requirements of internal regulations
- ★ implementation and monitoring of control activities

- ★ timely informing superiors of deviations in the implementation of control activities.

All employees of the Company, as owners of controls, are responsible for:

- ★ effective implementation of control and risk management activities in accordance with job descriptions and the requirements of internal regulations
- ★ timely informing immediate superiors of emerging risks and cases when control activities may not be implemented for any reason and/or control or risk management activities require changes to be made
- ★ completing regular upskilling trainings in internal control and risk management under the approved training program.

The Audit Commission is responsible for desk audits of the Company’s annual financial and business performance, as well as for unscheduled audits, to:

- ★ confirm the reliability of data in the Company’s annual report, annual financial statements and other financial documents
- ★ formulate proposals for improving the Company’s ICS, as well as proposals for implementing activities to solidify the Company’s financial position.

Business Ethics and Compliance With Established Requirements

Business values and principles are key elements of the internal environment in which risks are managed. Detsky Mir adheres to business methods and approaches building an environment of integrity and creating long-term value for the Company. Detsky Mir has internal rules and regulations that set out all corporate values and principles and are communicated to all employees (see the Regulatory Compliance and Business Ethics section).

Dividends

PJSC Detsky Mir’s Board of Directors and top management are aware that consistent dividends are an integral part of our investment appeal and shareholder value.

Detsky Mir has in place a Dividend Policy developed and approved by the Board of Directors, which sets out clear indications of financial (economic) circumstances under which the Company should/should not pay dividends.

The decision on the dividend payout (including the dividend amount and payout procedure) is made by PJSC Detsky Mir’s General Meeting of Shareholders based on the Board of Directors’ recommendations.

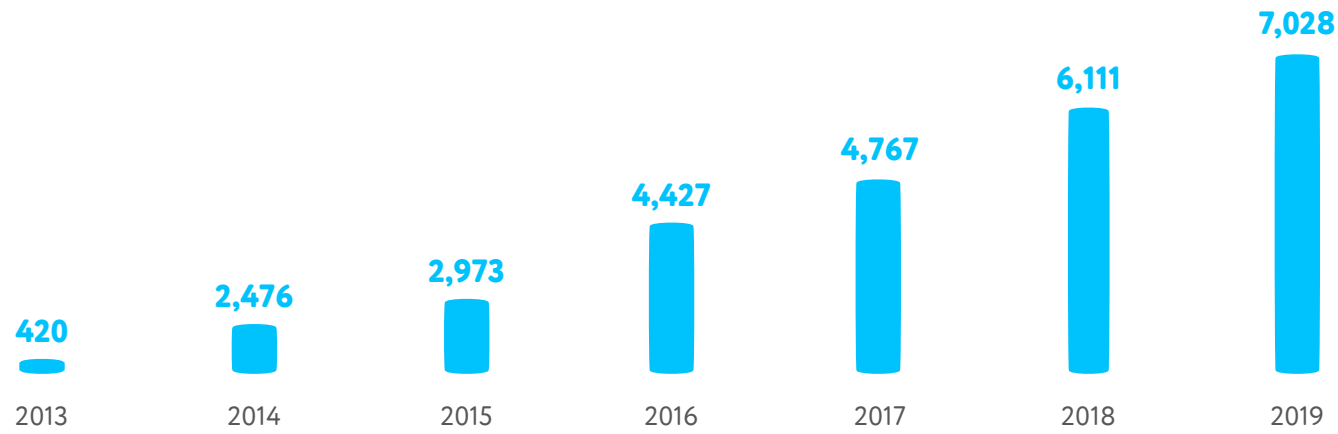
The Dividend Policy envisages the dividend payout ratio of not less than 50 % of the consolidated IFRS net profit for the previous year. Historically, Detsky Mir paid up to 100 %

of its RAS net profit. Dividends are usually paid twice a year: an interim payment for nine months and then for the full year (the balance due after the interim dividend payout).

The dividend amount is determined based on Detsky Mir’s development prospects, the Company’s financial position and financing needs, overall macroeconomic and market environment, as well as other factors, including those related to taxation and legislation

Dividend History (Declared Dividends), RUB m

Declared dividends to PJSFC Sistema in the amount of RUB 1,143,488,146.68 were paid in February 2018 due to a judicial decision restricting the receipt of income from the issuer’s shares held by PJSFC Sistema. The shareholding comprised 2,956 shares in 2013.



Sustainability



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Sustainability Approach and Stakeholder Engagement



Operating responsibly is central to Detsky Mir Group’s strategy; this approach allows Detsky Mir to show high growth rates year after year and boost its profile both in the market for children’s goods and in social responsibility.

Matters related to responsible business conduct and sustainability are regularly discussed at meetings of Detsky Mir’s Board of Directors.

Providing children with a full assortment of required products at affordable prices remains Detsky Mir’s key goal in social responsibility.

The Group is committed to the Agenda for Sustainable Development adopted by the United Nations in 2015.

The agenda includes 17 Sustainable Development Goals (SDGs), three of which are particularly relevant to the Company

given its business profile and mission:

- ★ Quality education
- ★ Decent work and economic growth (see the Personnel section for more details)
- ★ Responsible consumption and production (see the Environmental Responsibility section for more details).



Protection of children’s rights is a top priority for the Company, imbedded across all operations and social responsibility programs



Creative products and learning toys make up a significant portion of the goods on the shelves of Detsky Mir stores. The Company is confident that this product category has vast potential for developing children as creative and intellectually developed individuals.

Early childhood development is the foundation for a quality learning process to which Detsky Mir contributes by offering a wide choice of relevant products at affordable prices.

Helping children with special needs, as well as children from low-income families and orphanages is high on Detsky Mir’s social agenda. Support for such children is provided through the Group’s charitable programs.

Protection of children’s rights is a top priority for the Company, imbedded across all operations and social responsibility programs.

Support for the Children’s Rights and Business Principles Initiative of the United Nations Children’s Fund (UNICEF)

★ **Principle 1.**
Meet their responsibility to respect children’s rights and commit to supporting the human rights of children

Our Actions
The Company supports the UN Convention on the Rights of the Child ratified by the Russian Federation.

★ **Principle 2.**
Contribute to the elimination of child labor, including in all business activities and business relationships

Our Actions
The Company does not tolerate the use of child labor in any activities.

★ **Principle 3.**
Provide decent work for young workers, parents and caregivers

Our Actions
The Company’s HR policy covers the most significant aspects of labor relations, such as workplace safety, decent pay, social guarantees (including parental leave and flexible hours for young mothers).

HR policy section

★ **Principle 4.**
Ensure the protection and safety of children in all business activities and facilities

Our Actions
The Company is committed to ensuring the safety of children visiting Detsky Mir stores. Its new store concept provides for wider aisles

for customers’ convenience, and all interactive areas have been developed through partnership with leading global manufacturers and meet all safety requirements.

★ **Principle 5.**
Ensure that products and services are safe, and seek to support children’s rights through them

Our Actions
Safety and quality of children’s products are a top priority for the Company. All products have appropriate certificates. Detsky Mir monitors the quality and safety of its products throughout their lifecycle.

Product Safety section

★ **Principle 6.**
Use marketing and advertising that respect and support children’s rights

Our Actions
The Company manages its marketing communications responsibly, making sure they fully comply with all legal requirements and do not violate children’s rights.

Customer Service and Brand Management section

★ **Principle 7.**
Respect and support children’s rights in relation to the environment and to land acquisition and use

Our Actions
The Company seeks to reduce its impact on the environment as well as instill in children the understanding of nature’s importance and the need to protect it.

Environmental Responsibility section

★ **Principle 8.**
Respect and support children’s rights in security arrangements

Our Actions
The Company respects children’s rights in all security procedures embedded across its activities.

★ **Principle 9.**
Help protect children affected by emergencies

Our Actions
As part of its charitable activities, the Company provides support to children affected by emergencies.

Charitable Activities section

★ **Principle 10.**
Reinforce community and government efforts to protect and fulfil children’s rights

Our Actions
Charity and volunteer programs helping disadvantaged children make up a significant part of the Company’s activities. These programs also help draw public attention to children’s issues.

Charitable Activities section

Achieving these goals would be impossible without developing a dialogue with Detsky Mir’s key stakeholders, which is a particular focus for the Company.

Detsky Mir’s key stakeholders are customers, employees, investors, suppliers, industry organizations, and local communities.

Key Stakeholder Engagement

Suppliers

- Ensuring timely and stable supply of high-quality products
- Furthering partnerships with local producers in the regions of operation
- Maintaining relations of trust and respect with business partners
- Ensuring consumer health and safety
- Improving operational efficiency, reducing waste and shrinkage
- Delivering goods to consumers in the most efficient way

- ★ Joint projects in assortment planning and merchandising
- ★ Industry conferences
- ★ Supplier exhibitions

Employees

- Support for employees’ professional development and social wellbeing
- Development of corporate culture supporting the achievement of strategic goals
- Maintaining a dialogue with trade unions
- Increasing employee motivation, providing assistance in building professional skills
- Maintaining a good reputation among existing and potential employees

- ★ Assessment of professional knowledge
- ★ Intranet portal
- ★ Webtutor training portal
- ★ Employee engagement survey
- ★ Hotline

Customers

- Meeting customer needs and ensuring a comfortable shopping experience
- Increasing customer loyalty and growing the Company’s share of customer wallet through consistently tailored offerings
- Collecting feedback and improving the Company’s performance based on captured insights
- Driving business growth to meet changing customer demand

- ★ Satisfaction surveys
- ★ Consumer focus groups

- ★ Feedback loop
- ★ Sending information about promotions and special offers via SMS and email

Industry organizations

- Sharing experience with experts and gaining a better understanding of market trends

- ★ Industry conferences
- ★ Round tables

Local communities

- Understanding and addressing local needs and responding to social and environmental issues
- Caring for the health and wellbeing of people in the regions in which the Company operates
- Building positive relations with local authorities
- Monitoring regulatory changes that may affect the Company’s commercial activities

- ★ Strengthening the Company’s leadership in the Russian children’s goods market through support of charity and social programs
- ★ Corporate volunteer programs

Shareholders/investors

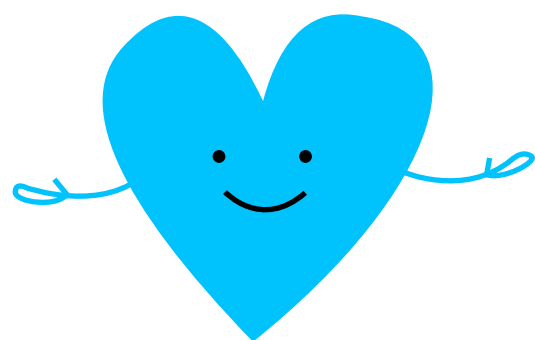
- Updating the investment community on Detsky Mir’s activities, strategy, financial and operational performance, and major corporate events
- Continuous improvement of corporate governance systems
- Increasing the Company’s long-term value
- Demonstrating commitment to openness

- ★ Updating the Company’s strategy in line with the current and projected market trends
- ★ Ensuring compliance with the highest transparency and disclosure standards
- ★ Roadshows
- ★ Investor meetings at conferences
- ★ Conference calls
- ★ Group meetings with analysts and investors

CSR Strategy

Detsky Mir Group's long-term Corporate Social Responsibility (CSR) Strategy was adopted in 2016 as the core document guiding the development of the Company's social activities in the coming years.

The CSR strategy provides for annual increases in the scale of the Group's charitable activities as Detsky Mir Group expands its business and the involvement of increasing numbers of employees and customers in corporate charity and volunteer programs.



The underlying principles of Detsky Mir Group's CSR Strategy:

- ★ Openness of social programs and their implementation mechanisms, implying transparency and precluding information concealment or falsification
- ★ Interaction with all stakeholder groups, taking into account stakeholder interests and demands, and disclosing performance reports
- ★ Commitment of all structural units across the Company to the philosophy of social responsibility

★ Systematic approach:

- implementation of a comprehensive development strategy covering economic, social and environmental aspects
- consistency, responsibility for current and past activities, as well as for the future impact of activities on the environment
- regular efforts with a long-term vision
- integration of CSR principles into all management processes.

- ★ Meaningfulness, importance and relevance of projects. Large scale, considerable reach. Regular evaluation of program performance
- ★ Avoidance of conflict of interests, ensuring no political bias, providing no support to individual confessions and nationalist movements



Detsky Mir Group’s Priority CSR Areas

Corporate Citizenship

Key metrics

- ★ Contribution to national economic development
- ★ Tax payments
- ★ Job creation
- ★ Minimization of harmful environmental impact

Comments

- ★ Revenue – RUB 128.8 billion in 2019.
- ★ Tax payments – RUB 5.8 billion in 2019.
- ★ Number of jobs created – 9,000 jobs in 2015–2019.
- ★ Projects for separate collection of cardboard, use eco-bags and energy-saving lighting.
- ★ See the Financial Overview, Personnel and Environmental Responsibility sections for more details.

Responsibility to Business Partners and Customers

Key metrics

- ★ Business integrity
- ★ Professional standards
- ★ Public reporting in accordance with international standards
- ★ Compliance with applicable legal and ethical standards
- ★ Compliance with corporate governance standards

Comments

- ★ Transparency of ownership structure, financial and operational performance metrics, composition of the Board of Directors.
- ★ Product quality assurance and maintaining a hotline for consumers.
- ★ Establishment and participation in the activities of the Russian Association of Children’s Goods Industry: countering counterfeit products and uncivilized trade.
- ★ Joining the Anti-Corruption Charter of the Russian Business.
- ★ Compliance with advertising and consumer protection laws, use of ethical promotion methods.
- ★ Availability of the Corporate Code of Conduct and the Code of Ethics.
- ★ Quarterly disclosures of financial results. Publication of annual reports.
- ★ Since 2015, annual audits of IFRS consolidated financial statements have been run.
- ★ Sustainability Report is integrated into the Company’s Annual Report.

Employer Responsibility

Key metrics

- ★ Fair remuneration and motivation
- ★ Employee professional development expenses
- ★ Amount of investment in healthcare for employees and in occupational health activities

Comments

- ★ The Company is committed to ensuring compliance with the local labor laws in the countries of operation, respect for human rights and individual freedoms, and zero tolerance to any form of discrimination and harassment.
- ★ The Company has in place a mixed time- and performance-based remuneration system which takes into account not only individual performance but also the annual financial performance of the entire Group or a specific store.
- ★ Total occupational health expenses – RUB 28 million in 2019.

See the HR Policy section for more details.

Social Responsibility (Charitable Activities)

Key metrics

- ★ Social and charity projects

Comments

- ★ Detsky Mir Group takes care of more than 550,000 disadvantaged children residing in 1,146 children’s homes in Russia, Kazakhstan and Belarus.
- ★ See the Charitable Activities section for more details.



Charities events

Product Safety and Quality Assurance

The quality of children’s goods is always subject to stricter requirements. Ensuring that Detsky Mir and subsidiaries of PJSC Detsky Mir offer safe, high-quality products is a key commitment that helps them further build trust with their customers.

Product safety and quality assurance requires implementing and complying with various policies and regulations applicable to the entire supply chain, from pre-delivery stages to product delivery to warehouses and stores and finally to end users. The Company’s policy and controls are fully compliant with all laws and regulations of the Russian Federation, Republic of Kazakhstan and Republic of Belarus, and are in line with global best practices in retail.

The Company and its subsidiaries operate in full compliance with Russia’s Consumer Protection Law and Trade Rules, the Law of the Republic of Kazakhstan On Protection of Consumer Rights, Order of the Acting Minister of the National Economy of the Republic of Kazakhstan On Approval of Internal Trade Rules, the Law of the Republic of Belarus On Protection of Consumer Rights, the Law of the Republic of Belarus On State Regulation of Trade and Public Catering in the Republic of Belarus, and the Rules for the Sale of Certain Types of Goods and Public Catering approved by Resolution No. 703 of the Council of Ministers of the Republic of Belarus dated 22 July 2014. A key challenge faced by players in the children’s goods market is counterfeit

products, which can be harmful to the health of younger generations. Detsky Mir purchases directly from major international manufacturers and suppliers to guarantee that the Company offers products of the highest quality. The Company also focuses on initiatives to address the counterfeit products issue.

2019 Highlights

- ★ The Certification Department ran a documentation audit of 137 private label producers (2018: 129 producers)
- ★ The Certification Department also ran a documentation audit of 333 suppliers for compliance with regulatory requirements for products purchased from them
- ★ 43,784 internal audits were conducted across the Group stores (2018: 39,936 audits)
- ★ 8,952 SKUs purchased from suppliers were sent to accredited laboratories for analysis (2018: 7,894 SKUs)
- ★ 6,027 samples of products manufactured by Detsky Mir were sent to accredited laboratories for analysis (2018: 5,052 samples)

In-Store Service Quality and Safety Assurance

The leadership of the Operations Directorate conducts scheduled audits of standalone structural units (stores) for compliance with business processes, standards, and directives applicable across the Company.

These audits cover:

- ★ compliance with customer service standards
- ★ compliance with visual merchandising standards applicable at the Company
- ★ compliance with the rules for handling products with a shelf life
- ★ keeping stores clean and complying with sanitary requirements
- ★ compliance with the fire safety rules and regulations, requirements of State Fire Supervision Inspectors and the Company’s Fire Safety Department.

The audits review the current situation and identify areas for improvement and optimization of existing processes. Audit findings inform improvement proposals to further enhance the Company’s performance.

Strong regulatory compliance allows the Company to offer its customers the necessary level of in-store experience and safety.

Product Safety and Quality Assurance

Detsky Mir monitors the quality and safety of its products throughout their lifecycle: from sourcing and order creation and placement to getting products on shelves and collecting feedback from customers.

All products offered in the Company’s physical and online stores are subject to man-

datory procedures for conformity to technical regulatory requirements applicable within the Customs Union (Technical Regulations, the Consumer Protection Law, and the Rules for the Sale of Certain Types of Goods). Each SKU has statutory documents that are required for the product to be imported into the Russian (Customs Union) customs territory and marketed through a retail chain.

Detsky Mir leverages its effective and streamlined safety and quality assurance processes to prevent defective goods from appearing on the shelves of its retail stores by rejecting them as early as during the laboratory testing, the initial stage of certification.

Detsky Mir checks each item’s test report and ISO (International Organization for Standardization) certificate in cooperation with the world’s major manufacturers of children’s products, confirming a product’s conformity to the regulatory standards of the country of manufacture and legislation of the Russian Federation (member countries of the Customs Union).

Consistent Safety and Quality Assurance Efforts

Procedures to confirm the products’ conformity to safety and quality

requirements are conducted by duly accredited certification authorities and test laboratories listed in the Unified Register of Certification Authorities and Test Laboratories (Centers) of the Customs Union accredited by the Federal Service for Accreditation

Timely supervisory audits

of previously certified products to extend the validity of conformity documents, including repeated testing of their samples

Continuous monitoring

of changes in technical regulations of Russia and the Customs Union

Purchasing products

that successfully passed laboratory tests

As part of its cooperation with the manufacturers of Detsky Mir’s private labels, the Company carefully inspects the quality of the products throughout the manufacturing cycle and runs an in-house certification process.

To confirm that its products for children and adolescents meet the applicable requirements of the Technical Regulations of the Customs Union, the Company sends a request to the certification authority, including a set of documents required by the regulations, and samples of the products to be certified. Following a documentation review and, if necessary, laboratory sample testing, the certification agency makes a decision on issuing a declaration of conformity, certificates of conformity and state registration, and detailed reports on products that are not subject to a mandatory conformity assessment.

The documents are processed by the Company’s certification function and entered into a single SAP database, accessible to all stores across the retail chain, while information on

the received documents is sent to the Customs Department.

Given the Group’s business growth rates (see the Strategic Report section), the number of customer complaints against product quality dropped significantly in 2019. A total of four reports on product non-conformity to Technical Regulations of the Customs Union were received from the Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) during the year (all four dismissed by the court), which is within tolerance for a business of the Company’s scale.

If a customer finds defects in a product during its use and sends a complaint, the Company will thoroughly check the product documents and take all steps to prevent standard quality products from appearing on the shelves of its stores.

Additional product tests can also be run if necessary. If laboratory tests reveal a manufacturing defect, the defective product is

replaced with a new one or the cost of the product is refunded to the customer.

As a major player in the children’s goods market, Detsky Mir supports the efforts of the Federal Service for Accreditation (Rosakkreditatsiya) to counteract illegal product certification.

From January 2019, Detsky Mir Group has tightened its requirements for documents confirming the quality of goods newly supplied by local (Russian) suppliers to the Detsky Mir retail chain. Certificates issued by now defunct certification agencies are not accepted.

Screening out certificates issued by now defunct certification agencies aims to maintain Detsky Mir’s business standing as the leading Company operating responsibly in the children’s goods market of the Eurasian Economic Union (EAEU), and to prevent the risks associated with the sale of products of doubtful quality.

In 2019, Detsky Mir held a tender for conformity assessment services with respect to private label products supplied by the Company to the EAEU. Along with financial aspects, the requirements for bidders focused on integrity and track record in the market for conformity assessment services, qualifications and relevant expertise of their staff involved in providing conformity assessment services, and the absence of records on violations by accredited members available from the Federal Service for Accreditation, if any.

As Detsky Mir opened its stores in Belarus, it has been marketing its products in the country using the approvals issued in Russia to confirm their conformity to the requirements for children’s goods set out in Technical Regulations of the Customs Union applicable in the Eurasian Economic Union (EAEU).

Key Product Safety and Quality Assurance Targets for 2020

- ★ Product safety and quality assurance with governmental authorities on changes to requirements for imported and marketed goods
- ★ Enhancing internal control over conformity of private labels and local products to minimize the risks of non-conformity reports issued by supervisory authorities and related penalty costs
- ★ Monitoring changes in legislation related to product conformity assessments.

Product Labeling

Clear and accurate labeling helps consumers identify and learn about various aspects of a product. To ensure such clarity, Detsky Mir labels its private labels following a set of rules. In particular, the Company:

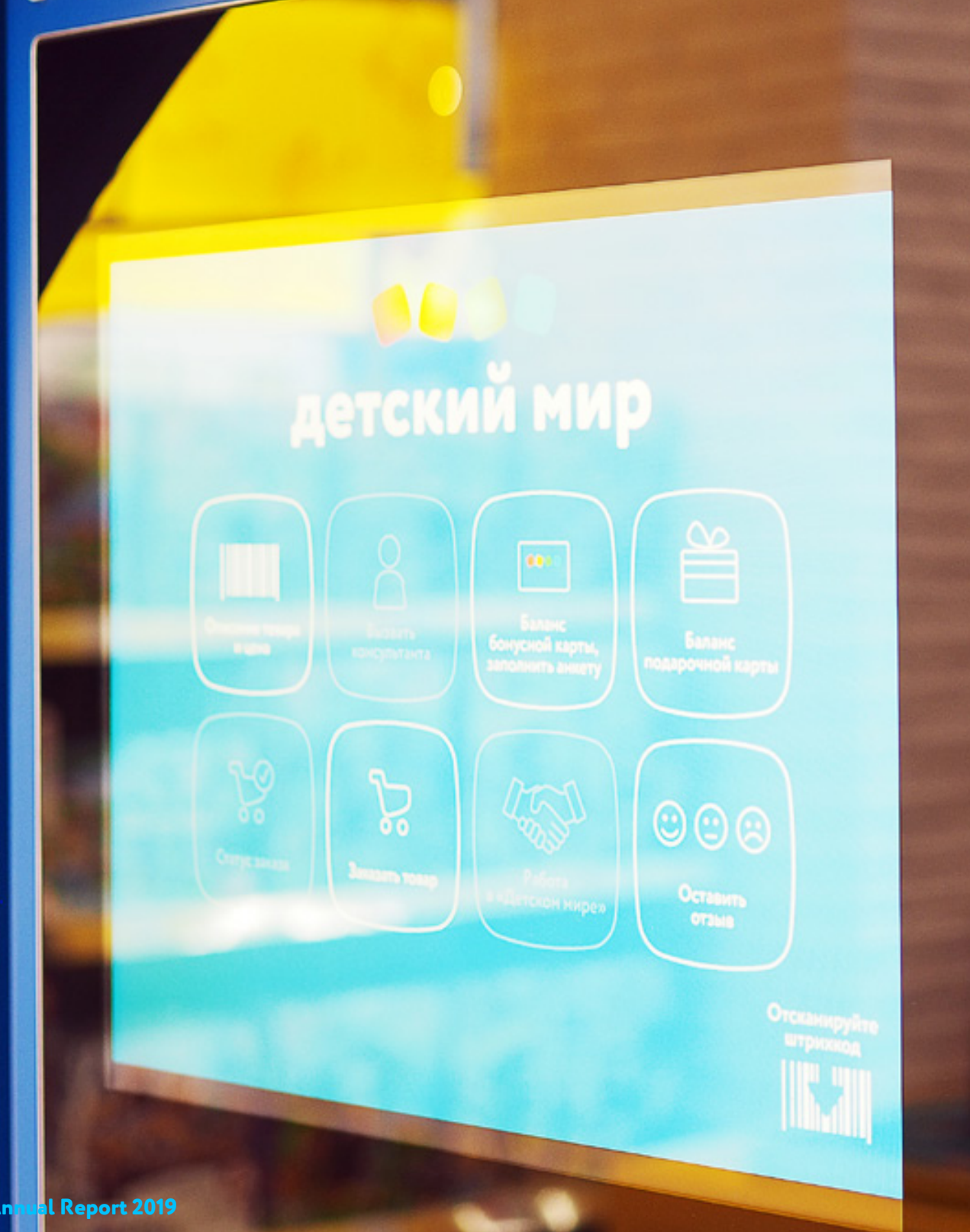
- ★ provides information on conformity of products to applicable Russian laws, including Technical Regulations of the Customs Union, Rules for the Sale of Certain Types of Products, Customer Protection Law, and contracts related to the product type, quality and safety
- ★ discloses all necessary product information required under the Customer Protection Law to all stakeholders
- ★ highlights the benefits of its products through packaging and labeling to boost sales.

No instances of non-compliant labels were identified during the year for Detsky Mir's private label products, confirming the effectiveness of the Company's efforts in this area.



All customers can obtain a copy of any product's certificate in any store of the Detsky Mir chain. The original certificate is also available for inspection within three days of purchase

ИНФОКИОСК



Regulatory Compliance and Business Ethics

Detsky Mir strives to ensure that the Company and its employees act in line with the Company’s values, standards of business ethics, and regulatory requirements.

Key Documents

- ★ Code of Ethics
- ★ Anti-Corruption Policy
- ★ Policy on Managing Conflicts of Interest
- ★ Anti-Fraud Policy
- ★ Procurement Policy
- ★ Policy on Material, Technical and Information Support to Employees
- ★ Policy on Personal Data Processing at PJSC Detsky Mir
- ★ Information Security Policy
- ★ Rules for Procurement of Goods, Works and Services
- ★ Rules for Checking Counterparties
- ★ Rules for Personnel Recruitment

Stakeholders

- ★ Investment and finance community
- ★ Regional authorities and local communities
- ★ Employees and trade unions
- ★ General public and the mass media
- ★ Business partners
- ★ Customers

Key Policy Provisions

Code of Ethics

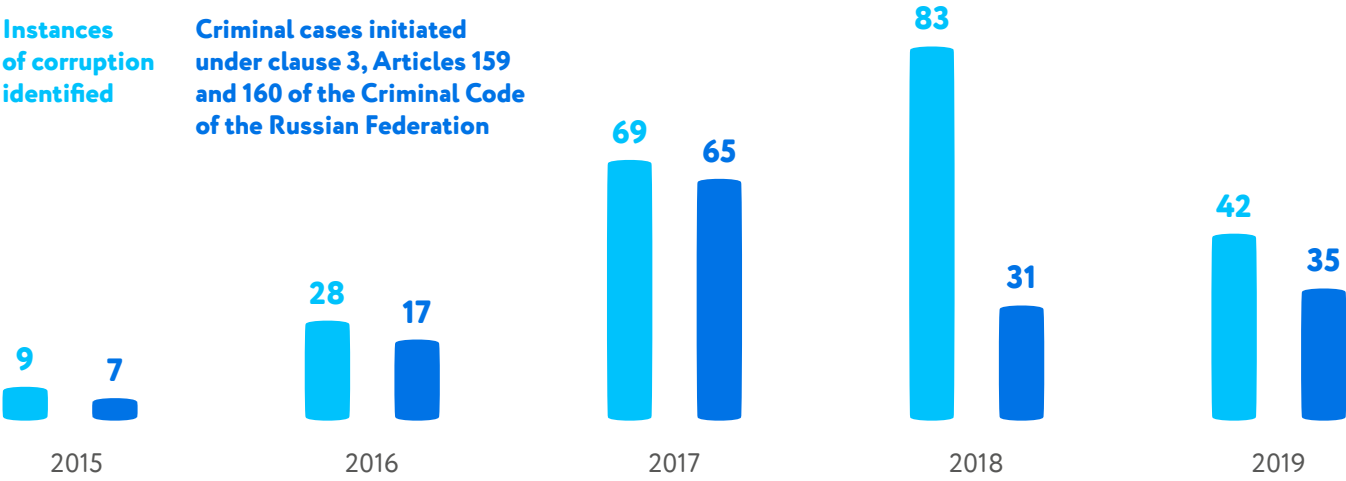
Approved in 2013 (updated in 2018). This basic internal regulation of the Company sets out a number of key principles regulating the Company’s business conduct and provides guidance to employees on making informed decisions in different situations related to the performance of their job duties.

The Code also forms a framework for developing other internal regulations of the Company.

The Code of Ethics sets out key standards, rules and principles aimed at establishing uniform ethical standards to regulate the Company’s activities and its employees’ actions as they relate to key business processes at Detsky Mir, as well as interactions with state officials, business partners, shareholders, and the mass media; the Code also covers responsibility to the state and society, protection of the Company’s interests, compliance with HR and business ethics, as well as the procedure for reporting breaches of the Code.

The Code’s provisions are binding on the Company’s top management and all other employees.

Results of Corruption Screening



Anti-Corruption Policy

The Policy, approved in 2013, is the Company’s basic document setting out key principles and requirements for preventing corruption and ensuring compliance with the applicable anti-corruption legislation by the Company, members of its governing bodies, employees, and other persons authorized to act on behalf of the Company.

The Code’s provisions are binding on the Company’s top management and all other employees. The Policy reflects the commitment of the Company and its management to high ethical standards of doing business in an open and fair manner to improve corporate culture, follow best practices in corporate governance, and maintain the Company’s business reputation at an appropriate level.

The purpose of the Policy is to minimize the risk that the Company, or members of its Board of Directors or Management Board may get involved in corrupt practices, as well as to give shareholders, counterparties, employees and other stakeholders a uniform understanding of the Company’s policy of zero tolerance to any form or manifestation of corruption.

Policy on Managing Conflicts of Interest

Approved in 2014 (updated in 2018). The Policy is a basic internal regulation of the Company, which determines the key principles and requirements for preventing conflicts of interest and ensuring compliance by Company employees with the applicable anti-corruption legislation; sets out the requirements for employees’ actions, aimed at minimizing the risk of conflicts of interest; establishes a procedure for managing potential and actual conflicts of interest; and clarifies situations that lead or may lead to a conflict of interest.

The main purpose of the Policy is to create a uniform and effective framework for managing actual and potential conflicts of interest at the Company and determine the conduct rules for employees (independent of their position), aimed at minimizing the risks of the Company’s decision-making processes being compromised due to employees’ personal interests and affiliations.

The Policy’s provisions are binding on the Company’s top management and all employees.

Anti-Fraud Policy

Approved in 2011 (updated in 2018). The Policy is the Company’s internal regulation governing efforts to prevent fraud. The document is designed to introduce mechanisms to prevent and avoid conflicts of interest, as well as to identify and contain IT fraud risks.

All of the Company’s business units and officers must be familiar with the Policy and apply it in their work.

Procurement Policy. Rules for Procurement of Goods, Works and Services

These internal regulations of the Company, approved in 2010 (updated in 2019), determine the key principles of procurement, the roles of participants in the procurement process, as well as the overall procedure for the procurement of goods, works and services to meet the needs of the Company or its subsidiaries, except for the procurement of goods for subsequent sale at Detsky Mir Group stores.

The documents formalize the operating principles of the Procurement Commission along with the rights and obligations of its members and participants in the procurement process; create a framework for exercising control over procurement activities; ensure smart selection of Suppliers and the best terms of goods supply or works/services delivery.

All of the Company’s business units and officers must be familiar with these documents and apply them in their work.

Policy on Material, Technical and Information Support to Employees

The Policy, approved in 2013 (updated in 2019), is the Company’s internal document

that sets out the key principles of, and procedures for, providing the following allowances to employees: entertainment expenses, business gifts to third persons, business trip expenses, IT resources, voluntary health insurance, company mobile phones, company cars, and workplace setup.

The purpose of the Policy is to determine standard amounts of these allowances, ensure efficient cost planning and reduction for the Company, and tighten control over compliance with financial discipline.

All of the Company’s business units and officers must be familiar with the Policy and apply it in their work.

PJSC Detsky Mir’s Information Security Policy

Approved in 2015 (updated in 2017). The document formalizes the goals and objectives of the information policy pursued by the Company and determines the entirety of relevant rules, requirements and approaches. It is the primary document ensuring the Company’s information security.

All of the Company’s business units and officers must be familiar with the Policy and apply it in their work.

Rules for Checking Counterparties

Approved in 2013 (updated in 2015). The Rules are the Company’s internal document determining the procedure for checking the reputation and financial position of counterparties and existing service suppliers to minimize economic risks and risks of IT fraud when executing contracts with third parties.

Policy on Personal Data Processing at PJSC Detsky Mir

Approved in 2012 (updated in 2017). The Policy is an internal document that determines the Company’s position and intentions in relation to the processing and protection of personal data of individuals having labor, civil or other relations with the Company, and respect of the rights and fundamental freedoms of each individual, in particular the right to privacy.

Rules for Personnel Recruitment

Approved in 2008 (updated in 2018). The Rules are the Company’s internal document that sets out the procedure for running the recruitment and employment process and formalizes the Company’s HR policy.

Key Procedures Ensuring Regulatory Compliance

Hotline

To better manage risks, prevent abuse, timely identify suspected corruption, fraud or other wrongdoing in the activities of PJSC Detsky Mir and its non-public subsidiaries, the

“Workforce Watch” corporate whistleblowing program has been developed and launched.

All confirmed reports to the hotline were handled.

Handling of Reports Received via the Hotline

Reports breakdown	2017		2018		2019	
	Received	Confirmed	Received	Confirmed	Received	Confirmed
HR management	82	9	101	14	145	24
Retail sales and customer service	72	31	21	3	2	0
Other	70	2	18	4	6	2
Execution of contracts	2	0	0	0	10	3
Property and asset management	0	0	0	0	7	3
Health, safety and environment (HSE)	0	0	1	1	5	2
Procurement procedures	1	1	2	0	1	0
B2B sales and customer service	1	0	0	0	1	0
Total	228	43	143	22	177	34

Channels and means (anonymous) of notification:

- ★ Email address: report@detmir.ru
 - ★ Telephone: +7 495 781-08-30 (voicemail) or +7 800 250-00-00 using the key phrase “Workforce Watch”
- ★ Mail: 3 Third Nizhnelikhoborskiy Proezd, Bld. 6, Moscow, 127238, Russia for the attention of the Head of the Legal Department, and/or Head of the Internal Control and Audit Department, and/or Head of the Corporate Security Department marked “Confidential – ‘Workforce Watch’”

Operations With Securities Based on Insider Information

The Company has in place the Regulations on Insider Information determining the procedure for maintaining a list of insiders; gaining access to insider information; notifying persons included in the List of Insiders about their inclusion in, or exclusion from, the List; providing the List of Insiders to market operators; receiving, accounting for, and storing notifications from insiders about their transactions with the Company securities; and protecting insider information. Information about transactions with the Company securities performed by members of governing bodies is disclosed in accordance with applicable legislation.

Training

A digital memo for employees on compliance with the anti-corruption principles is circulated quarterly. At recruitment, the Company’s new hires must read the Policy on Managing Conflicts of Interest at PJSC Detsky Mir, the Code of Ethics and the Anti-Fraud Policy of PJSC Detsky Mir.

A priority task for management is communicating the Company’s values to employees, including the policy of zero tolerance to corruption and unlawful practices.

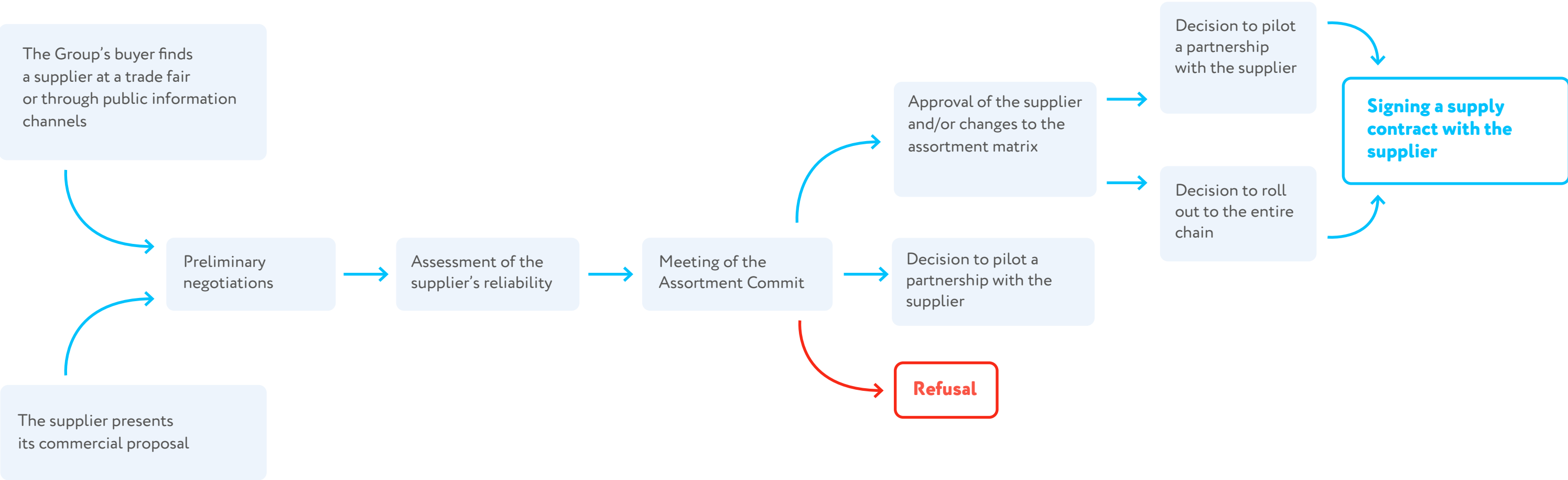
Anti-Corruption Documents

- [Anti-Corruption Policy](#)
- [Anti-Corruption Charter](#)
- [Policy Management conflict of interest](#)
- [Code of Ethics](#)
- [Corporate Code of Conduct](#)

The key documents regulating anti-corruption activities, specifically, the Code of Ethics, the Anti-Corruption Policy, the Policy on Managing Conflicts of Interest, and the Corporate Code of Conduct are available at ir.detmir.ru/en/anti-corruption-documents/.

Procurement

Standard Process for Signing a Supply Contract With a New Supplier



Commercial Procurement

The Company determines product purchase volumes using product matrices featuring all SKUs by product group, as well as the assortment policy for each product category. These matrices are designed through a lengthy and labor-intensive process based on the results of category management research, as well as the analysis of competitor products and major global trends in the fashion, art and

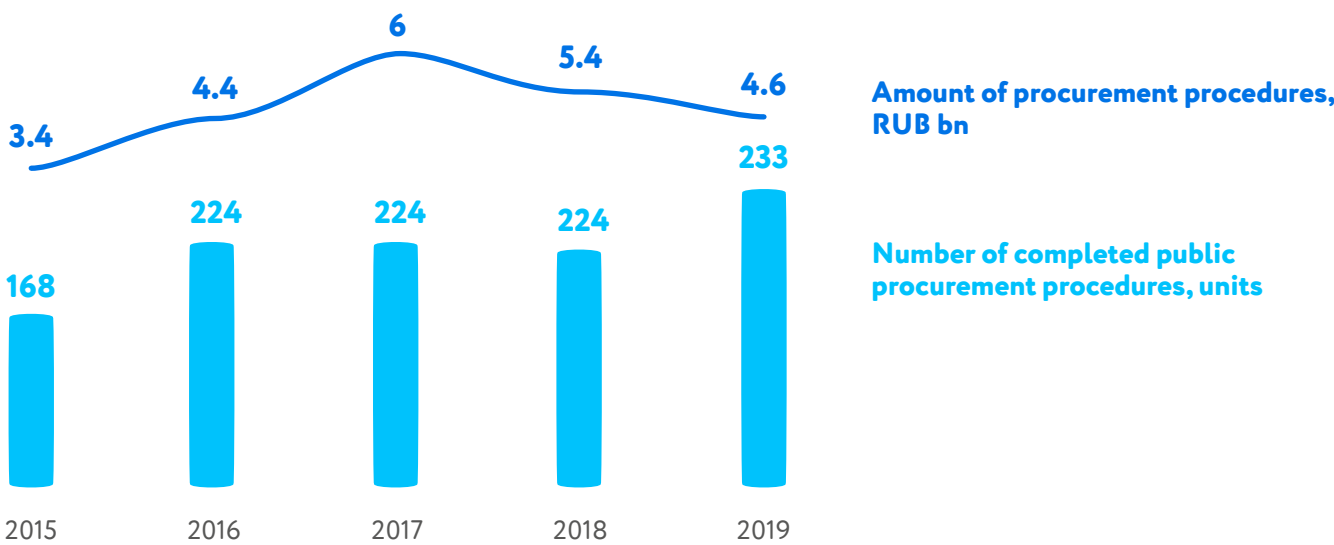
movie industries. The Company uses the relevant insights when reviewing the terms for existing suppliers and establishing new partnerships. Potential suppliers may approach Detsky Mir directly. Another way to source suppliers is through public information channels and trade fairs.

Strategic decisions to approve the Company's supplier list are made by the Assortment Committee comprising experts from across the Company's business units. At its meetings, the Assortment Committee makes decisions on amending the terms for Detsky Mir's existing suppliers, updating the product matrix, etc.

Procurement for Operational Needs

Optimizing procurement of goods and services for the Company’s operational needs, such as store and warehouse equipment, construction and installation materials, advertising and marketing services, transportation services, and IT services, is an important focus area in improving Detsky Mir’s business processes.

Public Procurement Procedures Completed by Detsky Mir

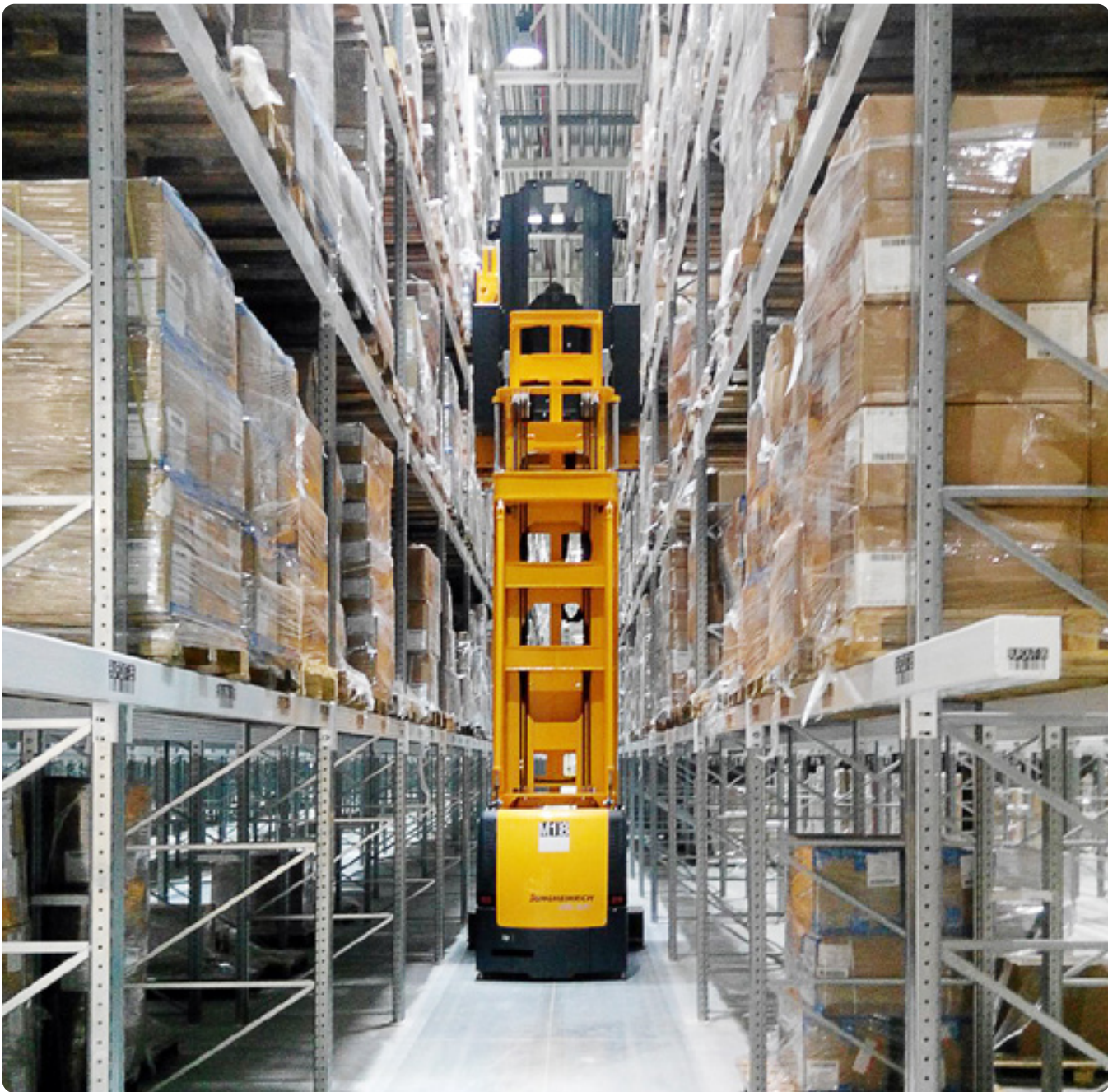


Detsky Mir sources new suppliers for non-commercial procurement through open platforms by posting relevant information in public channels and thus ensuring the transparency of the procurement process.

In the reporting period, the Company applied new partnership terms for certain types of procured services, which helped minimize price increases and in some cases even reduce prices versus the previous year.

Improving Procurement

As a public company, Detsky Mir sees ensuring transparent procurement as a key task for the Company’s top management. In 2019, Detsky Mir Group succeeded in keeping the purchasing costs of most materials, goods and services at the previous year levels despite rising market prices, or minimized price increases where costs could not be kept in check. The Group reduced the costs of some supplied materials, goods and



Detsky Mir’s Distribution Center

services by maintaining competitive tension throughout the sourcing process, as well as using an extra information resource to host procurement procedures.

According to Detsky Mir’s estimates, in 2019 savings on purchases for operational needs via procurement procedures exceeded RUB 300 million with the total procurement budget at RUB 12 billion (for both public and private procurement procedures). The positive economic

impact was due, among other factors, to the fact that PJSC Detsky Mir strives to capture market trends in pricing and consider various options for cooperation and price fixing, and always delivers on its commitments to counterparties.

In 2020, the Company plans to continue enhancing competition, searching for new reliable partners, and developing existing suppliers while building mutually beneficial long-term relations and entering into consolidated contracts.

HR Policy

HR Management

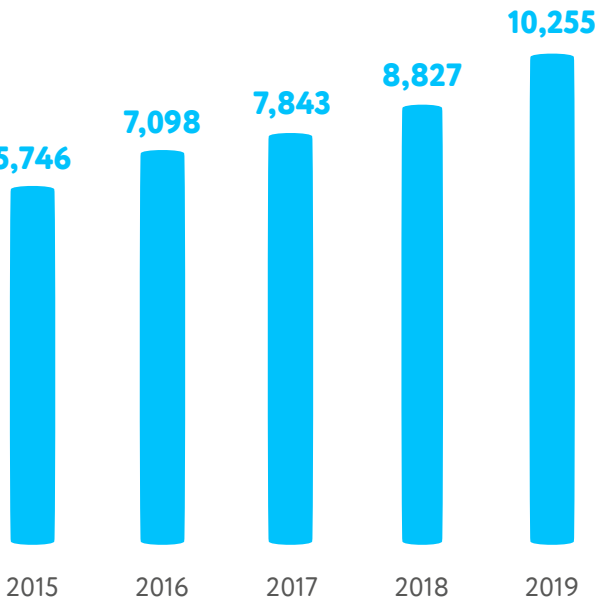
Detsky Mir employees are key to its stability and growth as a company.

Since its inception, Detsky Mir has been placing a particular focus on HR management. The Company aims to build a team of professionals who are committed to excelling in their work. All employees are united by one goal – to make a tangible contribution to Detsky Mir’s development and be useful to its customers.

The number of employees required for the stable and smooth operation of a single Detsky Mir store decreased from 26 people in 2013 to 17 people in 2019.

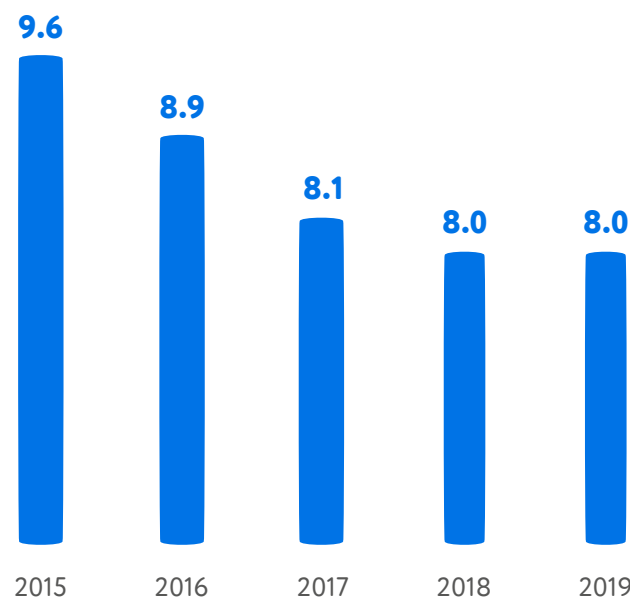
This boost in productivity was achieved by automating business processes and adopting advanced software, resulting in reduced time and effort per transaction.

Detsky Mir Group’s Overall Staff Expenses, RUB bn*



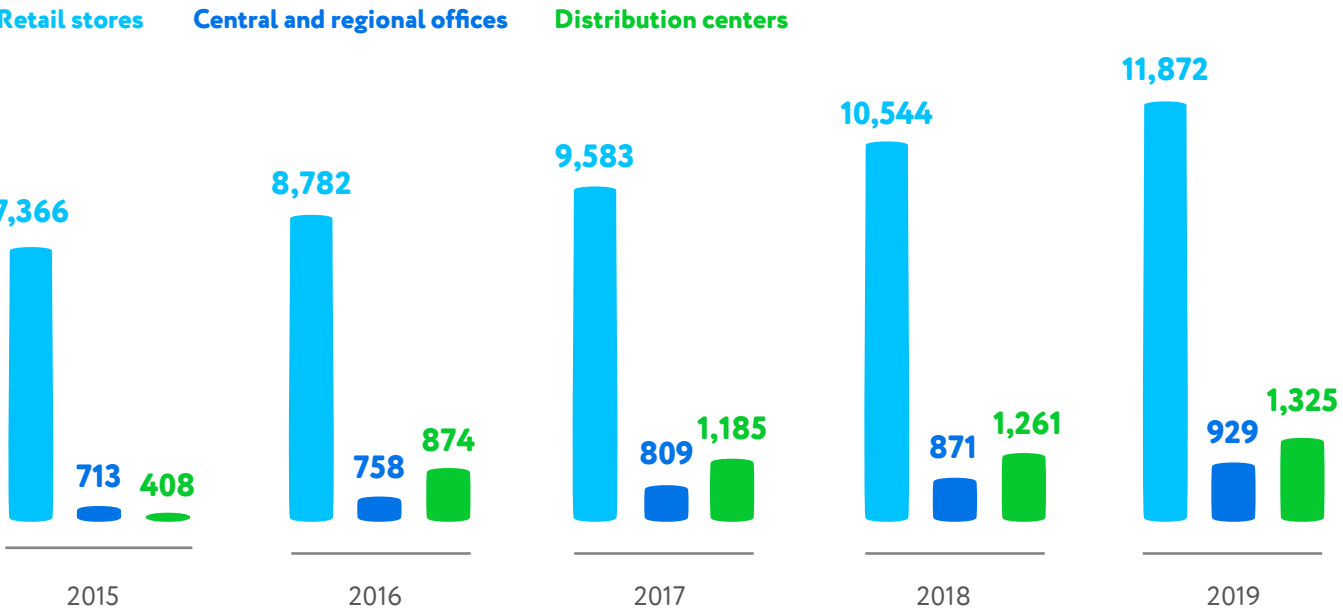
*Overall staff expenses include payroll, insurance premiums, training and staffing, healthcare, outsourcing, and other expenses. The total amount of overall expenses is adjusted for bonus payments to the management under the Long-Term Incentive (LTI) plan.

Share of Total Staff Expenses in Revenue, % **

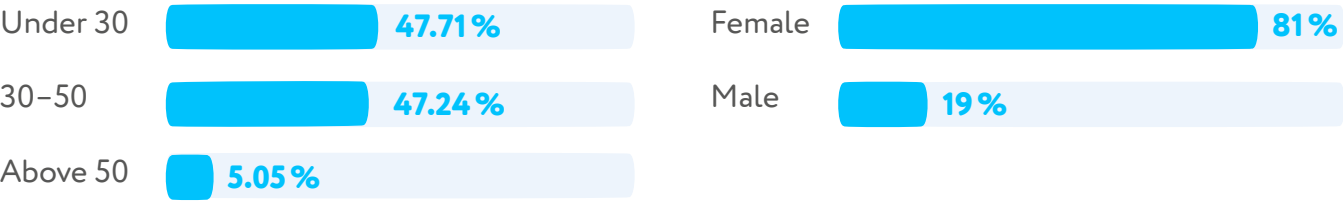


**The total amount of overall expenses is adjusted for bonus payments to the management under the Long-Term Incentive (LTI) plan.

Detsky Mir Group’s Average Headcount



Employees of Detsky Mir Group by Age and Gender in 2019, %

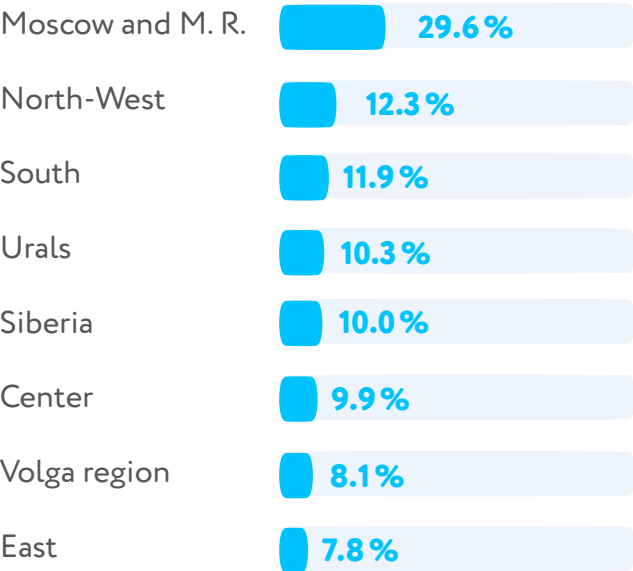


Headcount

The average headcount of Detsky Mir Group in 2019 exceeded 14,000 people. The retail chain continues its steady expansion in Russia, in Kazakhstan and since 2019 – in Belarus, with an average headcount growth of 11.4 % year-on-year. Despite the growth in the number of Detsky Mir retail stores, management personnel numbers in its central and regional offices have grown insignificantly.

In the reporting period, the average age of Detsky Mir employees was 30 years. Approximately 95 % of employees were aged under 50, with women accounting for about 81 % of the total workforce. They are all accomplished professionals at the peak of their career, committed to doing their work responsibly.

Employees of the Detsky Mir Retail Chain by Regional Office in 2019, %



Incentives and Remuneration

Ensuring a high level of motivation and decent pay for employees is the most important aspect of Detsky Mir Group’s HR policy.

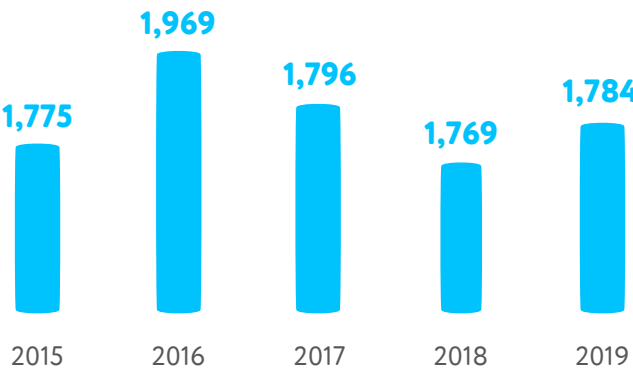
The Company has a mixed time- and performance-based system of remuneration.

All employees are paid a base salary as per their employment contracts, as well as additional bonuses for combining positions, working overtime and/or at night, on weekends, or on holidays.

The remuneration system reflects not only each employee’s individual performance, but also the financial performance of the entire Company for the full year.

The Company benchmarks the employee

New Jobs Created at Detsky Mir Group



Between 2015 and 2019 Detsky Mir Group in Russia created more than 9,000 new jobs.

remuneration against the labor market and revises the remuneration system and income targets on a regular basis.

A quarterly or annual bonus is available to head office employees, the size of which depends on personal performance against financial and functional KPIs.

Retail chain employees are eligible for a monthly performance bonus set as a percentage of the store’s actual sales.

The size of the performance bonus payable to the administrative and managerial staff of the store also reflects their performance against KPIs. Experienced employees coaching new recruits on the basic skills of the job are paid an additional bonus for mentoring.

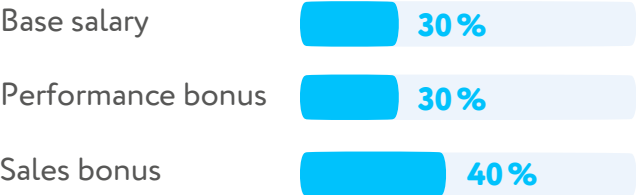
Annual Remuneration of Management at Detsky Mir Group

	CEO	Management Board and employees reporting directly to the CEO	Department directors
Fixed	50 %	50 %–80 %	70 %–85 %
Variable			
Total	50 %	20 %–50 %	15 %–30 %
including financial KPIs*	25 %	4 %–15 %	3 %–9 %
including functional KPIs**	25 %	16 %–35 %	10.5 %– 24 %

⚭ Financial KPIs — EBITDA, net profit, revenue.

⚭⚭ Functional KPIs — role-specific operational KPIs.

Remuneration of Retail Staff at Detsky Mir Chain, %



In 2019, the Company continued to improve the motivation system of retail staff to increase their productivity and perform against targets. The KPIs for some roles were revised and motivational contests were held.

To strengthen support for Detsky Mir’s omnichannel growth strategy, additional Online Order Manager positions and corresponding KPIs were introduced at retail stores.

The HR management system was redesigned and rolled out across Zoozavr branded stores after the new pet supplies business segment had grown.

The remuneration system aims to engage employees in achieving Detsky Mir’s goals. An important part of motivating Detsky Mir staff is the availability of clear, specific goals for each reporting period and the Company’s willingness to reward the team for contributing to the achievement of the overall result.

Each category of employees has their own incentives reflecting their job profiles based on a number of various key performance indicators (KPIs). The KPI set may vary depending on the employee category.

The Company applies both financial and functional KPIs (project activities, supervisor’s assessment, (lack of) disciplinary issues).

Detsky Mir Group reviews remuneration levels annually, based on the market average and individual performance of each employee. Detsky Mir has in place two long-term incentive programs (Long-Term Incentives, LTI) for a total of 21 key employees, including the CEO. Both programs are aimed at increasing Detsky Mir’s market capitalization (see the Remuneration section for more details).

Social Guarantees

Detsky Mir’s sophisticated corporate benefits system remains a key motivator. Alongside free corporate training, Detsky Mir provides its employees a number of benefits:

- ★ A discount in retail stores and corporate discounts offered by partners from the very first day of employment
- ★ Free rides home by company transport or to convenient public transit nodes for those working at stores which close at 11 p.m. and are located far from public transport stops
- ★ Corporate shuttles to work as well as free meals at the logistics center for warehouse operators
- ★ Various events for employees’ children
- ★ Access to corporate mobile services for business purposes
- ★ Opportunities to undertake full-time classroom trainings or distance education courses
- ★ Membership in the voluntary health insurance (VHI) program following six months of service at Detsky Mir for all employees of the central and regional offices, store and warehouse managers

The Company’s effective cost management system has helped keep the cost of VHI per employee on par with average costs in previous

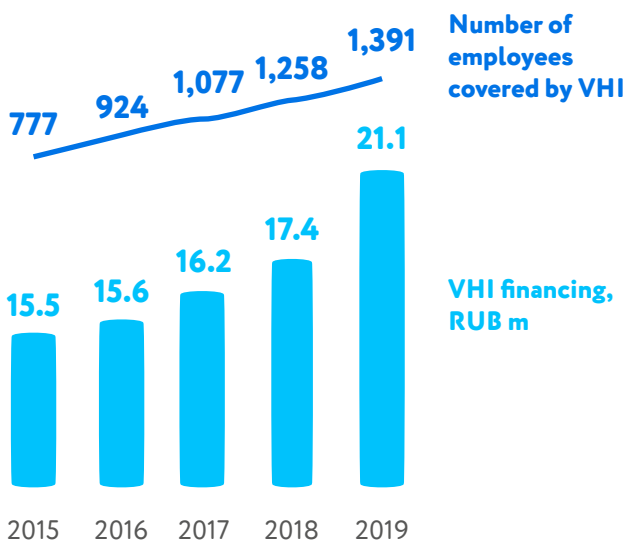
years, while maintaining the list of medical services included in the program. Detsky Mir Group’s policy also provides financial assistance to employees who are in a difficult life situation.

Corporate Culture

Detsky Mir makes great efforts to ensure that employees of the head office, retail stores, and warehouse feel like a single team working towards common goals. To support the team spirit among its employees, Detsky Mir Group regularly holds sports, volunteering, and charitable events, as well as corporate cleanup days and the Labor Landing initiative, and also celebrates national, corpo-

Voluntary Health Insurance at Detsky Mir Group

Voluntary health insurance of LLP Detsky Mir Kazakhstan is regulated by the laws of the Republic of Kazakhstan.



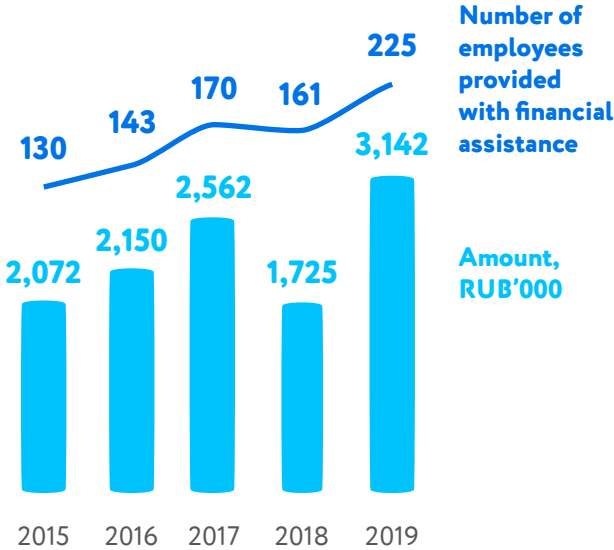
rate, and personal holidays within its teams. The Company promotes a healthy lifestyle among its employees, including through sports events as well as ensuring participation in the annual sports competition organized by PJSFC Sistema, and offers professional training opportunities to employees participating in industry and cross-sectoral sports events. The Company also pays for training rooms and provides players with team uniforms. Employees can take advantage of corporate benefits and discounts at major fitness centers.

Twice a year (on the eve of 1 September and the New Year), the Company holds its Labor Landing initiative, where all employees of the head office – from the CEO to ordinary managers – work for one day at a Detsky Mir retail store as sales assistants or warehouse operators. The initiative provides office employees an opportunity to see the actual operation of a Detsky Mir store from within, assess the real workload on personnel, identify bottlenecks in existing business processes and offer solutions to remove them, as well as assess the effectiveness of innovations. Throughout the workday, store employees also have an opportunity to informally communicate with management and share their concerns.

The New Year corporate event for head office employees and heads of regional offices includes an awards ceremony for employees who made an outstanding contribution to the success of the Company’s business.

The “Co-Financing” program at Detsky Mir enables each employee to donate a part of his or her salary to its Charitable Foundation. The proceeds are used to help the underprivileged children of employees who are in a difficult life situation (see the Charitable Activities section for more details).

Financial Assistance Provided to Detsky Mir Group Employees



Training and Development

The Company is convinced that Detsky Mir’s strategic goals can be achieved through the personal contribution of each employee. Detsky Mir’s investment in human capital is driving ongoing improvements in the Group’s financial performance.

One of the achievements in employee training and development is the system of continuous training which heavily relies on distance learning.

Detsky Mir pays special attention to building core skills and upskilling for its retail employees, which is key to improving service level and driving sales growth.

Detsky Mir organizes regular, free-of-charge courses for each category of retail employees based on a compulsory training matrix.

The matrix includes training courses both on technical skills for frontline employees (such as SAP. Stock Movement) and managerial skills improvement for administrative staff (such as “Basic Manager Skills” and “Staff Recruitment and Development”).

The training center, which is the Group’s structural unit, provides training and professional development for retail store employees and area managers.

Head office employees are trained on different topics by external service providers. Training is provided in line with individual development plans or upon request of heads of functional units, and guarantees a high level of additional professional education.

Types of training provided for head office staff:

- ★ Short-term training (one-day or two-day courses)
- ★ Short-term refresher courses on specific subjects such as finance, law, IT and personnel management
- ★ Professional certification (for employees of Information Technology and Internal Control departments)

Continuous training of employees and regular assessment of their professional knowledge

are in line with the Company’s employee categorization concept (in effect since 2014).

The proportion of employees who have received training (percentage of training) is a significant performance metric for stores, regional offices, or the Company in general.

Employee Performance Assessments

The Company sees individual performance as an important tool for promoting its corporate culture and enhancing its business processes. The professional knowledge of the retail employees is assessed twice a year.

Based on the assessment results, an employee is assigned one of two categories:

- ★ “Specialist” — after passing the professional knowledge assessment
- ★ “Expert” — for reaching target KPIs and outstanding results in the professional knowledge assessment

“Expert” employees are prioritized for inclusion in Detsky Mir’s talent pool and further consideration as candidates to fill vacant managerial positions in retail.

The Company has an effective corporate-wide hotline, “WORKFORCE WATCH” that can be used by any Detsky Mir employee, customer, counterparty, or partner to ask a question or raise a concern

See the Anti-Corruption Efforts section for more details

Head office employees undergo an annual performance assessment against their approved KPIs.

Occupational Health

Occupational health and safety is a point of great focus for Detsky Mir Group. Comfortable and safe working conditions are a key factor affecting the recruitment and retention of skilled employees.

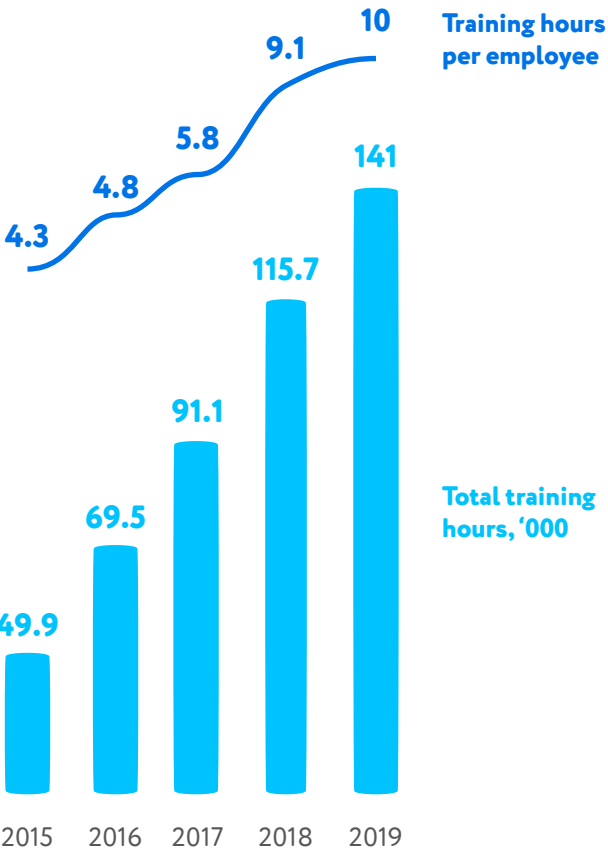
The occupational health system at Detsky Mir is fully in line with the applicable legislation of Russia, Kazakhstan and Belarus.

Managers and employees responsible for occupational health are appointed by the CEO after completing a 40-hour training program. The training is mainly provided in-house at the licensed Training Center of PJSC Detsky Mir.

In line with labor legislation requirements, all employees are given an occupational health and safety briefing when first hired and then on an ongoing basis.

Number of Training Hours for Detsky Mir Group Employees

(excluding mandatory fire and occupational health trainings)



Training Hours for Detsky Mir Group Employees

(excluding mandatory fire and occupational health training hours)

	2015	2016	2017	2018	2019
Training hours by gender					
Men	6,603	8,402	13,607	18,271	21,058
Women	43,260	61,138	77,638	97,399	119,906
Training hours by employee category					
Sales staff	49,291	68,880	90,403	112,680	137,091
Office staff	572	660	842	2,990	3,873

Warehouse operators are additionally trained in electrical safety. Occupational health briefings are held not only for Detsky Mir employees, but also for its contractors’ staff.

The duties of those responsible for occupational safety include, among other things, performing audits to identify potential breaches.

Compliance with occupational health requirements at Detsky Mir retail stores is monitored as part of comprehensive audits for compliance with the Group’s standards, which include a section on occupational health. Retail chain audits are supervised by area managers in line with the approved schedule and without prior notice to store management. If any breaches are identified, recommendations are made to remedy them, with a follow-up audit later conducted.

Even though the nature of Detsky Mir’s activities is not associated with any hazardous technology, the Group does make efforts to minimize the potential risk of employee injury or occupational disease.

Key measures and initiatives minimizing injury rates at offices, retail stores, and warehouses:

- ★ Special assessments of working conditions – workplaces are assessed by

independent accredited organizations for class 2.0 working conditions (acceptable working conditions)

- ★ At the end of 2019, Detsky Mir conducted a special assessment of the working conditions at 90 % of its workplaces (excluding new jobs to be assessed within 6 months from the date when they are created).
- ★ Introductory, primary, refresher (at least twice a year as required by the legislation of the Russian Federation, and at least once in three months as required by the internal rules of the chain), unscheduled, targeted briefings of personnel on occupational health, fire safety, electrical safety and civil defense
- ★ Scheduled training and retraining of heads of departments and responsible employees under the in-house Occupational Health and Safety program at the corporate Training Center, involving specialized training centers and state labor inspectors where necessary
- ★ Commissions set up to examine employees for their knowledge of occupational safety requirements

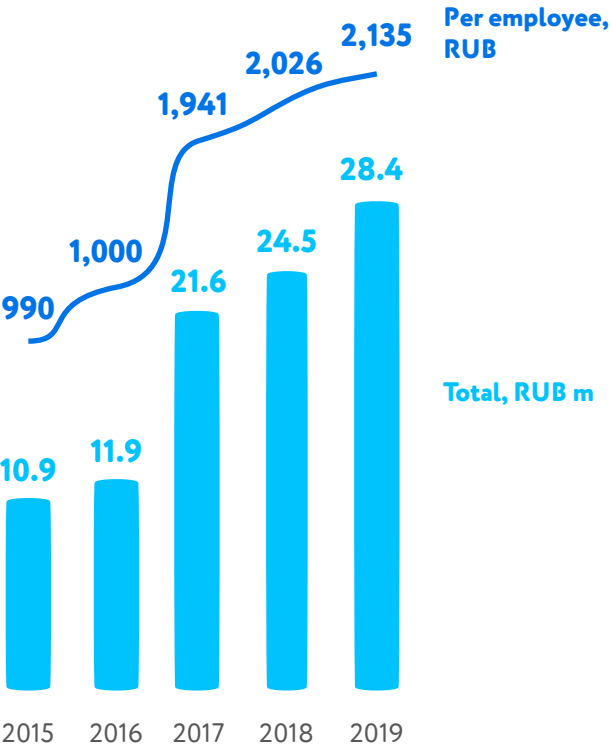
- ★ Monitoring of compliance with the Internal Rules of Conduct and Fire Safety
- ★ Drafting occupational safety regulations, guidelines, instructions, and programs for structural units and departments of the Company. All related documents are published on the corporate portal for use by employees in their work.

During the year, these measures helped Detsky Mir Group prevent the occurrence of occupational diseases and maintain the injury rate at a sufficiently low level.

The Group’s occupational health expenses in 2019:

- ★ PJSC Detsky Mir – RUB 28.4 million
- ★ LLC Kub-Market – RUB 140,000
- ★ LLP Detsky Mir Kazakhstan – RUB 102,000
- ★ LLC Detmir BEL – RUB 170,000

Occupational Health Expenses at PJSC Detsky Mir



Employees Responsible for Occupational Health

Head office	Retail	Warehouse
Heads of structural units and departments	Store managers and their deputies	Shift leaders Warehouse managers and their deputies

Number of Promotions in 2019

Promotions	Russia	Kazakhstan	Belarus
Sales assistant/cashier → Deputy Store Manager	512	51	5
Deputy Store Manager → Store Manager	195	16	3
Store Manager → Area Manager	24	0	
Product Manager → Senior Product Manager	274	16	1

Charitable Activities

Detsky Mir Group sees its social responsibility to society in making a positive impact on the quality of life of children, including disadvantaged ones.

By implementing social and charitable projects, the Company seeks to improve living conditions in children’s homes, boost socialization and unlock the children’s creative potential.

Detsky Mir also invites its employees to get involved in these projects, thereby increasing their engagement. Driving corporate volunteering is one of the Company’s objectives as set out in its CSR Strategy (see the CSR Strategy section for more details).

In the framework of charity activities, Detsky Mir Group promotes:

- ★ Children’s moral development and awareness of the family’s significance and role in society
- ★ Protection of childhood, motherhood and fatherhood
- ★ Disease-prevention and healthcare-related activities that benefit children and wider public
- ★ Fitness and healthy lifestyle
- ★ Activities in education, science, culture, arts, and learning
- ★ Social support to low-income families with children and social rehabilitation of children and adults with special needs

- ★ Foster care and wider activities addressing the issue of children without parental care
- ★ Socialization of children leaving child care institutions to facilitate their financial independence, support personal development and career planning, including through career guidance events introducing children to in-demand professions.



Detsky Mir Group takes care of more than 550,000 disadvantaged children residing in 1,146 children’s homes in Russia, Kazakhstan and Belarus

Charitable Foundation

Detsky Mir Group’s social activities are carried out through the Detsky Mir Charitable Foundation bf.detmir.ru, established in 2004 and operating in accordance with PJSC Detsky Mir’s Articles of Association and Charity Policy.

Charitable Activity Formats:

- ★ Charity campaigns: “Uchastvuyte!” (“Participate!”), New Year and other campaigns
- ★ Social initiatives: “Opora” (“Support”), “Vместе Мы Сможем Больше” (“Together We Can Do More”), “Nashi Deti” (“Our Children”), “Iskusstvo Bez Granits” (“Art Without Borders”)
- ★ Volunteer activities: a volunteer puppet theater, arranging charitable clean-ups and fairs, and public events.

Detsky Mir’s charitable activities are funded from the Company’s budget, as well as donations received by the Detsky Mir Charitable Foundation.

The total value of goods donated to charitable causes in 2019 amounted to RUB 803 million. In addition, the Detsky Mir Charitable Foundation received RUB 54.4 million in donations, some of which were made by PJSC Detsky Mir. In total, the Foundation spent almost RUB 843 million on charity events and assistance in 2019.

Priority Areas of Charitable Activities

- ♥ Providing assistance to child care institutions
- ♥ Helping children by covering the costs of expensive medical treatment and rehabilitation, supporting their families and children’s healthcare institutions
- ♥ Supporting children’s festivals and festive events, providing assistance to gifted children
- ♥ Providing career guidance and assistance in social and domestic adaptation for distressed children
- ♥ Promoting healthy lifestyle and holding sports events

Sources of Private Donations

- ♥ Transfers to the Foundation’s settlement account
- ♥ SMS donations
- ♥ Coin box collections
- ♥ Co-financing

Breakdown of In-Kind Donations Made in 2019, RUB m



"Participate!" Charity Campaign

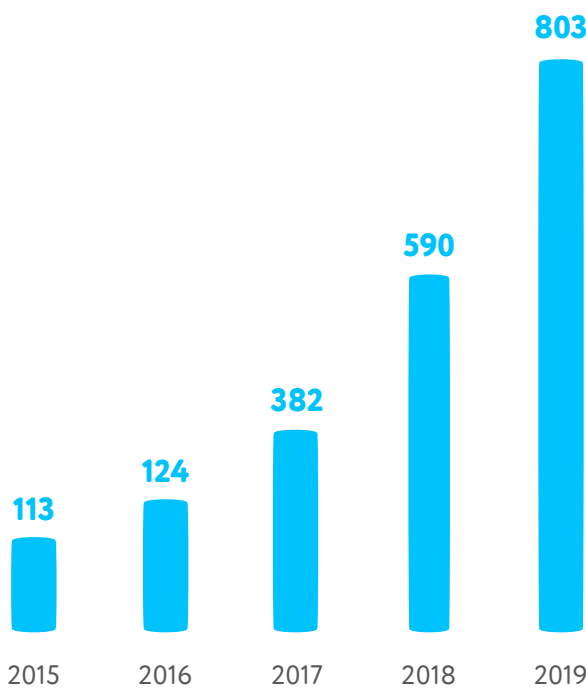
The campaign’s purpose is to collect gifts for orphans and children left without parental care, children living in child care institutions, children from low-income families, and children with special needs.

The Company has been holding events to collect gifts for disadvantaged children for more than 14 years now.

- Since 2017, the Detsky Mir Charitable Foundation has run the "Participate!" campaign throughout the year.
- Any customer making a purchase in any Detsky Mir store may support disadvantaged children.
- Anyone wishing to take part in the campaign may put their gift into a special mesh box installed near the checkout area.
- Gifts may include toys, play sets, clothing, footwear, stationery, goods for outdoor activities, etc.

One can help children not only by leaving gifts but also by making a cash donation by sending to the short number 7715 a text message reading "Participation" and the amount donated.

Total Value of Goods Donated to the Detsky Mir Charitable Foundation, RUB m



"Charity Instead of Gifts" Campaign

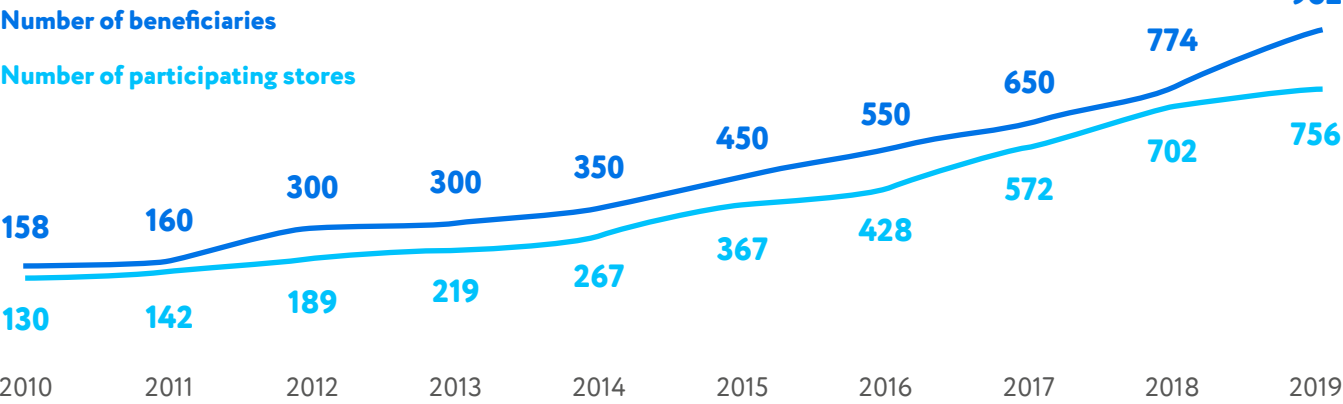
Since 2013, prior to the New Year’s season, employees of Detsky Mir Group have been encouraging their partners to make donations for disadvantaged children through the Detsky Mir Charitable Foundation, rather than giving their employees traditional corporate presents. In 2019, more than 30 partners embraced the Company’s initiative.

The partners donated not only cash, but also toys, clothing, hygiene products, stationery, books, makeup, arts and crafts kits, and bed linen.

Highlights of the "Participate!" Campaign

	2015	2016	2017	2018	2019
Number of participating stores	367	428	572	702	756
Number of beneficiaries	450	550	650	774	962
Value of gifts collected through the campaign, RUB m	85	112	352	553	757

"Participate!" Campaign Membership



Humanitarian Aid

In February 2019, the Detsky Mir Charitable Foundation delivered humanitarian aid for disadvantaged children in the Ryazan Region; with more deliveries made in November and December to the Kursk, Moscow, Ryazan, Samara, Tver, Tula, and Yaroslavl regions, as well as child care institutions in Moscow and Saint Petersburg. All the aid was delivered to 114 child care and healthcare institutions. A humanitarian aid “packages” included toys, clothing, footwear, strollers, car seats, beds, baby food, hygiene products and much more. The aid donations distributed in 2019

amounted to 11 truckloads of goods worth a total of almost RUB 32.6 million.

In August 2019, the Detsky Mir Charitable Foundation delivered humanitarian aid for children in the Irkutsk Region, the area hit with devastating floods. Over 25,000 items including clothing, footwear, stationery, books, school backpacks and rucksacks, board games, learning toys, and arts and crafts kits were delivered to the region. The cargo weighed 4 tons and was worth RUB 7 million. A total of 23 Detsky Mir suppliers participated in that charity project. The aid was delivered to 24 institutions located in the affected areas within the Irkutsk Region.

“Together We Can Do More” Program

This program is designed to provide financial and organizational support for low-income families with children, as well as children living in child care institutions.

Forms of assistance:

- ★ Targeted assistance to families with children
- ★ Arranging playrooms in healthcare and child care institutions.

The “Opora” (“Support”) Project

This project aims to help seriously ill children in need of expensive implants for advanced surgeries and other high-tech systems not otherwise covered by public funds.

Such systems and devices are costly but immensely effective.

No longer troubled by pain and special needs, children start living a normal life: they walk, run and do sports.

Focus areas in helping children with health conditions:

- ★ Cardiology
Provision of artificial cardiac pacemakers or valve conduits priced between RUB 400,000 and RUB 800,000.
- ★ Neuro-orthopedics
Provision of telescopic intramedullary nails priced between RUB 300,000 and RUB 700,000; provision of spinal implant sets for correction of spinal deformities and spinal fixation, priced between RUB 500,000 and RUB 2 million.

★ Otolaryngology

Provision of bone-anchored hearing systems priced from RUB 1 million.

Agreements have been signed with two leading healthcare institutions: National Medical Research Center for Children’s Health and Blokhin National Medical Research Center of Oncology.

In 2019, the project helped to fund 22 surgeries for 19 children for a total of RUB 16 million.

“Nashi Deti” (“Our Children”) Project

The project is aimed at providing targeted assistance to low-income families with disabled children, orphans and children left without parental care.

The Company runs a co-financing program enabling any employee to donate part of their salary to the Detsky Mir Charitable Foundation for treatment of seriously ill children.

In 2019, 202 people participated in the “Our Children” project. The co-financing program raised RUB 2.5 million donated by employees of Detsky Mir Group. Overall, the project provided assistance to 20 children for a total amount of RUB 5.7 million in 2019.

“Operation Toys” Charitable Project

Since 2013, the Detsky Mir Charitable Foundation has been running its “Operation Toys” charitable project to set up children’s playrooms in healthcare facilities.

The project’s goal is to make children feel comfortable in hospital settings and thus speed up the recovery process. The new playrooms cheer up little patients with dolls,

toy strollers and cars, building sets, brain training games, role-playing game sets, and much more.

Older children can enjoy sports games: table soccer, air hockey, and bowling. Donated items also include self-help resources for those learning to play a musical instrument, manuals for developing speech, memory, thinking and attention skills, and dictionaries on different topics.

In 2019, Detsky Mir opened seven playrooms in Georgiyevsk, Krasnoyarsk, Nizhny Novgorod, Ufa, and Minsk, Belarus. MTS Bank has supported the project in Russia by adding financial literacy learning resources to the playrooms. The Detsky Mir Charitable Foundation not only provides toys and decorates rooms but also, where necessary, provides furniture and medical equipment.

New games and toys were donated to the previously launched playrooms in 16 institutions. The aid was distributed to healthcare facilities in Gorno-Altaysk, Irkutsk, Petrozavodsk, Kostroma, Kurgan, Nizhny Novgorod, Perm, Rostov-on-Don, Ryazan, Smolensk, Stavropol, Ufa, and Yaroslavl. A total of RUB 3.5 million was invested in the project in 2019.

Over the past six years, 406 playrooms have been opened in 134 healthcare facilities in 76 cities and towns across Russia and Belarus. In 2020, Detsky Mir will continue the project by providing maintenance and new equipment for playrooms in healthcare facilities.

The Art Without Borders Program

The program is aimed at unlocking the younger generation’s creative potential, developing their morality and aesthetic taste. The program’s target groups include gifted

children, children involved in creative activities, and children’s arts and crafts centers.

Forms of assistance:

- ★ Support for
 - arts and crafts festivals;
 - unique arts techniques;
- ★ Organizing and supporting
 - exhibitions and contests;
 - concerts and entertainment events;
 - New Year’s performances.

In 2019, RUB 3.1 million was allocated for the implementation of the Art Without Borders program.

The Key Projects Implemented in 2019:

- ♥ Charity fairs at the head office (held in February and November)
- ♥ Support for cinema forums held by the Detsky KinoMay Children’s Charitable Foundation in Smolensk, Kostroma, Nizhny Novgorod, Rostov-on-Don, and the Republic of Karelia
- ♥ Support for a major Yeralash festival in the Moscow Region
- ♥ Arranging a trip to Nikulin Moscow Circus on Tsvetnoy Boulevard for 350 children from 10 child care institutions based in the Vladimir, Nizhny Novgorod, Ryazan, and Moscow regions
- ♥ Organizing the KuklaFest corporate theater festival for 400 children from 15 child care institutions based in the Tver, Ryazan, Kaluga, Smolensk, and Moscow regions, and in Moscow (in partnership with MTS)

Under a Strategic Cooperation Agreement signed in February 2015 between Detsky Mir Group and the Ministry of Economic Development of the Perm Territory, the Group will invest up to RUB 150 million in the region’s economy and create up to 100 permanent jobs in the Perm Territory. The agreement expired in 2016; however, Detsky Mir Group continues to develop its business and implement social projects in the region.

In addition, under the agreement Detsky Mir partners with regional authorities in implementing programs to support childhood and motherhood. In particular, social and financial support is provided to children and adolescents left without parental care and to disadvantaged children such as those with serious health conditions, disabled children, children from large families, and those residing in child care institutions and orphanages in the Perm Territory.

The Future Paralympians Program

In the second half of 2018, the Federation of Equestrian Sports of Russia and Detsky Mir launched the Future Paralympians program.

For people with musculoskeletal disorders, equestrian sports provide not only a chance for rehabilitation and restoration of their body’s physical functions, but also an employment opportunity.

At present, there are no publicly funded youth equestrian sports schools in Russia to provide training for future paralympians. Given that, equestrian clubs rely on their own resources

Detsky Mir provides assistance to the Perm child care institution for children with visual impairment, School No. 154 for children with special needs, regional children’s tuberculosis sanatoriums No. 4, No. 6 “Malysh” and No. 7 “Rosinka”, the Perm municipal social rehabilitation center for juveniles, the clinical pulmonary physical therapy center, the Kungur — Place of Goodness charitable foundation, the Perm regional NGO for the promotion of civil rights to protection of family, motherhood and childhood “Territoria Semyi” (“Family Territory”), as well as centers helping children deprived of parental care in Solikamsk, Chaykovsky, and Krasnokamsk, and to the Nyuva child care institution.

In 2019, the Company donated essential goods for a total of RUB 14.2 million to disadvantaged children.

when providing training to children and adolescents. For that reason, national paralympic teams have no adequate pipeline, as children and adults with special needs lack training opportunities.

The project aims to build a paralympians pipeline which would eventually enable people with musculoskeletal disorders to find employment with equestrian clubs and show strong performance at the Paralympics, with a subsequent rollout of the project across Russian regions.

By promoting children’s and adults’ equestrian sports, Detsky Mir and its partners not only

help Russian paralympians excel at international competitions but also give the opportunity to people with even severe musculoskeletal disorders find employment as athletes.

The Future Paralympians program targets children with musculoskeletal disorders aged 10–16. In 2019, Detsky Mir allocated RUB 1.8 million for the Future Paralympians program.

Volunteer Puppet Theater

In late 2014, Detsky Mir Group launched the Volunteer Puppet Theater, where the actors are Company employees. The theater troupe gives performances at sponsored orphanages, charity fairs and festivals. The project has involved new employees in the Company’s charitable activities and increased brand loyalty.

The Volunteer Puppet Theater staged performances include Leshy and the Sofa, Morozko, Marviks, How Ivan Was Looking for a Bride, About a Sloppy King, Parrot’s Adventures, and Little Red Riding Hood, with about 24 performances given every year at children’s homes, family education centers, libraries, cultural centers, various charity fairs and festivals.

The educational tales teach children to value friendship, see the difference between good and bad and take care of the environment.

The Volunteer Puppet Theater’s annual operating expenses (props and settings, transportation costs, lighting and music equipment rental, meals for actors during touring performances) amount to about RUB 1.2 million.



Charity Campaigns and Cleanups

The Detsky Mir Charitable Foundation holds regular charity campaigns and events, such as arts and crafts master classes, shows by variety artists and circus performers, animal performances, with face painting, soap bubbles, entertainers and gifts.

The Detsky Mir Charitable Foundation also arranges traditional spring cleanups and landscaping events after the winter season. In 2019, 761 Detsky Mir employees volunteered for 62 cleanups in 59 cities across Russia, Kazakhstan and Belarus.

The associated organizational expenses totaled RUB 1 million.

“New Year’s Tree of Wishes” Campaign

The New Year’s Tree of Wishes charity campaign, which became yet another good tradition at Detsky Mir, took place in December at the Company’s head office. Children wrote their Christmas letters to Ded Moroz (Russian Santa Claus), and Detsky Mir helped to make their dreams come true. New Years’ gifts were sent to 114 boys and girls based in orphanages in Kostroma, the Kostroma Region and the Rybnovskaya boarding school in the Ryazan Region.

“Generous Tuesday” and the “Week of Good Deeds” Campaigns

Detsky Mir Group held a series of charity events as a part of its Generous Tuesday and Week of Good Deeds campaigns.

Orphans from children’s homes in Moscow, the Kostroma, Smolensk and Ryazan Regions presented their self-made crafts, such as Christmas tree and home interior decorations and souvenirs made of felt and wood.

The RUB 350,000 raised through the two charity fairs were allocated toward additional education for children with special needs and orphans from orphanages.

In addition, from 25 November to 30 November, Detsky Mir Group held a series of charity events under the Week of Good Deeds campaign for Company employees at its head office.

All proceeds were used to finance rehabilitation services for children with special needs.

New Year’s Eve Performances

The Detsky Mir Charitable Foundation provides disadvantaged children with the opportunity to enjoy a range of New Year’s shows.

The New Year 2019 shows were held at the Moscow Circus on Tsvetnoy Boulevard and the Modern Theatre in Moscow, at the Rybnovskaya boarding school in the Ryazan Region and orphanages in Kostroma and Volzhsky in the Kostroma Region.

The New Year’s shows were attended by at least 864 disadvantaged children, including the performances in Moscow attended by children from orphanages based in both Moscow and the Moscow, Vladimir, Nizhny Novgorod, Kaluga, Kostroma, Tver, Ryazan and Smolensk regions.

The Detsky Mir Charitable Foundation helped children fulfil their dream – to come to Moscow for a New Year celebration – by covering the costs of their travel and meals and, of course, making sure that each child received a gift.





Environmental Responsibility

Detsky Mir views environmental protection, sustainable use of natural resources and packaging recycling as its top priority. The Group reminds its customers and business partners as often as possible that the environmental choices that we make today will shape the world in which our children will live.



Reduced Resource Consumption

Detsky Mir has been consistently embedding advanced technology in its business processes to reduce the consumption of resources and thereby cut its operating costs and minimize its environmental footprint.

Energy Saving

The retailing concept of Detsky Mir stores involves the use of advanced energy-saving solutions that not only improve selling space and make it more comfortable for visitors and staff, but also significantly save energy. The total amount of energy saved in 2019 was 20,055,000 kW·h, which is equivalent to RUB 126 million (2018: RUB 146 million). Despite the growing store count and total selling space, the Company reduced energy consumption in 2019 by 7.6 % year-on-year.

In 2014, the Company started installing LED lighting systems in its stores. In 2018, 278

stores were equipped with such systems, with all stores of Detsky Mir featuring LED lighting in 2019.

Bekasovo-1 and Bekasovo-2 Distribution Centers have in place energy-efficient equipment and a lighting system using motion sensors. The Company collects and sorts waste paper and polyethylene packaging film at its warehouses, and then transfers them to a specialized organization for further recycling.

Paper Savings

Apart from improving its operational efficiency, business process automation carried out across the Company has also resulted in lower consumption of office paper. For example, the Company has designed and adopted electronic invoices to eliminate related paperwork.

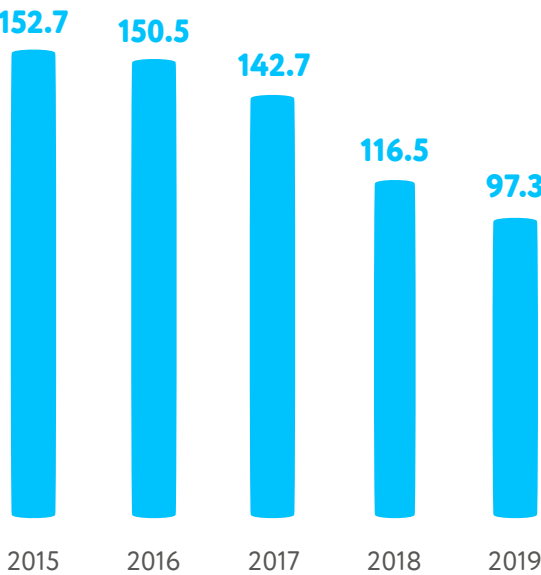
Energy Consumption by Detsky Mir Group

The Company is outsourcing all business processes related to goods transportation and manufacturing to specialized organizations and, therefore, has no control over energy consumption within the relevant stages of the supply chain.

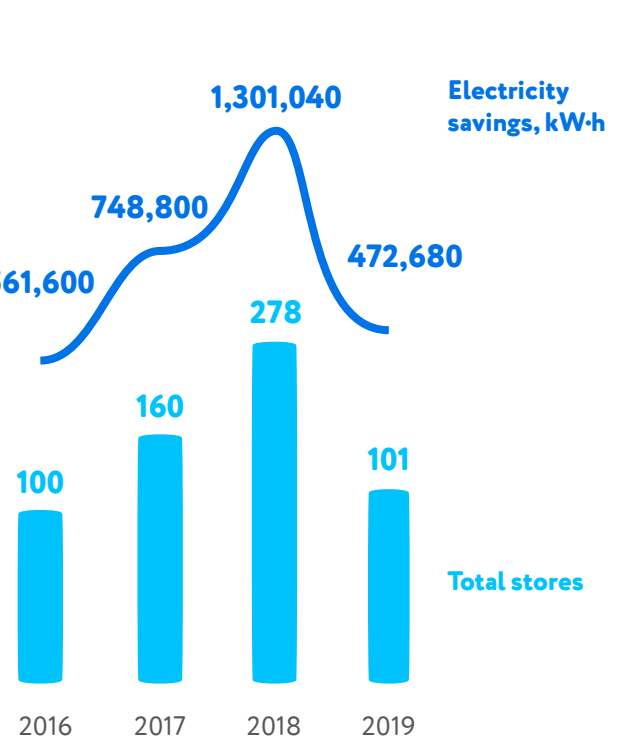
Energy resource type	2015		2016		2017		2018		2019	
	RUB m	'000	RUB m	'000	RUB m	'000	RUB m	'000	RUB m	'000
Electricity, kW·h, including:	445	92,800	590	114,998	684	124,575	686	116,802	678	107,960
Offices	12	2,519	32	6,180	32	5,768	35	5,946	41	6,570
Branded stores, kW·h	433	90,282	558	108,819	652	118,807	651	110,857	637	101,390
Electricity saved, kW·h	0	0	9	1,657	35	6,450	147	24,896	126	20,055
Heat, water and gas supply, Gcal	79	46	110	59	142	72	159	81	176	88

Specific Energy Consumption by Detsky Mir Stores

Electricity Consumption per Square Meter, kW·h/sq. m



Savings from LED Lighting Installation in Stores



Eco-Friendly Consumer Packaging

Bags offered by Detsky Mir stores to their customers are made from paper, a biodegradable, easily recyclable, and eco-friendly material. The launch of kraft bag sales has become the next logical step in a series of the retail chain’s environmental initiatives. Detsky Mir Group was the first retailer in the children’s goods market in Russia to offer eco-friendly packaging to its customers.

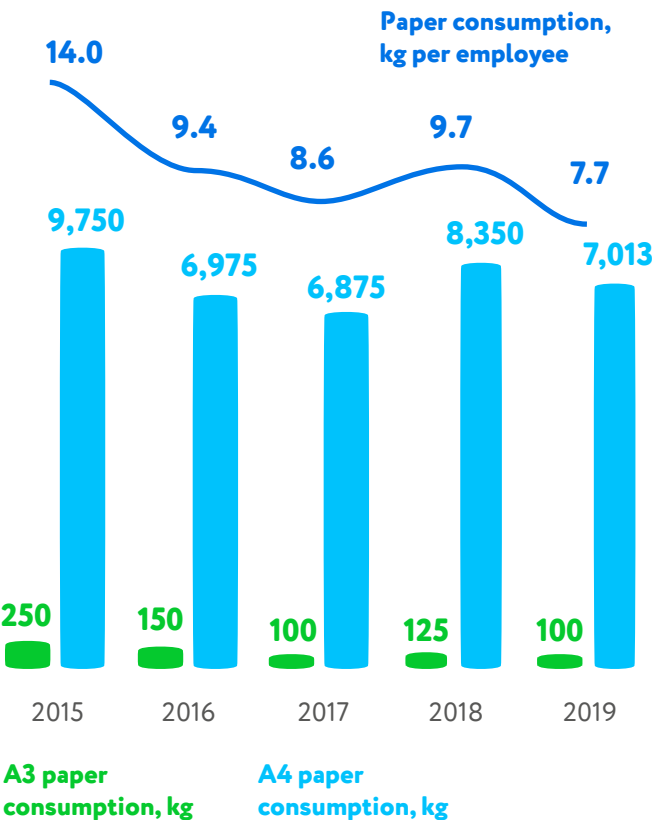
The bags, designed in the brand’s corporate style, have a retail price of RUB 15 per bag and a carrying weight of 7 kg. The proceeds from the sale of bags will be partially used to support the programs of the Detsky Mir Charitable Foundation.

Paper bags are available at Moscow and the Moscow Region stores since December 2015. In 2016, the project was scaled up across the entire retail chain, with 433,323 paper bags sold at end-2019 (2017: 230,628; 2018: 241,665). In 2019, eco-bags were most popular in Moscow and the Moscow region.

Scaling up the Green World project to its entire retail chain, the Company is counting on higher customer involvement in swapping out plastic bags for paper and reusable bags. Reusable bags became available for sale in late 2018, and grew even more popular among customers during 2019.

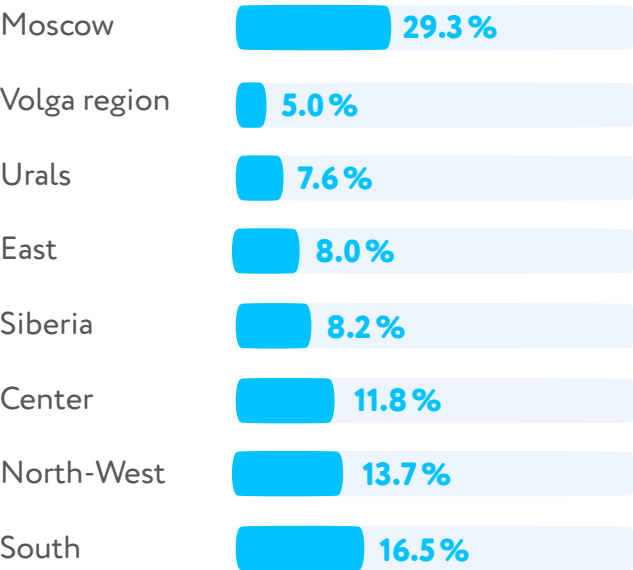
Eco-friendly consumer packaging is expected to gradually replace plastic bags that customers have grown used to. Given the Company’s scale, the project will significantly reduce its environmental impact and improve overall environmental awareness.

Paper Consumption by the Head Office of PJSC Detsky Mir



433,323
paper bags sold

Sales of Paper Bags by Region in 2019, '000



Chain-Wide Sales of Paper Bags (Available in Three Design Options) in 2019



Paper bag "Tree"

Modernization of the Waste Management System

Cardboard and polyethylene film account for a substantial part of the waste generated by the Group’s warehouses and stores. Cardboard is prime material for recycling, mostly used to produce chipboard, which is globally considered to be the most promising recycled packaging material for the coming years. Polyethylene is a major source of environmental pollution. Its decomposition is roughly estimated to take up to 300 years. At the same time, it undergoes thermal aging, gradually decomposing when exposed to sunlight, heat and oxygen, with harmful chemicals released into soil and water.

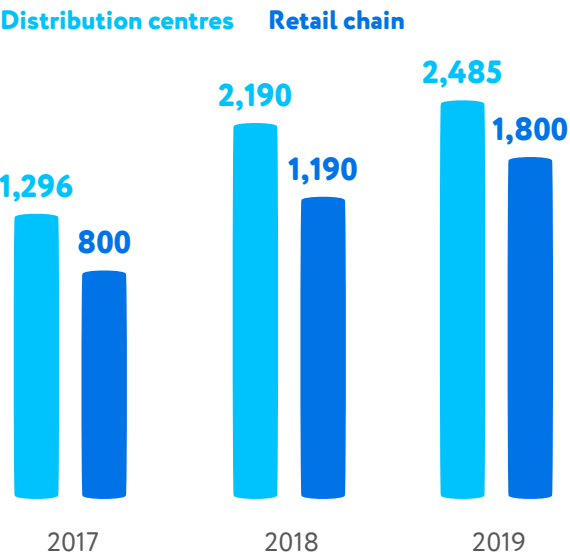
Detsky Mir Group has committed to reduce its environmental impact, and its packaging recycling projects have been a logical step towards this goal.

Since 2014, the Company has been collecting and sorting waste paper and polyethylene packaging film at its warehouses, and then

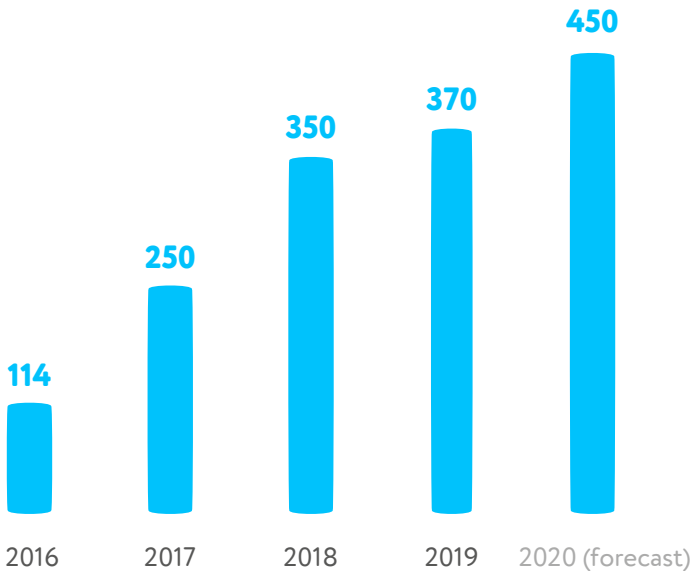
transferring them to specialized organizations for further recycling. In 2019, about 2,485 tons of cardboard were collected at the Company’s distribution centers.

In 2015, the Company piloted recyclables collection at its stores. As at the end of 2019, 370 branded stores were participating in the project. In future, Detsky Mir is planning to increase their number to 450. In 2019, Detsky Mir recycled 1,800 tons of cardboard, reducing the amount of waste transferred to specialized organizations and, accordingly, the Company’s operating expenses. In 2020, the Company is planning to increase the amount of recyclables collected within the chain to 3,000 tons for distribution centers and to 2,700 tons for its stores, potentially saving up to RUB 40 million.

Collection of Recyclables (Cardboard) at the Company, tons



Stores Participating in the Recyclables Collection Project





Green World

Green World is the Company’s eco-project which involves an increasing number of employees in environmental initiatives reducing adverse environmental impacts.

In 2019, Detsky Mir’s head office continued its Green World eco-project launched by the Company in 2018 to promote sustainable use of biological resources.

The project aims to contribute to our common cause of nature conservation by addressing existing environmental challenges.

Several environmental stewardship initiatives were implemented at the Company’s head office as part of the project.

Collecting Used Batteries

Boxes for collecting used batteries have been installed in all printing areas at the head office as part of a battery collection pilot implemented jointly with GP Batteries.

Ten full boxes were packed and transferred to LLC AZ for recycling in 2019.

On 25 March 2019, the Company launched the Apple for Your Battery initiative to raise employee awareness on the topic.

In 2020, the Company is planning to continue its project for collecting used batteries at the head office.

Collection of Waste Paper for Recycling

Boxes for collecting waste paper are installed in printing areas on all floors of the head office.

During the year, employees receive emails highlighting the benefits and the need for recycling waste paper.

During 2019, collected waste paper was delivered to a collection station, with the proceeds transferred to the Posadi Les foundation posadiles.ru.

A total of six tons of waste paper were collected for recycling, while head office employees and volunteers also took part in the planting of 350 trees.

Collection of Used Household Appliances

In 2019, head office employees supported another environmental initiative by taking part in the collection of used household appliances for further recycling organized jointly with the Sobirator project.

Over 120 kg of out-of-service household and electrical appliances were collected for recycling in 2019.

Recycling Coffee Capsules

Containers for collecting coffee capsules are installed near staff kitchens on all floors of the head office. Employees collected capsules throughout the year, with a total of 60 kg of capsules collected for recycling in 2019.

Separate Waste Collection

Containers for separate collection of waste plastic, glass and paper are installed near mini kitchens on all floors of the head office.

A dumpster is installed by Ecoline, a waste disposal company, in the inner courtyard of the head office.

Dobriye Kryshechki (Good Little Bottle Caps)

In 2019, the head office launched the “Dobriye Kryshechki” (Good Little Bottle Caps) project for collecting plastic bottle caps of different sizes. In 2020, once a sufficient amount of bottle caps is collected, they will be sent for recycling. The proceeds are planned to be donated to charitable causes.

 **To boost employee involvement in environmental initiatives, Company employees receive regular newsletters, participate in project events, and share their ideas, with the best proposals implemented in the office or branded stores**



Appendices



Report On Compliance With The Corporate Governance Code Principles	234	Information On Transactions With The Company Shares Performed By Members Of Governing Bodies In 2019	294
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Report On Compliance With The Corporate Governance Code Principles

This report on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Board of Directors of Public Joint Stock Company Detsky Mir at the meeting on 25 May 2020, Minutes No. 5 dated 26 May 2020.

The Board of Directors certifies that the data in this Report contain full and reliable information about the Company’s compliance with the principles and recommendations of the Corporate Governance Code in 2019.

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The company shall ensure fair and equitable treatment of all shareholders in exercising their rights to participate in the governance of the company.			
1.1.1	The company ensures the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on items on the agenda of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company’s internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, email or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	Full compliance	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and nominees to the company’s board of directors and audit commission.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.3	In preparation for the general meeting and during the general meeting, shareholders were enabled to receive information about, and all materials related to, the meeting, put questions to executive bodies and members of the board of directors, as well as communicate with each other, in an unobstructed and timely manner.	<p>1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of and during the annual general meeting.</p> <p>2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders.</p> <p>3. The company gave duly authorized shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, in all instances of general meetings held in the reporting period.</p>	Partial compliance	In the reporting periods, items were included in the agenda of general meetings of shareholders at the initiative of the Board of Directors or by virtue of law.
1.1.4	The exercise of shareholders' right to demand the convocation of a general meeting, nominate candidates to governing bodies and make proposals for inclusion in the agenda of the general meeting was not made unreasonably difficult.	<p>1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year.</p> <p>2. In the reporting period, the company did not reject proposals for the agenda or candidates to governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.</p>	Full compliance	
1.1.5	Each shareholder was enabled to freely exercise his/her voting right in the simplest and most convenient way.	1. The company's internal document (internal policy) contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by him/her and certified by the counting commission.	Non-compliance	In accordance with the Civil Code of the Russian Federation, a decision made by the general meeting of shareholders of a public joint stock company and a list of the company's members who participated in decision-making shall be approved by the person responsible for maintaining the register of shareholders (the registrar) and performing the duties of the counting commission. Due to the fact that the functions of the counting commission are performed by another legal entity, the regulations contained in the Company's internal documents are not binding on the registrar. This matter cannot be resolved in the way set out in the Corporate Governance Code (the "Code"). This year, participants in the general meeting received copies of filled-in ballots; no participant was refused a copy of the filled-in ballot certified by the counting commission.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.6	The general meeting procedure established by the company equally enables all persons attending the meeting to voice their opinion and ask questions.	1. During general meetings of shareholders held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on, and discussion of, agenda items. 2. Candidates to the company’s governing and control bodies were available to answer shareholders’ questions during the meeting at which their nominations were put to vote. 3. When passing resolutions on the preparation and holding of general meetings of shareholders, the board of directors considered the use of telecommunications means to provide shareholders with remote access to general meetings in the reporting period.	Partial compliance	Some of the candidates to the Company’s governing and control bodies were present.
1.2	Shareholders have an equal and fair opportunity to share the company’s profits by receiving dividends.			
1.2.1	The company has developed and introduced a transparent and clear mechanism for determining the dividend amount and paying dividends.	1. The company’s dividend policy is developed, approved by the board of directors, and disclosed. 2. If the company’s dividend policy uses the company’s reporting figures to determine the dividend amount, then the respective provisions of the dividend policy take into account the consolidated financial statements.	Full compliance	
1.2.2	The company shall not resolve to pay out dividends if such resolution, while formally remaining in line with statutory restrictions, is not economically feasible and may lead to a false representation of the company’s performance.	1. The company’s dividend policy contains clear indications of financial/ economic circumstances under which the company shall not pay out dividends.	Non-compliance	The dividend amount and payment procedure are determined based on recommendations of the Company’s Board of Directors. Members of the Board of Directors should act in the best interests of the Company, exercise their rights and perform their obligations to the Company acting reasonably and in good faith. Qualification of members of the Company’s Board of Directors enables them to determine the circumstances under which the Company shall not pay out dividends. Amendments to the dividend policy are considered by the Board of Directors at least every three years.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.2.3	The company does not allow the dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full compliance	
1.2.4	The company strives to exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value.	1. To exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value, the company’s internal documents provide for controls to ensure timely identification and procedure for approval of transactions with affiliates (associates) of the company’s significant shareholders (persons entitled to use the votes attached to voting shares) in cases when the law does not formally recognize these transactions as interested party transactions.	Full compliance	
1.3	Corporate governance system and practices ensure equal treatment for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the governing bodies and the company’s controlling entities, including conditions ruling out abuse of minority shareholders by major shareholders.	1. In the reporting period, the procedures for managing potential conflicts of interest among significant shareholders were efficient, and the board of directors paid due attention to conflicts among shareholders, if such conflicts occurred.	Full compliance	
1.3.2	The company does not perform actions which lead or may lead to artificial redistribution of corporate control.	1. Quasi-treasury shares do not exist or did not participate in voting in the reporting period.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.4	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.	1. The quality and reliability of the securities register maintained by the company’s registrar meet the requirements of the company and its shareholders.	Full compliance	
2.1	The board of directors carries out the strategic management of the company, establishes the basic principles of, and approaches to, setting up a risk management and internal control system in the company, controls the activities of the company’s executive bodies, and performs other key functions.			
2.1.1	The board of directors is responsible for passing resolutions related to appointment and removal of executive bodies, including due to their inadequate performance. The board of directors also ensures that the company’s executive bodies act in accordance with the approved growth strategy and along the company’s core lines of business.	1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company’s strategy.	Full compliance	
2.1.2	The board of directors defines the main long-term targets of the company’s operations, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company’s core lines of business.	1. In the reporting period, the board of directors reviewed at its meetings matters related to the progress in the implementation of the strategy and its updates, approval of the company’s financial and business plan (budget), and consideration of the implementation criteria and performance (including interim criteria and performance) of the company’s strategy and business plans.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.3	The board of directors determines the principles of, and approaches to, organizing a risk management and internal control system in the company.	1. The board of directors has determined the principles of, and approaches to, organizing a risk management and internal control system in the company. 2. The board of directors assessed the risk management and internal control system in the company during the reporting period.	Full compliance	
2.1.4	The board of directors defines the company’s policy on remuneration due to, and/or reimbursement (compensation) of costs incurred by, members of the board of directors, executive bodies and other key executives of the company.	1. The company has developed and put in place the policy on remuneration due to, and/or reimbursement (compensation) of costs incurred by, members of the board of directors, executive bodies and other key executives, approved by the board of directors. 2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies).	Partial compliance	Regulations on Remuneration and Compensation Paid to the Members of the Company's Board of Directors are approved by the Company’s General Meeting of Shareholders. Regulations on remuneration and compensation for members of governing bodies and key employees of the Company (several local regulations are in place) are approved by the Company’s Board of Directors. Thus, the Company’s Board of Directors annually reviews matters related to remuneration and incentive for the Company’s executive bodies and other key employees; however, it does not review matters related to remuneration and compensation for members of the Board of Directors, as these matters are referred to the competence of the General Meeting of Shareholders.
2.1.5	The board of directors plays a key role in preventing, identifying and settling internal conflicts between the company’s bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has set up a system for identification of transactions involving a conflict of interest, and a set of measures to resolve such conflicts.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.6	The board of directors plays a key role in ensuring the company’s transparency, the timeliness and completeness of its information disclosures, and unhindered access to the company’s documents for shareholders.	1. The board of directors has approved the regulations on information policy. 2. The company has designated the persons responsible for the implementation of the information policy.	Full compliance	
2.1.7	The board of directors controls the company’s corporate governance practices and plays a key role in its significant corporate events.	1. In the reporting period, the board of directors considered the matter of the company’s corporate governance practices.	Non-compliance	In the reporting year, the Board of Directors did not consider the matter of the Company’s corporate governance practices.
2.2	The board of directors is accountable to the shareholders of the company.			
2.2.1	Information on the performance of the board of directors is disclosed and made available to the shareholders.	1. The company’s annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report contains key results of the performance assessment of the board of directors in the reporting period.	Partial compliance	In the reporting year, the Board of Directors did not carry out a self-assessment of its performance.
2.2.2	The chairman of the board of directors is available to communicate with the company’s shareholders.	1. The company has in place a transparent procedure enabling shareholders to send questions to the chairman of the board of directors and express their respective position.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3	The board of directors manages the company in an efficient and competent manner and makes fair and independent judgements and decisions in line with the best interests of the company and its shareholders.			
2.3.1	Only persons with impeccable business and personal reputation, possessing the knowledge and expertise required to make decisions referred to the competence of the board of directors and to perform its functions efficiently, are elected to the board of directors.	<p>1. The procedure for assessing the board of directors’ performance established in the company includes, inter alia, assessment of professional qualifications of members of the board of directors.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors in terms of having the required experience, knowledge, business reputation, absence of a conflict of interest, etc.</p>	Partial compliance	<p>The Company assesses nominees for compliance with the independence criteria set out by PJSC Moscow Exchange, and for absence of a conflict of interest. Assessment of the nominees’ professional qualities is carried out by persons who propose nominees to the Board of Directors. Should the shareholders propose an insufficient number of nominees to the Board of Directors, the current members of the Board of Directors shall act based on their subjective opinions and the Company’s need for certain specialists.</p> <p>In 2020, the Board of Directors does not intend to implement procedures for assessing nominees to the Board of Directors in terms of having the required experience or knowledge.</p>
2.3.2	The company’s board of directors is elected as per a transparent procedure enabling shareholders to receive information about nominees which is sufficient to get an idea of their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees’ written consent to be elected to the board of directors.	Partial compliance	<p>The Company assesses nominees for compliance with the independence criteria set out by PJSC Moscow Exchange, and for absence of a conflict of interest. Assessment of the nominees’ professional qualities is carried out by persons who propose nominees to the Board of Directors. Should the shareholders propose an insufficient number of nominees to the Board of Directors, the current members of the Board of Directors shall act based on their subjective opinions and the Company’s need for certain specialists.</p> <p>In 2020, the Board of Directors does not intend to implement procedures for assessing nominees to the Board of Directors in terms of having the required experience or knowledge.</p>

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.3	The board of directors is balanced, including in terms of qualifications of its members, their experience, knowledge and business qualities, and it has the trust of shareholders.	1. As part of the assessment of the board of directors carried out in the reporting period, the board of directors analyzed its needs in terms of professional qualifications, experience, and business skills.	Non-compliance	In the reporting year, the Board of Directors did not carry out a self-assessment of its performance.
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including the ability to establish committees of the board of directors and enable the company's significant minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of the assessment of the board of directors carried out in the reporting period, the board of directors considered whether the number of members on the board of directors was in line with the company's needs and with the interests of shareholders.	Non-compliance	In the reporting year, the Board of Directors did not carry out a self-assessment of its performance.
2.4	The board of directors includes a sufficient number of independent directors.			
2.4.1	An independent director is a person of sufficient professionalism, experience and self-reliance to form his/her own opinion, able to make impartial judgements in good faith independent from the company's executive bodies, particular groups of shareholders or other stakeholders. It should also be taken into account that in normal conditions a nominee (elected member of the board of directors) cannot be considered independent if he/she is related to the company, its significant shareholder or contractor, the company's competitor, or the government.	1. In the reporting period, all independent members of the board of directors met the independence criteria set forth in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.2	Compliance of nominees to the board of directors with the criteria for independence is assessed, and a regular review of compliance of independent members of the board of directors with such criteria is performed. Substance shall prevail over form in such assessments.	<p>1. In the reporting period, the board of directors (or the nomination committee of the board of directors) formed its opinion on the independence of each nominee to the board of directors and presented respective opinions to shareholders.</p> <p>2. In the reporting period, the board of directors (or the nomination committee of the board of directors) reviewed at least once the independence of the current members of the board of directors listed by the company in its annual report as independent directors.</p> <p>3. The company has developed procedures defining the actions to be taken by a member of the board of directors if he/she ceases to be independent, including the obligation to timely notify the board of directors thereof.</p>	Full compliance	
2.4.3	Independent directors constitute at least one third of the elected members of the board of directors.	1. Independent directors constitute at least one third of the members of the Board of Directors.	Non-compliance	Three independent directors were elected to the current Board of Directors, which is less than one third. This practice complies with the requirements of the listing rules of PJSC Moscow Exchange.
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in the performance by the latter of material corporate actions.	1. Independent directors (who do not have a conflict of interest) carry out a preliminary assessment of material corporate actions implying a possible conflict of interest, and the results of such assessment are presented to the board of directors.	Partial compliance	Opinions of independent directors are always taken into account, but assessment of any actions of the Company is utterly subjective, is not carried out within the framework of any formalized procedure and is not mandatory. In 2020, the Company does not intend to introduce any formalized procedures for assessment of material corporate actions.
2.5	The chairman of the board of directors facilitates the best performance of assigned duties by the board of directors.			

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.5.1	An independent director is elected chairman of the board of directors, or a senior independent director is appointed from among the elected independent directors to coordinate the activities of independent directors and enable the interaction with the chairman of the board of directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	Partial compliance	The role, rights and duties of the chairman of the Board of Directors are duly set out in the Regulations on the Board of Directors of the Company. The Chairman of the Board of Directors is not an independent director. Independent members of the Board of Directors do not elect the senior independent director for interaction with the Chairman of the Board of Directors, as all independent directors are entitled to share their opinion freely and address the Chairman on any matters related to the activities of the Supervisory Board. The Company believes that excessive formalization of interaction between the members of the Board of Directors complicates and prolongs decision making processes. In 2020, the Company does not intend to change this approach.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussions of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. The performance of the chairman of the board of directors was assessed as part of the procedure for assessing the performance of the board of directors in the reporting period.	Non-compliance	In the reporting year, the Board of Directors did not carry out a self-assessment of its performance.
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to members of the board of directors of information required to make decisions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors of materials regarding items on the agenda of the board meeting.	Full compliance	
2.6	Members of the board of directors act reasonably and in good faith in the best interests of the company and its shareholders, relying on sufficient information, exercising due care and prudence.			

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.6.1	Members of the board of directors make decisions based on all information available, without conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	<p>1. The company's internal documents provide that a member of the board of directors shall notify the board of directors if he/she has a conflict of interest in respect of any item on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item.</p> <p>2. The company's internal documents provide that a member of the board of directors shall abstain from voting on any item in connection with which he/she has a conflict of interest.</p> <p>3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its competence at the expense of the company.</p>	Full compliance	
2.6.2	The rights and obligations of members of the board of directors are clearly defined and set out in the company's internal documents.	<p>1. The company has adopted and published an internal document clearly defining the rights and obligations of members of the board of directors.</p>	Full compliance	
2.6.3	Members of the board of directors have sufficient time to perform their duties.	<p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. In accordance with the company's internal documents, members of the board of directors shall inform the board of their intentions to join management bodies of other organizations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made.</p>	Partial compliance	The Company keep a record of attendance at Board and committee meetings; however, the Company has no procedures for recording the time devoted by members of the Board of Directors to preparation for meetings. This is primarily due to the fact that members of the Board of Directors are not employees of the Company and are not bound by the Company's internal labor regulations.
2.6.4	All members of the board of directors have equal access to the company's documents and information. Newly elected members of the board of directors are furnished with sufficient information about the company and the activities of the board of directors as soon as possible.	<p>1. In accordance with the company's internal documents, members of the board of directors are entitled to have access to documents and make queries regarding the company and entities under its control, and the company's executive bodies must provide relevant information and documents.</p> <p>2. The company has in place a formalized induction program for newly elected members of the board of directors.</p>	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.7	Meetings of the board of directors, preparation for such meetings and participation of members of the board of directors ensure efficient performance by the board of directors.			
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	Full compliance	
2.7.2	The company's internal documents specify a procedure for arranging and holding meetings of the board of directors, enabling members of the board of directors to prepare for such meetings in a proper manner.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	Full compliance	
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of items on the agenda. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's articles of association or internal document provide for the most important matters (as per the list set out in Recommendation 168 of the Code) to be discussed at in-person meetings of the board of directors.	Partial compliance	The Regulations on the Board of Directors of the Company provide for a shorter list of matters to be discussed only at in-person meetings of the Board of Directors. In 2020, the Company does not intend to change this approach.
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected members of the board of directors.	1. The company's articles of association provide for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected members of the board of directors.	Non-compliance	In practice, all resolutions of the Board of Directors are passed by the majority of all elected members of the Board of Directors.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8	The board of directors established committees for preliminary consideration of the most important matters related to the company’s operations.			
2.8.1	An audit committee comprised of independent directors has been established for preliminary consideration of matters related to controlling the company’s financial and business operations.	1. The board of directors has established an audit committee comprised solely of independent directors. 2. The company’s internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements. 4. Meetings of the audit committee were held at least once a quarter during the reporting period.	Partial compliance	The Audit Committee is chaired by an independent director. Most of the Committee members are independent directors. This practice complies with the requirements of the listing rules of PJSC Moscow Exchange. The number of independent directors on the Committee depends, inter alia, on the willingness and ability of independent directors to participate in the work of the Committee.
2.8.2	For preliminary consideration of matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee has been established, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors has established a remuneration committee comprised solely of independent directors. 2. The remuneration committee is chaired by an independent director who is not the chairman of the board of directors. 3. The company’s internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	Partial compliance	The Board of Directors has established a Nomination and Remuneration Committee. The aforementioned Committee is chaired by an independent director. Most of the Committee members are independent directors. This practice complies with the requirements of the listing rules of PJSC Moscow Exchange. The number of independent directors on the Committee depends, inter alia, on the willingness and ability of independent directors to participate in the work of the Committee.
2.8.3	For preliminary consideration of matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments, HR) committee has been established, predominantly comprised of independent directors.	1. The board of directors has established a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee <4>) predominantly comprised of independent directors. 2. The company’s internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code	Partial compliance	The Board of Directors has established a Nomination and Remuneration Committee. The aforementioned Committee is chaired by an independent director. Most of the Committee members are independent directors. This practice complies with the requirements of the listing rules of PJSC Moscow Exchange. The number of independent directors on the Committee depends, inter alia, on the willingness and ability of independent directors to participate in the work of the Committee.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.4	Taking into account the company’s scale of operations and level of risks, the company’s board of directors made sure that the composition of its committees is fully in line with the company’s business goals. Additional committees were either established or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board’s tasks and the company’s business goals. Additional committees were either established or not deemed necessary.	Full compliance	The Strategy Committee has been established.
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preliminary consideration, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company’s internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Partial compliance	The Strategy Committee is chaired by a non-executive director, which does not contradict the requirements of the listing rules of PJSC Moscow Exchange.
2.8.6	Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	Full compliance	
2.9	The board of directors ensures performance assessment of the board of directors, its committees and members.			

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual members of the board of directors, and the board of directors in general.	Non-compliance	In the reporting year, the Board of Directors did not carry out a self-assessment of its performance.
2.9.2	Performance of the board of directors, its committees and members is assessed regularly at least once a year. An external organization (advisor) is engaged at least once in three years to carry out an independent assessment of the board of directors' performance.	1. The company engaged an external organization (advisor) to carry out an independent assessment of the board of directors' performance at least once over the last three reporting periods.	Non-compliance	The Company did not engage advisors to carry out an independent assessment of the Board of Directors' performance. The budget for 2020 does not provide for a relevant cost item, either.
3.1	The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests, and supports efficient performance of the board of directors.			
3.1.1	The corporate secretary has the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and disclosed an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	Partial compliance	Qualification requirements to the Corporate Secretary of the Company are in accordance with the listing rules of PJSC Moscow Exchange. The Company did not receive the consent of an individual to disclose his/her personal data.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
3.1.2	The corporate secretary is sufficiently independent of the company’s executive bodies and has the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	Full compliance	
4.1	Remuneration payable by the company is sufficient to attract, motivate and retain people with competencies and qualifications required by the company. Remuneration payable to members of the board of directors, executive bodies and other key executives of the company is in compliance with the approved remuneration policy of the company.			
4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company’s employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	Full compliance	
4.1.2	The company’s remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company’s remuneration policy, revising and amending it as required.	1. During the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendations to the board of directors as required.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.3	The company’s remuneration policy includes transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates all types of payments, benefits and privileges provided to such persons.	1. The company’s remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of payments, benefits and privileges provided to such persons.	Full compliance	
4.1.4	The company defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company’s remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	Full compliance	
4.2	The remuneration system for members of the board of directors ensures alignment of financial interests of directors with long-term financial interests of shareholders.			
4.2.1	The company pays fixed annual remuneration to members of the board of directors. The company does not pay remuneration for attending individual meetings of the board of directors or its committees.	1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.2.2	Long-term ownership of the company’s shares helps align the financial interests of members of the board of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and members of the board of directors do not participate in stock option plans.	1. If the company’s internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company’s shares to members of the board of directors, clear rules for share ownership by members of the board of directors shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.	Non-compliance	At present, the Company’s Remuneration Policy does not stipulate the provision of shares in the Company to members of the Board of Directors.
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of powers of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company does not provide for any extra payments or compensations in the event of early termination of powers of members of the board of directors resulting from the change of control or any other reasons whatsoever.	Full compliance	
4.3	The company considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of remuneration payable to members of executive bodies and other key executives of the company.			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company’s results and the employee’s personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration of members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	Partial compliance	All procedures related to motivation and remuneration of members of executive bodies and other key executives of the Company are designed to prevent illegal bonus payments to these employees. The Company does not provide for a procedure that guarantees return to the Company of bonus payments illegally received by members of executive bodies and other key executives of the Company. These matters are regulated by the legislation of the Russian Federation and cannot be covered by the Company’s local regulations.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3.2	The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	Full compliance	
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, does not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	Full compliance	
5.1	The company has in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company's goals.			
5.1.1	The company's board of directors determines the principles of, and approaches to, organizing a risk management and internal control system in the company.	1. Functions of different governing bodies and units of the company in the risk management system and internal control are clearly defined in the company's internal documents/relevant policy approved by the board of directors.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.1.2	The company's executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of units and departments accountable to them.	Full compliance	
5.1.3	The company's risk management and internal control system ensures an objective, fair and clear representation of the current state of the company and its future prospects, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an anti-corruption policy. 2. The company has arranged for accessible means of notifying the board of directors or the board's audit committee about violations of the law, the company's internal procedures and code of ethics.	Full compliance	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its organization determined by the board of directors, and that the system is functioning effectively.	1. In the reporting period, the board of directors or the board's audit committee assessed the effectiveness of the company's risk management and internal control system. Information on the key results of this assessment is included in the company's annual report.	Partial compliance	The Company's annual report does not include the results of assessing the effectiveness of the Company's risk management and internal control system.
5.2	The company performs internal audits for regular independent assessment of the reliability and effectiveness of the risk management and internal control system and corporate governance practices.			
5.2.1	The company has set up a separate business unit or engaged an independent external organization to carry out internal audits. The functional and administrative subordination of the internal audit unit are separated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company has set up a separate internal audit unit functionally reporting to the board of directors or the audit committee, or engaged an independent external organisation under the same principle of subordination.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2.2	The internal audit unit assesses the effectiveness of internal control, risk management, and corporate governance systems. The company applies generally accepted standards of internal audit.	1. In the reporting period, the effectiveness of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	Full compliance	
6.1	The company and its business are transparent for shareholders, investors, and other stakeholders.			
6.1.1	The company has developed and adopted an information policy ensuring an efficient exchange of information between the company, its shareholders, investors, and other stakeholders.	1. The company’s board of directors approved an information policy developed in accordance with the Code’s recommendations. 2. The board of directors (or one of its committees) considered matters related to the company’s compliance with its information policy at least once in the reporting period.	Partial compliance	The Board of Directors has approved the Information Policy. The Company’s Board of Directors did not consider matters related to the Company’s compliance with its Information Policy in the reporting year.
6.1.2	The company discloses information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance system and general principles of corporate governance applied in the company, in particular, on the corporate website. 2. The company discloses information on the composition of executive bodies and the board of directors, independence of the board members and their membership in the board’s committees (as defined in the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out the latter’s plans for the company’s corporate governance.	Full compliance	The Company discloses all relevant information on the Company website and in the annual report.
6.2	The company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.			

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	1. The company’ information policy defines the approaches to, and criteria of, identification of information that can have a material impact on the company’s evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company’s securities are traded on foreign regulated markets, the company shall ensure concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting period. 3. If foreign shareholders hold a significant amount of the company’s shares, during the reporting year, information was disclosed not only in the Russian language, but also in one of the most widespread foreign languages.	Full compliance	
6.2.2	The company avoids a formalistic approach to information disclosure, and discloses significant information about its operations even if such disclosure is not required by law.	1. In the reporting period, the company disclosed annual and semi-annual financial statements prepared under the IFRS. The company’s annual report for the reporting period contains annual financial statements prepared under the IFRS, along with the auditor’s report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the official website of the company.	Full compliance	
6.2.3	The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, contains information enabling assessment of the company’s performance in the reporting year.	1. The company’s annual report contains information on the key aspects of the company’s operations and its financial results. 2. The company’s annual report contains information on the environmental and social aspects of the company’s operations.	Full compliance	
6.3	The company provides information and documents as per the requests of shareholders in compliance with the principles of equal and unhindered access.			

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.3.1	The company provides information and documents as per the requests of shareholders in compliance with the principles of equal and unhindered access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	Full compliance	
6.3.2	When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	<p>1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified.</p> <p>2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.</p>	Full compliance	
7.1	Actions that significantly impact or may significantly impact the share capital structure or financial condition of the company and, respectively, shareholders' position (material corporate actions) are fairly executed providing observance of the rights and interests of shareholders and other stakeholders.			
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or reduction of the company's authorized capital, listing or delisting of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's articles of association specify a list of transactions or other actions classified as material corporate actions pertaining to the competence of the company's board of directors.	<p>1. The company's articles of association specify a list of transactions or other actions classified as material corporate actions, and criteria for their identification. Resolutions on material corporate actions are referred to the competence of the board of directors. When execution of such corporate actions is expressly referred by law to the competence of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders.</p> <p>2. Under the company's articles of association, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or reduction of the company's authorized capital, listing or delisting of the company's shares.</p>	Non-compliance	The Articles of Association of the Company do not define the notion of "significant corporate action". Members of the Company's Board of Directors apply a responsible approach to considering all matters within their competence, regardless of their significance.

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.2	The board of directors plays a key role in making decisions or working out recommendations regarding material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Non-compliance	Any member of the Company's Board of Directors, including independent directors, has the right to freely express his/her position on any matter within the competence of the Board of Directors, prior to voting on this matter.
7.1.3	When executing material corporate actions affecting the rights and legitimate interests of shareholders, equal terms and conditions are ensured for all shareholders of the company, and, in case of insufficient statutory mechanisms for protecting shareholder rights, additional measures are taken to protect the rights and legitimate interests of the company's shareholders. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Taking into account the specifics of the company's operations, the company's articles of association establish lower minimum criteria for the company's transactions to be deemed material corporate actions than those provided by law. 2. In the reporting period, all material corporate actions were subject to the approval procedure prior to execution.	Partial compliance	The law does not set minimum criteria for classifying the Company's transactions as material corporate actions, therefore it is not possible to establish lower criteria.
7.2	The company executes material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when executing such actions.			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	Full compliance	

Nº	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2.2	Rules and procedures related to material corporate actions executed by the company are set out in the company's internal documents.	<p>The company's internal documents provide for the procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or an interested party transaction.</p> <p>2. The company's internal documents provide for the procedure for engaging an independent appraiser to assess the value of the company's shares at their repurchase or redemption.</p> <p>3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be interested parties to the company's transactions.</p>	Partial compliance	The Company's internal documents do not provide for an expanded list of grounds on which members of the Company's Board of Directors and other persons as per the applicable law are deemed to be interested parties to the Company's transactions.

Information On The Company’s Major Transactions In 2019

Transaction date	Transaction approval date	The Company’s governing body that approved the transaction	Subject matter of the transaction and its essential terms
05.02.2019	29.10.2018	Board of Directors	The Bank shall transfer funds in rubles (the “Credits”) to the Borrower under a revolving credit facility (the “Credit Facility”). The Credit Facility shall expire on 31 December 2022 inclusive. Parties to the transaction – PJSC Detsky Mir (the Borrower), JSC Alfa-Bank (the Lender, the Bank). Transaction price – RUB 23,841,643,835.62 (excluding fines and penalties). Maximum Credit limit on any day within the term of the Credit Facility – no more than RUB 13,000,000,000.00 (the “Credit Limit”). Maximum amount of interest expense – RUB 10,841,643,835.62.
26.06.2019	29.03.2019	Board of Directors	The Lender shall open a revolving framework credit facility to finance the Borrower’s working capital and expenses on retail store openings, including renovations and property acquisition, with the interest rate of no more than 25.00% (twenty-five point zero percent) per annum. The Credit Facility shall expire on 23 October 2022 inclusive. Parties to the transaction – PJSC Detsky Mir (the Borrower), PJSC Sberbank (the Lender, the Bank). Transaction price – RUB 18,931,506,849.32). Maximum Credit limit on any day within the term of the Credit Facility – no more than RUB 10,000,000,000.00 (the “Credit Limit”). Maximum amount of interest expense – RUB 8,931,506,849.32.
14.11.2019	18.09.2019	Board of Directors	Pursuant to this Agreement, the Issuing Bank shall issue, on the basis of an accepted application for a Letter of Credit, uncovered irrevocable documentary Letters of Credit on the terms outlined in the relevant application for a Letter of Credit. Letters of Credit are denominated in Russian rubles and US dollars. Letters of Credit may provide for deferred payments. Beneficiary(ies) under Letters of Credit – Xiamen Kingland Co., Ltd., HONGKONG MIDDLE ASIA INTERNATIONAL LIMITED, Renaissance Designs Limited and other resident and non-resident companies. Payment obligation(-s) under the Letters of Credit – supply agreements for the import of goods. The actual term of a Letter of Credit shall not exceed 12 (twelve) months, and in aggregate with the term of Financing or the term of Deferred Payments (inclusive of the dates of opening of a Letter of Credit and the expiry date of Deferred Payment) it shall not exceed 12 (twelve) months from the date of opening of the relevant Letter of Credit (inclusive of the date of opening of the Letter of Credit) and shall not be later than 31 December 2022 (inclusive of this date). Parties to the transaction – PJSC Detsky Mir (the Client, the Applicant), JSC Alfa-Bank (the Issuing Bank). Transaction price – RUB 15,423,397,260.27. The Issuing Bank’s total liability under the Letters of Credit opened under this Agreement shall not exceed RUB 14,000,000,000.

Information On The Company’s Interested Party Transactions In 2019

The Company complies with all legal requirements to approving interested party transactions. Pursuant to the Company’s Articles of Association, interested party transactions are subject to prior approval by the Board of Directors or the General	Meeting of Shareholders. The terms and conditions of interested party transactions are previewed by the Audit Committee which gives recommendations to the Board of Directors on approval or non-approval of each previewed transaction.	If the Audit Committee recommends approving a transaction, the approval is considered by the Board of Directors. Members of the Board of Directors who are recognized as interested parties to a transaction as well as the Company’s CEO do	not vote on the approval of this transaction. A transaction is approved by a majority of votes of all disinterested directors. At least five directors must take part in the voting.
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Information on interested party transactions with the amount less than 2% of the book value of assets

Transaction date	Transaction approval date	The Company’s governing body that approved the transaction	Subject matter of the transaction and its essential terms	Information on the interested party(ies)
25.01.2019	17.12.2018	Board of Directors	<p>The Seller shall transfer, and the Buyer shall accept, children's goods (toys, stationery, books, multimedia, baby food, diapers, baby feeding and care products, large-size children’s products, children’s apparel and footwear, children’s goods for sports and outdoor activities, New Year range) on DDP terms (the Republic of Belarus) in accordance with the International Commercial Terms (Incoterms 2010). Goods shall be supplied in batches, with the name, product range and quantity of Goods in each batch, unit price, unit of measurement, total batch cost, shipment terms and delivery deadlines, as well as the delivery address are stipulated in the Orders exchanged by the Parties via email in relation to each batch to be supplied. Orders are an integral part of the Agreement and shall be agreed by the Parties via email. The supplied goods shall be paid for by deferred payments, the payment currency shall be the Russian ruble. PJSC Detsky Mir, INN 7729355029 (the Supplier),</p> <p>LLC Detmir BEL, registration number and VAT identification number 193143438 (the Buyer). Transaction amount — RUB 870,000,000.</p>	Public Joint Stock Financial Corporation Sistema (PJSFC Sistema), located at 13 Mokhovaya St., Bld. 1, Moscow, 125009, Russian Federation, is the controlling entity of PJSC Detsky Mir and LLC Detmir BEL, owning 52.1% of the voting shares in PJSC Detsky Mir and indirectly owning 100% of the authorized capital of LLC Detmir BEL.

Information on interested party transactions with the amount more than 2% of the book value of assets

Transaction date	Transaction approval date	The Company’s governing body that approved the transaction	Subject matter of the transaction and its essential terms	Information on the interested party(ies)
15.11.2019	15.11.2019	Board of Directors	<p>Engagement Letter. The underwriting banks shall provide services to PJSC Detsky Mir and PJSFC Sistema, usually provided by joint global coordinators and joint bookrunners in preparation for the Secondary Public Offering of ordinary shares in PJSC Detsky Mir (the “Offering”), in particular, structuring and conducting the Offering, including settlement of the Offering, bookbuilding for ordinary registered shares in PJSC Detsky Mir (state registration number of the share issue 1-02-00844-A dated 11 February 2014) (the “Ordinary Shares”) and setting the Offering price of Ordinary shares. Deadline for performance of obligations – until an Underwriting agreement is signed. Parties to, and beneficiaries of, the transaction – PJSC Detsky Mir (the Issuer), PJSFC Sistema, Exarzo Holdings Limited and Floette Holdings Limited (the selling shareholders), Goldman Sachs International, UBS Europe SE, JSC Sberbank CIB, Sberbank CIB (UK) Limited, VTB Capital plc (the underwriters). Transaction amount in monetary terms and as percentage of the book value of the Issuer’s assets: in any case, PJSC Detsky Mir’s obligations are limited to a total of ten percent (10%) of the book value of the Company’s assets as stated in its latest accounting (financial) report before the transaction date.</p>	<p>Vladimir Yevtushenkov is the controlling person of PJSFC Sistema which is a party to the Engagement Letter, and indirectly controls PJSC Detsky Mir which is a party to the Engagement Letter. Percentage ownership in the issuer – 0%; percentage ownership in Exarzo Holdings Limited – 0%; percentage ownership in Floette Holdings Limited – 0%; percentage ownership in PJSFC Sistema – 59.2030%; percentage ownership in Goldman Sachs International – 0%; percentage ownership in UBS Europe SE – 0%; percentage ownership in JSC Sberbank CIB – 0%; percentage ownership in Sberbank CIB (UK) Limited – 0%; percentage ownership in VTB Capital plc – 0%. Alexey Katkov, a Board member at PJSC Detsky Mir, is a member of the Management Board of PJSFC Sistema which is a party to the Engagement Letter. Percentage ownership in the issuer – 0.05%; percentage ownership in Exarzo Holdings Limited – 0%; percentage ownership in Floette Holdings Limited – 0%; percentage ownership in PJSFC Sistema – 0.0560%; percentage ownership in Goldman Sachs International – 0%; percentage ownership in UBS Europe SE – 0%; percentage ownership in JSC Sberbank CIB – 0%; percentage ownership in Sberbank CIB (UK) Limited – 0%; percentage ownership in VTB Capital plc – 0%.</p>

Transaction date	Transaction approval date	The Company’s governing body that approved the transaction	Subject matter of the transaction and its essential terms	Information on the interested party(ies)
22.11.2019	15.11.2019	Board of Directors	<p>PJSFC Sistema, Exarzo Holdings Limited and Floette Holdings Limited shall transfer a total of 175,000,000 ordinary registered shares in PJSC Detsky Mir (state registration number of the share issue 1-02-00844-A dated 11 February 2014) (the “Ordinary Shares”), and the underwriting banks shall purchase the Ordinary Shares and sell them to Russian and international investors during the Secondary Public Offering of ordinary shares in PJSC Detsky Mir at RUB 91 per Ordinary Share. PJSC Detsky Mir (the “Company”) shall indemnify the Underwriters and other persons or entities subject to indemnity under the Underwriting Agreement for possible costs, expenses and damages, including those caused by breaches of representations and warranties. Deadline for performance of obligations – 2 December 2019. Parties to, and beneficiaries of, the transaction – PJSC Detsky Mir (the Issuer), PJSFC Sistema, Exarzo Holdings Limited and Floette Holdings Limited (the selling shareholders), Goldman Sachs International, UBS Europe SE, JSC Sberbank CIB, Sberbank CIB (UK) Limited, VTB Capital plc (the underwriters). Beneficiaries of the Transaction – other persons or entities which are not parties to the transaction, subject to indemnity under the Underwriting Agreement for possible costs, expenses and damages. Transaction amount in monetary terms and as percentage of the book value of the Issuer’s assets: in any case, PJSC Detsky Mir’s obligations are limited to a total of ten percent (10%) of the book value of the Company’s assets as stated in its latest accounting (financial) report before the transaction date.</p>	<p>Vladimir Yevtushenkov is the controlling person of PJSFC Sistema which is a party to the Engagement Letter, and indirectly controls PJSC Detsky Mir which is a party to the Engagement Letter. Percentage ownership in the issuer – 0%; percentage ownership in Exarzo Holdings Limited – 0%; percentage ownership in Floette Holdings Limited – 0%; percentage ownership in PJSFC Sistema – 59.2030%; percentage ownership in Goldman Sachs International – 0%; percentage ownership in UBS Europe SE – 0%; percentage ownership in JSC Sberbank CIB – 0%; percentage ownership in Sberbank CIB (UK) Limited – 0%; percentage ownership in VTB Capital plc – 0%. Alexey Katkov, a Board member at PJSC Detsky Mir, is a member of the Management Board of PJSFC Sistema which is a party to the Engagement Letter. Percentage ownership in the issuer – 0.05%; percentage ownership in Exarzo Holdings Limited – 0%; percentage ownership in Floette Holdings Limited – 0%; percentage ownership in PJSFC Sistema – 0.0560%; percentage ownership in Goldman Sachs International – 0%; percentage ownership in UBS Europe SE – 0%; percentage ownership in JSC Sberbank CIB – 0%; percentage ownership in Sberbank CIB (UK) Limited – 0%; percentage ownership in VTB Capital plc – 0%.</p>

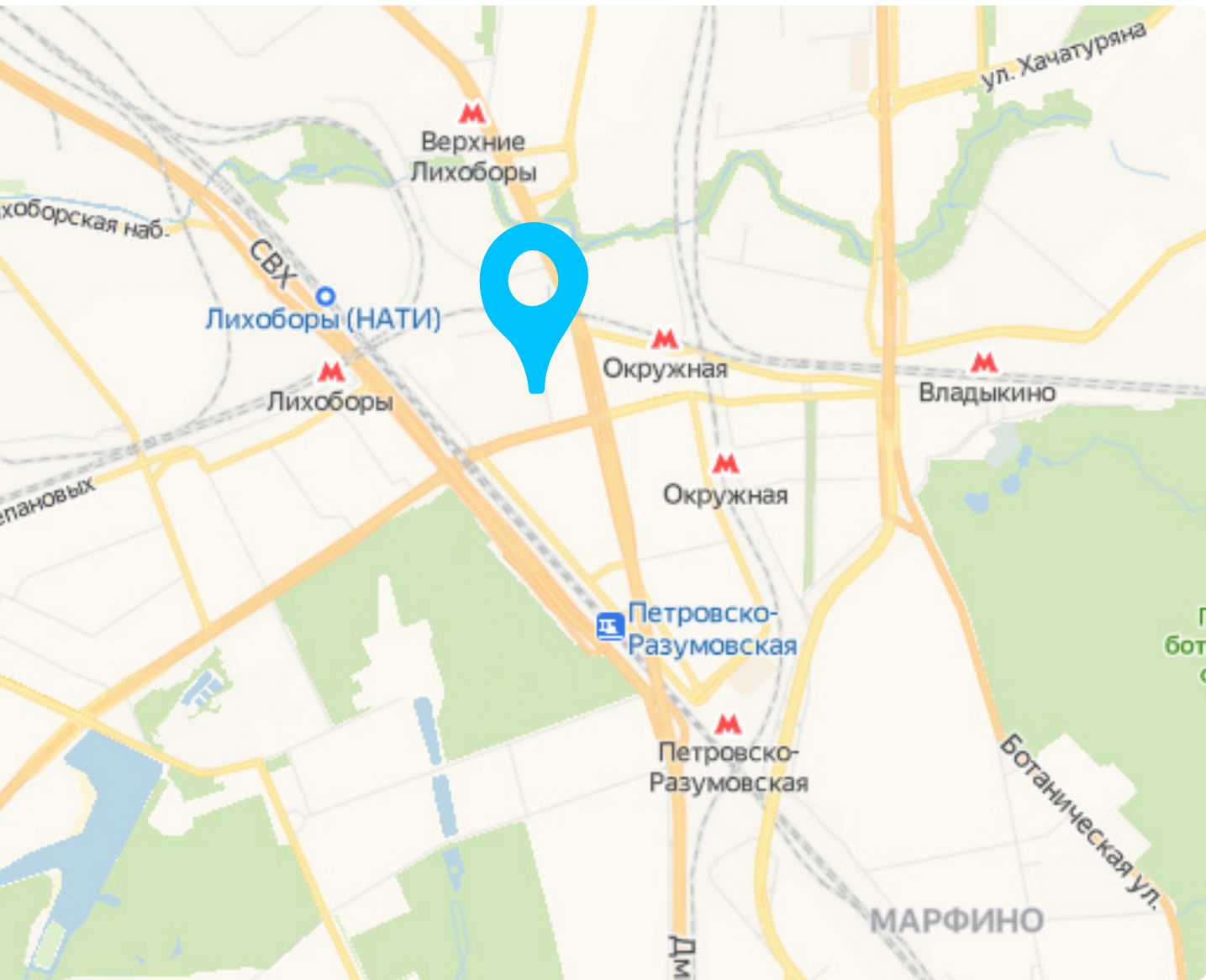
Information On Transactions With The Company Shares Performed By Members Of Governing Bodies In 2019

During 2019, the following transactions with ordinary registered shares in the Company were performed by members of the Board of Directors and the Management Board:

	Transaction date	Transaction type	Number of shares involved in the transaction
Alexey Katkov	14.03.2019	purchase	371,072
Anna Garmanova	11.06.2019	purchase	32,071
Maria Volodina	11.06.2019	purchase	27,340
Farid Kamalov	11.06.2019	purchase	59,537
Maria Davydova	11.06.2019	purchase	36,802
Vladimir Ilmetov	11.06.2019	purchase	23,655
Vyacheslav Mikhnenko	11.06.2019	purchase	29,001
Tatyana Mudretsova	11.06.2019	purchase	26,419
Vyacheslav Khvan	11.06.2019	purchase	34,665
Anastasia Yaroshevskaya	19.11.2019	purchase	14,509
Stanislav Kotomkin	26.12.2019	purchase	8,920

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Consolidated Financial Statements

DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2019
And Independent Auditor's Report

DETSKY MIR GROUP

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DETSKY MIR GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present 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 31 December 2019, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

In preparing the consolidated financial statements, management is responsible for:

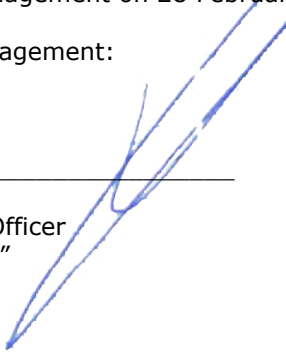
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient 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 consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in respective jurisdictions in which the Group operates;
- 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 consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 28 February 2020.

On behalf of Management:



V.S. Chirakhov,
Chief Executive Officer
PJSC "Detsky Mir"



A.S. Garmanova,
Chief Financial Officer
PJSC "Detsky Mir"

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Detsky mir" and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

Recognition of supplier bonuses

The Group receives significant amounts of supplier incentives, discounts, bonuses and reimbursements for advertising and markdowns (hereinafter, "supplier bonuses").

We consider this to be a key audit matter because judgment is required to determine the commercial substance of supplier bonuses received by the Group, their classification as those reducing the cost of inventory purchased and the period over which the related reduction should be recognized in the consolidated statement of profit or loss and other comprehensive income, which necessitates a thorough understanding of the contractual arrangements and complete and accurate source data.

The Group's principal accounting policy on supplier bonuses and critical accounting estimates related to them are disclosed in Note 4 on page 14 and Note 5 on page 23, respectively.

We obtained an understanding of the Group's internal processes and controls in respect of accounting for supplier bonuses and assessed whether the Group applies its accounting policy consistently during the reporting period.

We circularized a sample of suppliers to obtain assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as tracing the amounts recorded to primary documents signed by suppliers confirming the Group's entitlement to a particular bonus. In addition, for a sample of volume-based arrangements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms.

On a sample basis we examined the commercial substance of supplier bonuses by analysing the primary documents and contractual arrangements confirming the Group's right to receive supplier bonuses and other supporting documentation. In addition to that, we recomputed management's calculation of supplier bonuses allocated to year-end inventories based on their commercial substance.

We also performed year-to-year analysis of the ratio of aggregate supplier bonuses allocated to year-end inventories to the total amount of supplier bonuses received by the Group during the reporting period.

Net realizable value of inventories

Inventories are carried at the lower of cost and net realizable value.

At 31 December 2019 the value of inventories held by the Group was RUB 38,636 million (31 December 2018: RUB 35,063 million).

The valuation of inventories was identified as a key audit matter because it involves judgement, in particular, with respect to the estimated selling price of items held and introduction of a new approach to determine provision rates.

The assessment process is subjective as it includes reviewing the historical performance of the inventories (sales below cost of sales for the last twelve months), current operational plans as well as industry and customer

We challenged whether the new management's approach properly considers all the relevant inputs to arrive at the best estimate of net realizable value of inventories:

- Understanding the Group's processes and control procedures related to the measurement of inventories at the lower of cost and net realizable value;
- Verifying the value of a sample of inventories to confirm it is held at the lower of cost and net realizable value, based on the sales prices after the reporting date;
- Reviewing, recalculating and critically assessing the reasonableness of inventory allowance considering inventory turnover, historical and post year-end performance including sales below cost of sales and analysing the amount of allowance as a percentage

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

specific trends that drive provision rates.

The Group's inventory provision is disclosed in Note 13 on page 29. The key assumptions related to inventory measurement are disclosed in Note 5 on page 23.

of gross inventory balance year to year and investigating the changes in the ratios taking into account the expected changes in the methodology.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor's report thereon. The other information also consists of the supplementary information on pages 46-50 and is presented for the purpose of additional analysis and is not a part of the consolidated financial statements for the year ended 31 December 2019.

The Annual and Quarterly reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information presented on pages 46-50 and Annual and Quarterly reports when they become available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, 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. We have nothing to report in regards to the supplementary information presented on pages 46-50

When we read the Annual and Quarterly reports, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


Egor Metelkin
engagement partner

28 February 2020



The Entity: PJSC "Detsky mir"

State Registration Certificate No. 869.149 issued by Moscow Registration Chamber on 03.09.1997.

Primary State Registration Number: 1027700047100

Address: 37 Vernadsky Prospekt, bldg. 3, Moscow, 119415, 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-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Notes	2019	2018
Revenue	6	128,764	110,874
Cost of sales		<u>(87,232)</u>	<u>(74,045)</u>
GROSS PROFIT		41,532	36,829
Selling, general and administrative expenses	7	(28,631)	(25,550)
Other operating expenses, net		<u>(8)</u>	<u>(47)</u>
OPERATING PROFIT		12,893	11,232
Finance income		11	10
Finance expenses	8	(4,878)	(4,427)
Foreign exchange (loss)/ gain, net		<u>(124)</u>	<u>106</u>
PROFIT BEFORE TAX		7,902	6,921
Income tax expense	9.1	<u>(1,360)</u>	<u>(1,227)</u>
PROFIT FOR THE YEAR		<u>6,542</u>	<u>5,694</u>
Other comprehensive income/ (loss):			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		<u>74</u>	<u>(43)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>6,616</u>	<u>5,651</u>
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	17	735,675,274	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)		8.89	7.72

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (in millions of Russian Rubles)

	Notes	At 31 December 2019	At 31 December 2018 (restated) ¹
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	10	9,755	9,226
Intangible assets	11	1,464	1,255
Right-of-use assets	12	32,988	29,606
Deferred tax assets	9.2	2,415	1,858
Other non-current assets		138	133
Total non-current assets		46,760	42,078
CURRENT ASSETS			
Inventories	13	38,636	35,063
Trade receivables	14	4,048	4,473
Advances paid and other receivables	15	1,435	2,038
Prepaid income tax		13	1
Cash and cash equivalents	16	1,769	3,335
Total current assets		45,901	44,910
TOTAL ASSETS		92,661	86,988
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	1	1
Treasury shares	17	(317)	(214)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(7,305)	(6,609)
Currency translation reserve		161	87
Total equity deficit		(1,667)	(942)
NON-CURRENT LIABILITIES			
Lease liabilities	18	27,635	24,203
Long-term loans and borrowings	19	8,980	8,928
Deferred tax liabilities	9.2	104	152
Total non-current liabilities		36,719	33,283
CURRENT LIABILITIES			
Trade payables		32,911	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	10,270	12,542
Lease liabilities	18	7,145	6,343
Advances received, other payables and accrued expenses	21	6,042	4,938
Deferred revenue	22	436	720
Income tax payable		805	357
Total current liabilities		57,609	54,647
Total liabilities		94,328	87,930
TOTAL EQUITY AND LIABILITIES		92,661	86,988

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

¹ The Group reassessed the classification of current and non-current lease liabilities as at 31 December 2018: current portion of lease liabilities was decreased by RUB 497 million, whereas non-current of them was increased by the respective amount.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2018	1	(60)	5,793	(6,386)	130	(522)
Profit for the year	-	-	-	5,694	-	5,694
Other comprehensive loss	-	-	-	-	(43)	(43)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	5,694	(43)	5,651
Share-based compensation (Note 20)	-	-	-	182	-	182
Purchase of treasury shares (Note 17)	-	(195)	-	-	-	(195)
Sale of treasury shares (Note 17)	-	41	-	-	-	41
Dividends (Note 17)	-	-	-	(6,099)	-	(6,099)
Balance at 31 December 2018	1	(214)	5,793	(6,609)	87	(942)
Profit for the year	-	-	-	6,542	-	6,542
Other comprehensive income	-	-	-	-	74	74
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	6,542	74	6,616
Share-based compensation (Note 20)	-	-	-	(240)	-	(240)
Purchase of treasury shares (Note 17)	-	(139)	-	-	-	(139)
Sale of treasury shares (Note 17)	-	36	-	-	-	36
Dividends (Note 17)	-	-	-	(6,998)	-	(6,998)
Balance at 31 December 2019	1	(317)	5,793	(7,305)	161	(1,667)

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (in millions of Russian Rubles)

	2019	2018
Operating activities:		
Profit for the year	6,542	5,694
Adjustments for:		
Depreciation and amortization expense	10,005	9,100
Finance expenses	4,878	4,427
Income tax expense recognized in profit or loss	1,360	1,227
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,270	1,233
Impairment recognized for non-current assets	128	191
Foreign exchange loss/(gain), net	124	(106)
Expense on equity-settled share-based compensation	8	182
Finance income	(11)	(10)
Gain on disposal of non-current assets	(22)	(1)
Bad debts written-off and change in loss allowance for doubtful receivables on advances paid and other receivables	(29)	8
Other	(43)	-
Changes in working capital:		
Decrease/(increase) in trade receivables	200	(2,230)
Decrease/(increase) in advances paid and other receivables	226	(609)
Increase in inventories	(4,818)	(9,856)
Increase in trade payables	3,404	5,034
Increase in advances received, other payables and accrued expenses	1,164	526
(Decrease)/increase in deferred revenue	(284)	114
Cash generated by operations	24,102	14,924
Interest paid	(4,599)	(4,233)
Interest received	4	5
Income tax paid	(1,696)	(1,083)
Net cash generated by operating activities	17,811	9,613
Investing activities:		
Payments for property, plant and equipment	(2,789)	(3,487)
Payments for intangible assets	(718)	(307)
Proceeds from sale of property, plant and equipment	40	-
Net cash used in investing activities	(3,467)	(3,794)
Financing activities:		
Purchase of treasury shares	(139)	(195)
Sale of treasury shares	36	41
Repayment of loans and borrowings	(72,522)	(44,173)
Dividends paid	(6,998)	(7,242)
Lease payments	(6,589)	(6,122)
Proceeds from loans and borrowings	70,302	52,052
Net cash used in financing activities	(15,910)	(5,639)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(1,566)	180
CASH AND CASH EQUIVALENTS, beginning of the year	3,335	3,155
CASH AND CASH EQUIVALENTS, end of the year	1,769	3,335

The Notes on pages 11 to 45 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in millions of Russian Rubles)

1. GENERAL INFORMATION

PJSC "Detsky mir" (hereinafter, the "Company", "Detsky mir") together with its subsidiaries (hereinafter, the "Group") is the largest retail chain in the children's goods 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. In 2019 and as at 31 December 2019 the Group operated "Detsky Mir" branded stores in Russia and Kazakhstan, Early Learning Centre (hereinafter, "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.

In November 2019, the Company's shareholders PJSC Sistema (the controlling shareholder of the Company) (hereinafter, "Sistema") and the Russia-China Investment Fund (hereinafter, "RCIF") successfully priced the offering of Detsky Mir shares. The offering size was 175 million existing shares in the Company, representing 23.7% of the Company's issued share capital. During the share placement, the shareholders of the Company sold part of their shares to external investors, which led to certain changes in the structure of the Company's shareholders, and Sistema lost the controlling stake in the Company, but retained its majority stake. As at 31 December 2019 the Group had no ultimate controlling party, as at 31 December 2018 the ultimate controlling party of the Group was Mr. Vladimir Evtushenkov.

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2019, %	31 December 2018, %
PJSC Sistema and its subsidiaries	33.377	52.099
Floette Holdings Limited ^{1,2}	4.501	7.016
Exarzo Holdings Limited ^{1,2}	4.501	7.016
Capital Group Companies ³	5.047	-
Other shareholders	52.574	33.869
Total	100	100

¹ Represent the interests of the RCIF;

² Including shares on the account of nominal holder;

³ Through indirect ownership, entitled to exercise shareholder rights.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (hereinafter, "IASB") (hereinafter, "IFRS").

The consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. The consolidated financial statements are presented in millions of Rubles (hereinafter, "RUB million", "mln Rubles") except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the consolidated financial statements

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 these consolidated financial statements:

- 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 consolidated financial statements of the Group for the year ended 31 December 2019.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 1 and IAS 8 – "Definition of material"¹;
- Amendments to References to the Conceptual Framework in IFRS Standards¹.

¹ Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group's entities maintain their accounting records in compliance with the local legislation on accounting and reporting adopted in jurisdictions of the countries in which they were founded and registered. The accounting principles and reporting procedures in these jurisdictions may differ from IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The accounting principles set out below have been applied in the preparation of these consolidated financial statements for the year ended 31 December 2019 as well as comparative information presented in these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Going concern principle

These consolidated financial statements have been prepared on management's assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Presentation currency and functional currency

Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble (hereinafter, "RUB"). The functional currency of LLP Detsky Mir Kazakhstan is Kazakhstani Tenge, and the functional currency of LLC Detmir BEL is Belarusian Ruble.

These consolidated financial statements are presented in millions of Russian Rubles. Management believes that the Russian Ruble is the most convenient presentation currency for users of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- Has power over an entity;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Company controls an entity without the majority of voting rights if existing voting rights give the possibility to direct the relevant activities of the entity unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient for control.

Consolidation of subsidiaries begins when the Company obtains control over the subsidiary and ends when the Company loses control of the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, income and expenses are eliminated on consolidation.

Segment information

Reportable segments are determined based on the financial information which is available and utilized on a regular basis by the Company's chief operating decision maker to assess financial performance and to allocate resources. The Group has two operating segments pursuant to the IFRS 8 "Segment Reporting", being retail and online sales through the Internet. These two segments have been aggregated by management into a single operating segment as they share similar economic characteristics:

- Both retail and online sales are represented by sales of goods for children;
- The type and class of customers are the same for both segments: the Company has a business-to-customer sale model;
- The methods used to distribute and promote the goods are the same; and
- Long-term gross profit margins;

The disclosures presented herein therefore, constitute the Group's entity wide disclosures.

Customer base of the Group is diversified; therefore transactions with a single external customer do not exceed 10% of the Group's revenue.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Revenue recognition

The revenue is recognized by the Group in such a way to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue from the sale of goods is recognized on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognized only when the Group satisfies a performance obligation.

The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

The Group sells gift cards to its customers in its retail stores. The gift cards have an expiration date and are required to be used during specified periods of time. The Group recognizes income from gift cards either when the gift card is redeemed by the customer or when the gift card expires.

Bonuses and allowances received from suppliers

The Group's agreements with suppliers contain a price for units purchased as well as other discounts and incentives such as reimbursements for specific arrangements such as markdowns and advertising. The Group has agreements with each supplier setting forth the specific conditions for each bonus.

Volume bonuses (rebates) as well as discounts are linked to purchases made from suppliers on a price per unit basis and are recognized as a reduction to cost of goods sold as inventories are sold. Bonuses that relate to inventory not sold are recognised within the value of inventory as at the period end. Amounts are only recognised when the Group has a clear entitlement to the receipt and of the rebate and a reliable estimate can be made.

The Group also enters into the arrangements with suppliers to perform marketing and promoting activities on behalf of suppliers: this type of incentives is directly credited to the cost of sales of inventory participated in such activity in the period received. Judgement is required to ensure these bonuses to be recognised when all performance obligations within the contract have been fulfilled and the bonus is expected to be collected.

Customer loyalty program

The Group runs a customer loyalty program which allows customers to earn points for each purchase made in any of the Group's retail stores and via Internet in the online store. Points earned enable customers to receive a cash discount on future purchases, provided the purchase is made within one year of earning the points. Proceeds from sales to members of the loyalty programs are allocated between the loyalty points and the other components of the sale. The consideration allocated to the loyalty points is measured by reference to their fair value, i.e. the amount for which the loyalty points could be sold separately. The amount of revenue allocated to loyalty points reflects the estimated breakage. Revenue allocated to loyalty points is then recognised as the loyalty points are redeemed.

Finance income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Foreign currency transactions

In preparing the financial statements of each subsidiary of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2019	At 31 December 2018
Closing exchange rates at the year-end – RUB		
1 EUR	69.3406	79.4605
1 Tenge	0.1622	0.1806
1 USD	61.9057	69.4706
1 BYN	29.4257	32.0732
	2019	2018
Average exchange rates for the year ended – RUB		
1 EUR	72.5021	73.9546
1 Tenge	0.1690	0.1817
1 USD	64.7362	62.7078
1 BYN	30.9653	30.7076

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Property, plant and equipment

Buildings, leasehold improvements and equipment are stated in the consolidated statement of financial position at their cost that includes all costs directly attributable to bringing the asset to working condition for its intended use. Major expenditures for improvements and replacements which extend the useful lives of the assets or increase their values or revenue generating capacity are capitalized. Repairs and maintenance are charged to the consolidated statements of profit or loss and other comprehensive income as incurred.

Depreciation is computed based on the straight-line method utilizing estimated useful lives of property, plant and equipment as follows:

Buildings	15-40 years
Leasehold improvements	5-10 years
Trade equipment	5-7 years
Office and warehouse equipment and other fixed assets	3-5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful life or lease term. The lease term includes renewals when the Group has a right to renew and it is highly probable that the Group will exercise its right.

Construction in-progress and equipment for installation are not depreciated until the asset is placed into service. Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is recognized within profits and losses for the period.

Leases

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. This rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the estimated period of lease term, which is calculated based on lease term stated in lease agreements, periods covered by an option to extend or terminate the lease, and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Selling, general and administrative expenses" in the statement of profit or loss (see Note 7).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment losses is immediately recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventories, conversion costs and other costs incurred in bringing them to their existing location (retail shops and distribution warehouses) and condition. Supplier allowances that do not represent reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's goods are also included in cost of inventories (as a reduction of it). Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

At the end of each reporting period, the Group provides for estimated shrinkage, obsolete and slow-moving inventory.

Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value of financial instruments

Fair value of financial instruments which are traded in the active market is estimated at each reporting date on the basis of market quotations or dealer quotes without any deduction for transaction costs. For financial instruments which are not traded in the active market, fair value of the instrument is estimated using valuation techniques that include use of data on market transactions; data on current fair value of other similar instruments; discounted cash flow analyses or other valuation techniques.

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The Group uses the following hierarchy to determine and disclose methods of fair value measurement of financial instruments:

- Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: techniques where all used inputs that significantly affect the fair value are observable directly or indirectly;
- Level 3: techniques where used inputs that significantly affect the fair value are not based on observable market data.

Financial assets

Financial assets are classified into the following specified categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

All regular routine purchases or sales of financial assets are recognized on a trade date basis. Regular routine purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The major part of the Group's debt instruments are presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities at acquisition/date of the transactions of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets that are measured at amortised cost (represented by cash and cash equivalents, trade and other receivables). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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The Group always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by Group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. Otherwise financial liabilities are measured subsequently at amortised cost using the effective interest method.

Derivative financial instruments

In course of its business the Group from time to time enters into derivative financial instruments to manage its exposure to foreign exchange rate risk mostly through foreign exchange forward contracts. The Group does not use hedge accounting for these derivatives. As a result, such derivative financial instruments are treated as other financial assets and liabilities at fair value through profit or loss. Gains and losses recognized for the changes in fair value of forward contracts are presented as part of finance costs or other operating expenses of the Group depending on whether its use is related to a financial item or an operating item.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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Cash-settled share-based compensation

Cash-settled share-based compensation is initially measured at the fair value of the according liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the period.

Equity-settled share-based compensation

Equity-settled share-based compensation is accounted for at fair value determined on the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period.

Dividends

Dividends and the related taxes are recognized as a liability in the period in which they have been declared and become legally payable. Dividends can be paid out in accordance with laws of the jurisdictions in which the Group's entities are incorporated and registered.

Treasury shares

If the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by the subsidiaries of the Company.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4 "Significant Accounting Policies", management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Lease terms determination

In determining the amount of lease liability relating to new or modified leases, judgment is required when assessing the lease term. The Group considers the extension options that are reasonably certain to be executed and termination options that are reasonably certain not to be executed. When considering those options, management takes into account the residual useful life of the related major leasehold improvements, the Group's investment strategy and relevant investment decisions, as well as length of time until the extension or termination option under consideration.

Taxation

The Group is subject to income taxes and other taxes. Significant judgment is required in determining the provision for income tax and other taxes as there are a number of transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of various matters is different from the amounts that were recorded, such difference have an impact on the amounts of current and deferred income tax in the period in which such determination is made.

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Supplier bonuses

The Group receives various types of bonuses from suppliers in the form of cash payments or allowances for various programs, primarily volume incentives and reimbursements for specific programs such as markdowns and advertising. Management has concluded that a significant portion of payments from suppliers is accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

From time to time, the Group agrees with a supplier to promote a specific product through a temporary price reduction. The supplier often compensates the Group for any pieces of the specific SKU (stock keeping unit) which is held in stock and is included in the program which is referred to as markdown compensation. These bonuses are treated as a reduction of the cost of goods sold in the period when the respective merchandise has been sold.

Measuring inventories

Management reviews the inventory balances to determine if inventories can be sold at amounts greater than or equal to their carrying amounts plus costs to sell. This review includes identification of slow moving inventories and obsolete inventories.

In 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.

Management makes an allowance for any items considered to be obsolete. The allowance represents the difference between the cost of inventory and its estimated net realizable value.

If actual results differ from management's expectations with respect to the selling of inventories at amounts equal to or less than their carrying amounts, management would be required to adjust the carrying amount of inventories.

During the period between inventory counts or cycle counts in stores, the Group estimates losses related to shrinkage that may have been identified in each store if a stock count was carried out on the reporting date, on a store-by-store basis. The estimation as at reporting date is based on the average historical actual shrinkage results, net of surpluses, in retail stores of the Group.

Revenue attributed to loyalty program

The Group accounts for customer loyalty points as a separate component of the sale transaction in which they are granted. A portion of a fair value of the consideration received from customers is allocated to the award points and deferred, and is recognized as revenue over the period when award credits are redeemed. Therefore, management has to make assumptions about expected redemption rates, which are subject to availability of prior periods' statistics and significant uncertainty at the reporting date.

6. REVENUE

The Group's revenue for the year ended 31 December 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Retail	114,158	102,014
Online store	14,489	8,771
Other	117	89
Total	<u>128,764</u>	<u>110,874</u>

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Revenue from sales of goods ordered via the online stores and picked up at Group's retail stores amounting to RUB 10,718 million and RUB 5,071 million for the years ended 31 December 2019 and 2018, respectively, is included within online store revenue.

Revenue from ELC-branded stores, presented within retail revenue line, for the years ended 31 December 2019 and 2018 amounted to RUB 1,055 million and RUB 933 million, respectively.

Revenue from the Group's stores located in Kazakhstan, presented within retail revenue line, comprised RUB 3,739 million and RUB 2,513 million for the years ended 31 December 2019 and 2018, respectively.

Deferred revenue is disclosed in Note 22.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Group's selling, general and administrative expenses for the year ended 31 December 2019 and 2018 were as follows:

	2019	2018
Payroll and other personnel costs	11,154	9,609
Depreciation and amortization	10,005	9,100
Rent and utilities	1,891	1,595
Advertising and marketing expenses	1,399	1,494
Banking services	1,271	1,036
Repair and maintenance	603	501
Promotional materials	470	396
Security expenses	429	400
Software maintenance	362	320
Consulting services	243	193
Office equipment	149	133
Communication expense	131	121
Impairment of right-of-use assets	108	143
Travel expenses	95	99
Stationery and other materials	46	37
Impairment of property, plant and equipment	20	48
Taxes (other than income tax)	(55)	136
Other	310	189
Total	28,631	25,550

Payroll expenses for the year ended 31 December 2019 include RUB 899 million (for the year ended 31 December 2018: RUB 783 million) relating to long-term incentive plans (Note 20).

Payroll expenses for the year ended 31 December 2019 also include contributions to state pension fund in amount of RUB 1,976 million (for the year ended 31 December 2018: RUB 1,748 million).

8. FINANCE EXPENSES

The Group's finance expenses for the year ended 31 December 2019 and 2018 were as follows:

Finance expenses

	2019	2018
Interest expense on lease liabilities	2,573	2,603
Interest expense on bank loans	1,685	1,539
Interest expense on bonds	620	285
Total	4,878	4,427

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9. INCOME TAXES

9.1. Income tax recognized in profit or loss

Income tax expense recognized in profit or loss comprised the following:

	2019	2018
Current tax		
Current income tax expense	(2,054)	(1,539)
Adjustment of income tax for prior years	89	170
	(1,965)	(1,369)
Deferred tax		
Deferred income tax benefit	605	142
	605	142
Total income tax expense recognized in profit or loss	(1,360)	(1,227)

Below is a reconciliation of income tax calculated using the income tax rate effective in RF and Kazakhstan to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 2018:

	2019	2018
Profit before tax	7,902	6,921
Income tax expense calculated at 20% (2018: 20%)	(1,580)	(1,384)
Non-deductible expenses, including non-deductible inventory losses	(27)	(109)
Adjustment of income tax for prior years	89	170
Effect from the application of preferential rates (other than 20%)	158	96
Income tax expense recognized in profit or loss	(1,360)	(1,227)

9.2. Deferred tax balances

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. As at 31 December 2019 and 2018 net deferred tax assets were presented as follows:

2019	At 1 January	Recognized in profit or loss	At 31 December
Deferred tax assets in relation to:			
Inventories	4,140	1,541	5,681
Accrued expenses and other deductible temporary differences	3,292	341	3,633
Lease liabilities and right-of-use assets	1,135	950	2,085
Deferred revenue	720	(284)	436
Tax losses carried forward	-	32	32
Forward contracts	-	45	45
Property, plant and equipment and intangible assets	-	162	162
Total temporary differences	9,287	2,787	12,074
Deferred tax assets	1,858	557	2,415
Deferred tax liabilities in relation to:			
Forward contracts	(396)	396	-
Property, plant and equipment	(213)	(204)	(417)
Trade receivables	(150)	47	(103)
Total temporary differences	(759)	239	(520)
Deferred tax liabilities	(152)	48	(104)
Net deferred tax assets	1,706	605	2,311

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2018	At 1 January	Recognized in profit or loss	At 31 December
Deferred tax assets in relation to:			
Inventories	4,380	(240)	4,140
Accrued expenses and other deductible temporary differences	2,838	454	3,292
Lease liabilities and right-of-use assets	-	1,135	1,135
Deferred revenue	606	114	720
Tax losses carried forward	140	(140)	-
Total temporary differences	7,964	1,323	9,287
Deferred tax assets	1,593	265	1,858
Deferred tax liabilities in relation to:			
Forward contracts	-	(396)	(396)
Property, plant and equipment	(145)	(68)	(213)
Trade receivables	-	(150)	(150)
Total temporary differences	(145)	(614)	(759)
Deferred tax liabilities	(29)	(123)	(152)
Net deferred tax assets	1,564	142	1,706

As at 31 December 2019 and 2018 the Group had unrecognized deferred tax assets in respect of its subsidiaries' unused tax losses carry forward. The above-mentioned deferred tax assets may be recognized by the Group when they are probable (more likely than not) to be recoverable.

As at 31 December 2019 and 2018 there were no taxable temporary differences related to investments in subsidiaries for which deferred tax liabilities might have been recognized if the Group had not been in a position to control the timing of the reversal of these temporary differences.

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10. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Buildings and leasehold improve- ments	Trade equipment	Office and warehouse equipment and other fixed assets	Construc- tion in- progress	Total
Cost					
At 1 January 2018	7,302	2,654	2,459	643	13,058
Additions	57	39	10	3,415	3,521
Transfers	1,244	453	376	(2,073)	-
Disposals	(97)	(57)	(109)	-	(263)
At 31 December 2018	8,506	3,089	2,736	1,985	16,316
Additions	-	-	-	2,632	2,632
Transfers	3,164	440	742	(4,346)	-
Disposals	(152)	(38)	(108)	-	(298)
Translation to presentation currency	(20)	(11)	(9)	-	(40)
At 31 December 2019	11,498	3,480	3,361	271	18,610
Accumulated depreciation and impairment					
At 1 January 2018	2,826	1,310	1,436	-	5,572
Depreciation expense	787	371	542	-	1,700
Impairment	48	-	-	-	48
Disposals	(86)	(45)	(99)	-	(230)
At 31 December 2018	3,575	1,636	1,879	-	7,090
Depreciation expense	994	469	577	-	2,040
Impairment	20	-	-	-	20
Disposals	(147)	(26)	(102)	-	(275)
Translation to presentation currency	(6)	(5)	(9)	-	(20)
At 31 December 2019	4,436	2,074	2,345	-	8,855
Carrying amount / net book value					
Balance at 1 January 2018	4,476	1,344	1,023	643	7,486
Balance at 31 December 2018	4,931	1,453	857	1,985	9,226
Balance at 31 December 2019	7,062	1,406	1,016	271	9,755

Most of the Group's additions of items of property, plant and equipment relate to launch of new retail stores and comprise purchase of trade premises, leasehold improvements and trade and warehouse equipment.

As at 31 December 2019 construction in progress line was represented mainly by costs related to reconstruction of retail premises in the amount of RUB 95 million and purchase of trade and warehouse equipment in the amount of RUB 176 million. As at 31 December 2018 construction in progress line was represented by costs related to warehouse construction in amount of RUB 1,706 million. The warehouse was put into operation in January 2019.

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Impairment of property, plant and equipment of RUB 20 million was recognized in the consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2019 in relation to leasehold improvements in stores expected to be closed in 2020 (for the year ended 31 December 2018: RUB 48 million in relation to leasehold improvements in stores expected to be closed in 2019).

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2018	2,491	4	75	2,570
Additions	302	-	4	306
At 31 December 2018	2,793	4	79	2,876
Additions	709	-	9	718
At 31 December 2019	3,502	4	88	3,594
Accumulated amortization				
At 1 January 2018	1,193	-	15	1,208
Amortization expense	388	-	25	413
At 31 December 2018	1,581	-	40	1,621
Amortization expense	484	-	25	509
Balance at 31 December 2019	2,065	-	65	2,130
Carrying amount				
Balance at 1 January 2018	1,298	4	60	1,362
Balance at 31 December 2018	1,212	4	39	1,255
Balance at 31 December 2019	1,437	4	23	1,464

Additions of software in 2019 and 2018 relate primarily to licenses acquired for ERP system and capitalized implementation costs.

12. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses with average lease term of 7.1 years as at 31 December 2019 (31 December 2018: 6 years). Movements in the carrying amount of right-of-use assets were as follows (movements of lease liabilities are disclosed in Note 18):

	2019	2018
Cost		
At 1 January	36,695	33,886
New lease contracts and modification of existing lease contracts	10,865	2,846
Lease prepayments	16	34
Disposals	(456)	(71)
At 31 December	47,120	36,695

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	2019	2018
<i>Accumulated depreciation and impairment</i>		
At 1 January	7,089	-
Depreciation expense	7,456	6,987
Disposals	(456)	(41)
Impairment	108	143
Translation to presentation currency	(22)	-
Other	(43)	-
At 31 December	14,132	7,089
Balance at 1 January	29,606	33,886
Balance at 31 December	32,988	29,606

	2019	2018
<i>Amounts recognized in profit and loss</i>		
Depreciation expense on right-of-use assets	7,456	6,987
Interest expense on lease liabilities	2,573	2,603
Impairment	108	143
Expenses relating to variable lease payments not included in the measurement of the lease liability	854	795
Other	(43)	-

Impairment of right-of-use assets of RUB 108 million was recognized in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 143 million).

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 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 9,162 million for the year ended 31 December 2019 (for the year ended 31 December 2018: RUB 8,725 million).

13. INVENTORIES

Inventories as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Merchandise inventories	38,425	34,866
Materials	211	197
Total	38,636	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 1,270 million and RUB 1,233 million for the years ended 31 December 2019 and 2018, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

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14. TRADE RECEIVABLES

Trade receivables as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Trade receivables	4,049	4,474
Loss allowance	(1)	(1)
Total	4,048	4,473

Trade receivables are generally represented by amounts receivable from suppliers in relation to volume bonuses, discounts and incentives and compensations for goods returned to suppliers.

15. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Value added tax receivable	823	1,208
Advances paid to suppliers	321	292
Other advances paid	138	76
Prepaid expenses	24	29
Other taxes receivable	6	5
Other receivables	166	500
Loss allowance for doubtful other receivables	(43)	(72)
Total	1,435	2,038

The following table summarizes the changes in the allowance for doubtful other receivables and advances paid:

	2019	2018
At 1 January	(72)	(65)
Additional loss allowance recognized on other receivables	-	(7)
Write-offs against loss allowance for doubtful receivables on advances paid and other receivables	29	-
At 31 December	(43)	(72)

In determining the recoverability and quality of advances paid and other receivables, the Group considers any change in the credit quality of debtors from the date of receivables origination up to the reporting date. The details about concentration of credit risk and related risk management activities are described in Note 25.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Cash in transit	1,210	2,156
Cash on hand	315	363
Cash in bank accounts	244	816
Total	1,769	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 year-end.

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17. EQUITY DEFICIT

Ordinary shares

As at 31 December 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	(2,127,840)	-	-
Sale of treasury shares	<u>443,310</u>	<u>-</u>	<u>-</u>
At 31 December 2018	<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	<u>381,578</u>	<u>-</u>	<u>-</u>
At 31 December 2019	<u>735,518,965</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 year ended 31 December 2019 and 2018, the Group purchased 1,556,610 and 2,127,840 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 139 million and RUB 195 million, respectively.

During year ended 31 December 2019 and 2018, the Group sold 381,578 and 443,310 of the Company's ordinary shares to management of the Group and received a total cash consideration of RUB 36 million and RUB 38 million, respectively.

As at 31 December 2019 the Group had 3,481,035 treasury shares with cost of RUB 317 million. As at 31 December 2018 the Group had 2,306,003 treasury shares with cost of RUB 214 million.

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.

As at 31 December 2019, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2019 was RUB 7,789 million (for the year ended 31 December 2018: RUB 6,538 million).

On 6 December 2019 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2019 year in the amount of RUB 3,724 million or RUB 5.06 per share. These dividends were fully paid by the Group in December 2019.

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 15 December 2018 extraordinary General meeting of shareholders approved the dividend payment for the 9 months of 2018 year in the amount of RUB 3,235 million or RUB 4.38 per share. These dividends were fully paid by the Group in December 2018.

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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.

18. LEASE LIABILITIES

As at 31 December 2019 lease liabilities comprised the following:

	31 December 2019	31 December 2018 (restated)
Minimum lease payments, including:		
Current portion (less than 1 year)	9,592	8,566
More than 1 to 5 years	26,849	23,465
Over 5 years	7,204	7,046
Total minimum lease payments	43,645	39,077
Less amount representing interest	(8,865)	(8,531)
Present value of net minimum lease payments, including:		
Current portion (less than 1 year)	7,145	6,343
More than 1 to 5 years	21,726	19,708
Over 5 years	5,909	4,495
Total present value of net minimum lease payments	34,780	30,546
Less current portion of lease obligations	(7,145)	(6,343)
Non-current portion of lease obligations	27,635	24,203

The following table summarizes the changes in the lease liabilities (movements of right-of-use assets are disclosed in Note 12):

	2019	2018
Balance as at 1 January	30,546	33,822
Interest expense on lease liabilities	2,573	2,603
Lease payments	(9,162)	(8,725)
New lease contracts and modification of existing lease contracts	10,865	2,846
Translation to presentation currency	(42)	-
Balance as at 31 December	34,780	30,546

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 determining the fair value of lease liabilities management of the Group relied on the assumption that the carrying amount of lease liabilities approximates their fair value as at 31 December 2019 and 31 December 2018, as it reflects changes in market conditions and takes into account the risk premium and the time value of money.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

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In the end of 2019 the Group entered into a number of lease arrangements which had not commenced by the year-end and as a result, a lease liability and right-of-use assets has not been recognised as at 31 December 2019. The aggregate future cash outflows to which the Group is exposed in respect of these contracts are RUB 1,717 million as at 31 December 2019 (31 December 2018: RUB 1,240 million).

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Loans and borrowings		
Unsecured bank loans in Russian Rubles	8,250	18,470
Bonds	11,000	3,000
	19,250	21,470
Less current portion of long-term loans and borrowings	(10,270)	(12,542)
Loans and borrowings, non-current	8,980	8,928

Unsecured bank loans in Russian Rubles

At 31 December 2019 and 2018 the loans in Russian Rubles were provided to the Group by 3 and 7 Russian banks respectively.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2019 and 2018 is RUB 8,261 million and 18,483 million, respectively. The carrying amount of this debt is RUB 8,250 million and RUB 18,470 million, respectively.

Inputs of Level 2 of the fair value hierarchy are used to measure the fair value of bank loans.

The resulting Level-2 fair value is determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis. The discount rate for 31 December 2019 valuation is determined by reference to the Group's traded bonds yield (mostly driven by short-term bonds) of 6.65%, Level 2 input (31 December 2018: 9.4%, Level 2 input).

Bonds

In December 2019, the Group issued and placed documentary exchange non-convertible bonds (Series BO 05) 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 coupon interest rate was set at 7.25% per annum. The bonds mature on 1 December 2026 with the pull offer date on 8 December 2022.

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 Rubles each. The coupon 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 31 December 2019 the book value of exchange-traded bonds issued and placed by the Group comprised the amount of RUB 11,000 million, excluding accumulated coupon income of RUB 182 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 accumulated coupon income of RUB 68 million.

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The Level-1 fair value of exchange-traded bonds, including the amounts due for payment within one year, as at 31 December 2019, amounted to RUB 11,400 million with the carrying amount equal to RUB 11,000 million (31 December 2018: RUB 3,111 million with the carrying amount equal to RUB 3,000 million).

Unused credit line facilities

As at 31 December 2019 and 2018, the total amount of undrawn credit lines of the Group was RUB 34,350 million and RUB 23,203 million, respectively, including RUB 30,750 million and RUB 20,067 million relating to long-term credit lines, respectively.

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 collateral or ask for early repayment of outstanding debt.

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

Pledges

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

Maturity analysis of loans and borrowings

The following table presents the aggregated scheduled maturities of the principal outstanding for the loans and borrowings as at 31 December 2019:

	As at 31 December 2019
Within the first month	2,570
From one to three months	4,100
From three months to one year	3,600
From one year to two years	980
From two year to five year	8,000
Total	19,250

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2019 the Group had several long-term cash-settled and equity-settled share-based payments arrangements.

Long-term incentive plan adopted in 2016

In September 2016, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan 2"). Under the conditions of the Incentive Plan 2, certain employees at senior levels are entitled to share-based compensation ("phantom" shares), that are to be granted by the Group in annual tranches over the period 2016-2018. The phantom shares vest on 31 December 2018, although are contingent on continued employment with the Group and certain established targets relating to the increase in the Group's market value. The phantom shares vest automatically upon a successful initial public offering by the Group or upon the sale by the Group's controlling shareholder of a certain stake in the Group to a third-party investor. Upon redemption of phantom shares, a participant receives either a respective number of shares in the Company or cash consideration computed on the basis of the market value of one ordinary share of the Company. This settlement choice is at the Group's discretion. Based on the Group's plans and historical experience, management expects that the settlement shall be done in cash. Thus, the Incentive Plan 2 is accounted for as a cash-settled share-based plan.

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In February 2017 the Company completed an initial public offering meaning that the phantom shares provided under the Incentive Plan 2 vested. They will become exercisable in portions during 2018-2020.

Phantom shares granted by the Group to the participants of the Incentive Plan 2 as well as other changes in phantom shares outstanding are summarized below:

	Number of phantom shares	Weighted average exercise price, Rubles
Outstanding at 1 January 2018	2,694,236	-
Exercised during the period	(1,077,697)	91.84
Forfeited / cancelled during the period	-	-
Outstanding at 31 December 2018	1,616,539	-
Exercised during the period	(808,264)	86.86
Forfeited / cancelled during the period	-	-
Outstanding at 31 December 2019	808,275	-
Exercisable at 31 December 2019	-	-

Long-term incentive plans adopted in 2017

In August 2017, the Group's Board of Directors approved an employee long-term incentive plan (the "Incentive Plan 3"). Under the Incentive Plan 3, which covers a three-year period to 2020, the third anniversary of the Company's initial public offering, senior management in continuing employment as of that anniversary 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 2% of the appreciation in the Company's stock market value from the time of the initial public offering (being measured based on RUB 85 per one ordinary share) till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2017 the Group granted individual awards to senior management team in the aggregate amount being the equivalent to 1.8% of the appreciation in the Company's stock market value.

The fair value of this award was assessed on the assumption that all of the employees participating in the Incentive Plan 3 will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming no dividend payments. The fair value of the awards, which are equivalent to 13,302,000 of such share options, on the grant date amounted to RUB 423 million, or RUB 32 per share option. Options were priced using a Black-Scholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the IPO. Inputs into the model are as follows:

Grant date share price	RUB 100
Exercise price	RUB 85
Expected volatility	9.0%
Option life	2.5 years
Dividend yield	none
Risk-free interest rate	7.5%

In November 2019, the Group's Board of Directors modified the options so that they could only be settled in cash. Therefore the Incentive Plan 3 was reclassified from an equity-settled share-based plan to a cash-settled share-based plan.

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Long-term incentive plans amended in 2018

In October 2018, the Group's Board of Directors approved an amendment to the Incentive Plan 3 for a number of employees participating in the plan. As per the Board of Directors resolution, the additional number of awards is granted to these employees. The additional number is equivalent of up to 2.6% of the appreciation in the Company's stock market value from the time of the amendment till February 2020, adjusted for dividends paid during the vesting period. Up to 31 December 2018 the Group granted the additional individual awards to the participants in full. Participants are entitled to the awards partly in the form of shares in the Company and partly in the form of cash consideration computed on the basis of dividends paid. Accordingly, the amendment to the Incentive Plan 3 for the participants is partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The fair value of the additional part of the award that is equity-settled was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 85 per share on a settlement date in 2020, assuming a fixed dividend payment. The fair value of the additional equity-settled part of the award, which is equivalent to 19,214,000 of such share options, on the grant date amounted to RUB 171 million, or RUB 9 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period starting from the amendment date. Inputs into the model are as follows:

Grant date share price	RUB 90
Exercise price	RUB 85
Expected volatility	4.9%
Option life	1.5 years
Dividend yield	4.4%
Risk-free interest rate	7.7%

In November 2019, the Group's Board of Directors modified the options so that they could only be settled in cash. Therefore the equity-settled share-based part of the amendment to the Incentive Plan 3 was reclassified to a cash-settled share-based payment arrangement.

Long-term incentive plans adopted in 2019

In October 2019, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 4.1"). Under the Incentive Plan 4.1, which covers a three-year period to February 2023, senior management in continuing employment as of certain dates within this period will be awarded. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 3% 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. Up to 31 December 2019 the Group granted the additional individual awards to the participants in full. 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 4.1 for the participants will be partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The award was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 94 per share on settlement date in 2023. The fair value of the award, which is equivalent to 22,170,000 of such share options, on the grant date amounted to RUB 409 million, or RUB 18.4 per share option. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period. Inputs into the model are as follows:

Grant date share price	RUB 94
Exercise price	RUB 94
Expected volatility	3.4%
Option life	3.4 years
Dividend yield	none
Risk-free interest rate	6.5%

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In November 2019, the Group's Board of Directors approved another employee long-term incentive plan (the "Incentive Plan 4.2"). Under the Incentive Plan 4.2, which covers a four-year period to April 2024, senior management in continuing employment as of certain dates within this period will be awarded. As per the Board of Directors resolution, the total amount of awards to be granted to participants shall be equivalent of up to 1.6% 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. Up to 31 December 2019 the Group granted the additional individual awards to the participants in full. 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 4.2 for the participants will be partly accounted for as an equity-settled share-based plan and partly as a cash-settled share-based plan.

The award was assessed on the assumption that the participants will stay employed by the Group until their rights vest and on the conclusion that the plan is economically equivalent to an award where the Company would grant to the participants options to purchase ordinary shares at an exercise price of RUB 99 per share on settlement dates in 2022, 2023 and 2024. The fair value of the award on the grant date amounted to RUB 255 million, which is equivalent to a combination of 3,547,200 of share options with price of RUB 14.73 per share option and settlement date in 2022, 9,218,858 of share options with price of RUB 20.05 per share option and settlement date in 2023, and 707,451 of share options with price of RUB 25.04 per share option and settlement date in 2024. Options were priced using a Black-Sholes model. Expected volatility is based on the historical share price volatility over the trading period. Inputs into the model are as follows:

Grant date share price	RUB 99
Exercise price	RUB 99
Expected volatility	3.4%
Option life	2.5, 3.5, 4.5 years
Dividend yield	none
Risk-free interest rate	6.5%

Liabilities recognized in relation to long-term incentive plans

As at 31 December 2019, the Group recognized liabilities of RUB 62 million in relation to the cash-settled share-based payment arrangements, calculated as the fair value of the phantom shares granted to employees as at this date (31 December 2018: RUB 43 million). These liabilities include accrued social contributions of RUB 9 million (31 December 2018: RUB 6 million). When estimating these liabilities the Group assumed that the fair value of one phantom share approximates the fair value of one ordinary share of the Company (being RUB 100 per share as at 31 December 2019 and RUB 90.44 per share as at 31 December 2018), and that all of the participants will stay employed by the Group until their rights vest.

Also as at 31 December 2019, the Group recognized liabilities of RUB 901 million in relation to the cash-settled share-based payment arrangements, calculated based on the appreciation in the Company's stock market value, dividends paid and a Black-Sholes model (31 December 2018: RUB 240 million, calculated based on dividends paid). These liabilities include accrued social contributions of RUB 120 million (31 December 2018: RUB 32 million).

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2019, expenses totalling RUB 899 million (year ended 31 December 2018: RUB 783 million) incurred by the Group in relation to the Incentive Plan 2, Incentive Plan 3, amendment to the Incentive Plan 3, Incentive Plan 4.1 and Incentive Plan 4.2 were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including RUB 8 million (year ended 31 December 2018: RUB 182 million) arising from share-based payment transactions. These expenses, RUB 8 million, were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements in 2019 (2018: RUB 182 million).

Reclassification of equity-settled share-based payment arrangement to cash-settled share-based payment arrangement (the Incentive Plan 3 and the amendment to the Incentive Plan 3) was recognized as a debit to equity within Accumulated Deficit line in 2019 in the amount of RUB 248 million (2018: nil).

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21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2019 and 2018 comprised the following:

	31 December 2019	31 December 2018
Accrued expenses and other current liabilities	3,310	2,894
Payables to employees	1,387	975
Advances received	680	541
Taxes payable other than income tax	470	423
Interest payable on bonds	182	68
Interest payable on bank loans	13	37
Total	6,042	4,938

22. DEFERRED REVENUE

Deferred revenue arising from the Group's customer loyalty program as at 31 December 2019 and 2018 was as follows:

	2019	2018
As at 1 January	720	606
Revenue deferred during the period	5,499	3,308
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(5,783)	(3,194)
As at 31 December	436	720

During 2019 the Group recognized revenue in amount of RUB 720 million that was deferred as at 31 December 2018 (during 2018: RUB 606 million).

Revenue of the Group is disclosed in Note 6.

23. 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, which was the controlling shareholder as at 31 December 2018 and retains the largest non-controlling stake in the Company as at 31 December 2019, and other related parties:

	31 December 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Cash and cash equivalents	72	-	257	-
Trade receivables/ (payables)	26	(221)	1	-
Other receivables/ (payables)	1	(12)	10	(19)

Outstanding balances with related parties are unsecured and will be settled in cash.

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The Group's transactions with subsidiaries of PJSC Sistema and other related parties for the year ended 31 December 2019 and 2018, as follows:

Related party	Type of transaction	2019	2018
MTS (i)	Communication costs	31	30
MTS (i)	Advertising and marketing expenses	43	87
MTS – Bank (i)	Bank commission	1	1
MTS – Bank (i)	Interest income	2	3
JSC PA-Maxima (ii)	Marketing expenses	-	50
CJSC "NVision group" (i)	Acquisition of fixed assets	13	71
CJSC "NVision group" (i)	Software maintenance	4	14
LLC "Concept Group" (ii)	Acquisition of goods	-	593
JSC "Progress" (iii)	Acquisition of goods, net of bonuses received	2,362	1,869
LLC "UK LandProfit" (i)	Acquisition of property, plant and equipment	-	466
LLC "UK LandProfit" (i)	Rent	-	13
JSC "Reestr" (i)	Consulting and information services	-	1
LLC Segezha packaging (i)	Acquisition of goods	5	2
JSC "Business property" (i)	Rent	2	2

(i) subsidiary of PJSC "Sistema";

(ii) associate of PJSC "Sistema";

(iii) other related parties, not included in PJSC "Sistema" Group.

The information about dividends declared and paid is disclosed in Note 17.

Remuneration of key management personnel of the Group

During 2019 and 2018, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 1,474 million (including RUB 790 million of short-term non-share-based benefits, RUB 634 million of accrued short-term share-based compensation and RUB 50 million of accrued long-term share-based compensation) and RUB 1,264 million (including RUB 917 million of short-term non-share-based benefits, RUB 168 million of accrued short-term share-based compensation and RUB 179 million of accrued long-term share-based compensation), respectively.

24. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 19 offset by cash and cash equivalents as detailed in Note 16) and equity of the Group.

The Group's management periodically reviews the capital structure of the Group. As part of this review, management considers the cost of capital, risks associated with each class of capital and the level of debt-to-equity ratio.

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Categories of financial instruments as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Financial assets at amortized cost		
Cash and cash equivalents	1,769	3,335
Trade accounts receivable	4,048	4,473
Other receivables	166	106
Security deposits (refundable)	118	132
	6,101	8,046
Financial liabilities at amortized cost		
Lease liabilities	(34,780)	(30,546)
Trade payables	(32,911)	(29,747)
Loans and borrowings	(19,250)	(21,470)
Other payables	(4,892)	(3,974)
	(91,833)	(85,737)
Net financial liabilities	(85,732)	(77,691)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2019	New lease contracts and modification of existing lease contracts	Translation to presentation currency	Financing cash flows (i)	31 Decem- ber 2019
Bank loans	18,470	-	-	(10,220)	8,250
Bonds	3,000	-	-	8,000	11,000
Lease liabilities	30,546	10,865	(42)	(6,589)	34,780
Total	52,016	10,865	(42)	(8,809)	54,030

	1 January 2018	New lease contracts and modification of existing lease contracts	Translation to presentation currency	Financing cash flows (i)	31 Decem- ber 2018
Bank loans	10,591	-	-	7,879	18,470
Bonds	3,000	-	-	-	3,000
Lease liabilities	33,822	2,846	-	(6,122)	30,546
Total	47,413	2,846	-	1,757	52,016

- (i) The cash flows from bank loans and bonds make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows. The cash flows from lease liabilities comprise lease payments.

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25. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk, foreign currency risk and interest rate risk. A description of the Group's risks and management policies in relation to those risks is described below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group thoroughly controls and manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The average credit period on purchases of merchandise inventories is 3 to 5 months. No interest is charged on the trade payables.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the principal cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables below present the maximum amount the Group could be forced to settle.

	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2019					
Loans and borrowings with fixed rate					
Loan principal	18,420	6,670	3,600	8,150	-
Interest	193	193	-	-	-
	18,613	6,863	3,600	8,150	-
Loans and borrowings with floating rate					
Loan principal (bank overdraft)	830	-	-	830	-
Interest	2	2	-	-	-
	832	2	-	830	-
Lease liabilities					
Lease liabilities with interest	43,645	2,425	7,167	26,849	7,204
	43,645	2,425	7,167	26,849	7,204
Other financial liabilities					
Trade payables	32,911	-	32,911	-	-
Other non-interest bearing liabilities	4,697	4,697	-	-	-
	37,608	4,697	32,911	-	-
Total	100,698	13,987	43,678	35,829	7,204

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	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2018 (restated)					
Loans and borrowings with fixed rate					
Loan principal	21,006	313	11,765	8,928	-
Interest	103	103	-	-	-
	21,109	416	11,765	8,928	-
Loans and borrowings with floating rate					
Loan principal (bank overdraft)	464	451	13	-	-
Interest	2	2	-	-	-
	466	453	13	-	-
Lease liabilities					
Lease liabilities with interest	39,077	2,258	6,308	23,465	7,046
	39,077	2,258	6,308	23,465	7,046
Other financial liabilities					
Trade payables	29,747	-	29,747	-	-
Other non-interest bearing liabilities	3,869	3,869	-	-	-
	33,616	3,869	29,747	-	-
Total	94,268	6,996	47,833	32,393	7,046

The weighted average interest rate for borrowings as at 31 December 2019 was 7.11% (as at 31 December 2018: 9.25%).

The effective interest rate for bonds as at 31 December 2019 varied from 6.15% for the short-term bonds up to 7.22% for the long-term portion (as at 31 December 2018: 9.72%).

The weighted average effective interest rate for lease liabilities as at 31 December 2019 was 6.64% (as at 31 December 2018: 8.63%).

Credit risk management

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in financial loss to the Group. Financial assets which potentially subject the Group to credit risk consist primarily of trade and other receivables as well as cash in current and deposit accounts with banks and other financial institutions.

Trade receivables are either offset against respective accounts payable where legal right of offset exists or paid in cash. At 31 December 2019 trade receivables from three major suppliers comprised 49% of the Group's consolidated trade receivables (31 December 2018: 32%). The Group believes no significant credit risk is associated with these receivables since all of the debtors are represented by the Group's major suppliers.

The credit risk on liquid funds (see the table below) is managed by the Group's treasury function. Management believes that credit risk on investments of surplus funds is limited as the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

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The table below shows the balances that the Group has with 7 of its major banks as at the balance sheet date:

Bank	Rating	Carrying amount as at 31 December 2019	Carrying amount as at 31 December 2018
Sberbank	Ba2 (Moody's)	987	2,038
Alfa-Bank	Ba2 (Moody's)	125	265
MTS bank	BB- (Fitch)	94	257
Raiffeisenbank	Ba2 (Moody's)	82	250
Gazprom Bank	Ba2 (Moody's)	71	4
VTB	Ba2 (Moody's)	59	137
Rosbank	Baa3(Moody's)	11	1
Total		1,429	2,952

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. There were no other concentrations of credit risk as at 31 December 2019 and 2018.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

During the year ended 31 December 2019 the Group entered into foreign currency forward contracts to economically hedge the USD merchandise purchases from its suppliers. The Group entered into these contracts in order to reduce its exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. The Group's foreign exchange forward contracts typically matured within 12 months and did not require the Group to post collateral.

As at 31 December 2019 outstanding liabilities from forward contracts amounted to RUB 45 million and were included in Advances received, other payables and accrued expenses line item (Note 21). As at 31 December 2018 outstanding assets from forward contracts amounted to RUB 396 million and were included in advances paid and other receivables line item (Note 15). During 2019 losses from foreign exchange forward contracts amounted to RUB 441 million and were included in the foreign exchange loss line item in the consolidated statement of profit and loss and other comprehensive income (2018: RUB 491 million of gains).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	31 December 2019		31 December 2018	
	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	3	2	1	5
Trade and other receivables	3	219	4	140
Total assets	6	221	5	145
Liabilities				
Trade and other payables	(141)	(7,497)	(217)	(7,189)
Lease liabilities	(334)	(303)	(112)	(295)
Total liabilities	(475)	(7,800)	(329)	(7,484)
Total net position	(469)	(7,579)	(324)	(7,339)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(in millions of Russian Rubles)**

Foreign currency sensitivity analysis

The tables below detail the Group's sensitivity to a strengthening/weakening of the RUB against the primary foreign currencies of the Group by 20%, which management believes is an appropriate measure in the current market conditions and which would affect its operations.

	USD		Euro	
	Change in currency exchange rate, %	Impact on profit before tax	Change in currency exchange rate, %	Impact on profit before tax
2019	+20%	(1,516)	+20%	(94)
	-20%	1,516	-20%	94

	USD		Euro	
	Change in currency exchange rate, %	Impact on profit before tax	Change in currency exchange rate, %	Impact on profit before tax
2018	+20%	(1,468)	+20%	(65)
	-20%	1,468	-20%	65

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management believes that this risk is not significant because as at 31 December 2019 the Group has only 1 credit overdraft amounted to RUB 830 million bearing floating interest rates. As at 31 December 2018 the Group had 2 credit overdrafts amounted to RUB 464 million bearing floating interest rates. One of the overdrafts amounted to RUB 451 million was fully repaid in January 2019.

26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and intangible assets amounting to RUB 67 million, which related mostly to IT equipment and software (31 December 2018: RUB 79 million, which related to equipment for the new warehouse).

Taxation and legal proceedings

Laws and regulations affecting business 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. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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In the ordinary course of business, the Group may be a party to various tax and legal proceedings, and be subject to claims. In the opinion of management, the Group's liability if any, in all, in all pending litigation, other legal proceedings or other matters, will not have a material effect on the consolidated financial position, consolidated results of operations or liquidity of the Group: exposure of possible contingent liabilities identified by the Group will not exceed 1% of the Group's revenue.

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, executives 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.

27. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 28 February 2020, the date on which the consolidated financial statements were approved.

In February 2020 the Company made a decision to establish a subsidiary LLC Detmir KGZ in the Kyrgyz Republic.

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

SUPPLEMENTARY INFORMATION: NON-IFRS MEASURES (UNAUDITED)

In this note, additional information is disclosed, which was not subject to audit procedures, performed by the independent auditor. In order to maintain comparability of the consolidated financial results, consolidated financial position and consolidated cash flows of the Group for the recent years, the Group decided to disclose supplementary information for the year ended 31 December 2019, prepared according to IAS 17 "Leases" instead of IFRS 16 "Leases", including comparatives. The information set out below is not IFRS information; it is not audited and should be considered and read in addition to, but not as a substitute for, the information contained in the consolidated financial statements.

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.

DETSKY MIR GROUP

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

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
Revenue	128,764	110,874
Cost of sales	<u>(87,232)</u>	<u>(74,045)</u>
GROSS PROFIT	41,532	36,829
Selling, general and administrative expenses	(30,247)	(27,011)
Other operating expenses, net	<u>(8)</u>	<u>(48)</u>
OPERATING PROFIT	11,277	9,770
Finance income	5	5
Finance expense	(2,305)	(1,824)
Foreign exchange (loss)/ gain, net	<u>(124)</u>	<u>106</u>
PROFIT BEFORE INCOME TAX	8,853	8,057
Income tax expense	<u>(1,550)</u>	<u>(1,454)</u>
PROFIT FOR THE PERIOD	<u>7,303</u>	<u>6,603</u>
Other comprehensive income/(loss):		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Effect of translation to presentation currency	<u>12</u>	<u>(10)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>7,315</u>	<u>6,593</u>
Earnings per share		
Weighted average number of shares outstanding, basic and diluted:	735,677,738	737,806,153
Earnings per share, basic and diluted (in Russian Rubles per share)	9.93	8.94

DETSKY MIR GROUP

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

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of financial position as at 31 December 2019 would have been as follows:

	31 December 2019	31 December 2018
As if IAS 17 "Leases" was applied		
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	9,755	9,226
Intangible assets	1,464	1,255
Deferred tax assets	1,998	1,630
Other non-current assets	241	227
Total non-current assets	13,458	12,338
CURRENT ASSETS		
Inventories	38,636	35,063
Trade receivables	4,048	4,473
Advances paid and other receivables	1,756	2,328
Prepaid income tax	13	1
Cash and cash equivalents	1,769	3,335
Total current assets	46,222	45,200
TOTAL ASSETS	59,680	57,538
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1	1
Treasury shares	(317)	(214)
Additional paid-in capital	5,793	5,793
Accumulated deficit	(5,637)	(5,700)
Currency translation reserve	130	118
Total equity deficit	(30)	(2)
NON-CURRENT LIABILITIES		
Long-term loans and borrowings	8,980	8,928
Deferred tax liabilities	104	152
Total non-current liabilities	9,084	9,080
CURRENT LIABILITIES		
Trade payables	32,911	29,747
Short-term loans and borrowings and current portion of long-term loans and borrowings	10,270	12,542
Advances received, other payables and accrued expenses	6,204	5,094
Deferred revenue	436	720
Income tax payable	805	357
Total current liabilities	50,626	48,460
Total liabilities	59,710	57,540
TOTAL EQUITY DEFICIT AND LIABILITIES	59,680	57,538

DETSKY MIR GROUP

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

Had the Group continued applying IAS 17 instead of IFRS 16, the Group's consolidated statement of cash flows for the year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
OPERATING ACTIVITIES:		
Profit for the period	7,303	6,603
Adjustments for:		
Depreciation and amortization expense	2,549	2,113
Finance expenses	2,305	1,824
Income tax expense recognized in profit or loss	1,550	1,454
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	1,270	1,233
Foreign exchange loss/(gain), net	124	(106)
Impairment recognized for non-current assets	20	48
Expense on equity-settled share-based compensation	8	182
Finance income	(5)	(5)
Gain on disposal of fixed assets and intangible assets	(22)	(1)
Bad debts written-off and change in loss allowance for doubtful receivables on advances paid and other receivables	(29)	8
Changes in working capital:		
Decrease/ (increase) in trade receivables	200	(2,230)
Decrease/ (increase) in advances paid and other receivables	194	(608)
Increase in inventories	(4,818)	(9,856)
Increase in trade payables	3,404	5,034
Increase in advances received, other payables and accrued expenses	1,172	391
(Decrease)/increase in deferred revenue	(284)	114
Cash generated by operations	14,941	6,198
Interest paid	(2,027)	(1,629)
Interest received	4	5
Income tax paid	(1,696)	(1,083)
Net cash generated by operating activities	11,222	3,491
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(2,789)	(3,487)
Payments for intangible assets	(718)	(307)
Proceeds from sale of property, plant and equipment	40	-
Net cash used in investing activities	(3,467)	(3,794)
FINANCING ACTIVITIES:		
Purchase of treasury shares	(139)	(195)
Sale of treasury shares	36	41
Proceeds from loans and borrowings	70,302	52,052
Repayment of loans and borrowings	(72,522)	(44,173)
Dividends paid	(6,998)	(7,242)
Net cash (used in)/ generated by financing activities	(9,321)	483
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,566)	180
CASH AND CASH EQUIVALENTS, beginning of the period	3,335	3,155
CASH AND CASH EQUIVALENTS, end of the period	1,769	3,335

DETSKY MIR GROUP**SUPPLEMENTARY INFORMATION: NON-IFRS MEASURES (UNAUDITED)**
(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 year ended 31 December 2019 would have been as follows:

	2019	2018
As if IAS 17 "Leases" was applied		
Payroll and other personnel expenses	11,154	9,609
Rent and utilities	11,028	10,186
Depreciation and amortization	2,549	2,113
Advertising and marketing expenses	1,399	1,494
Banking services	1,271	1,036
Repair and maintenance	603	501
Promotional materials	470	396
Security expenses	429	400
Software maintenance	362	320
Consulting services	243	193
Office equipment	149	133
Communication expenses	131	121
Travel expenses	95	99
Stationery and other materials	46	37
Impairment of property, plant and equipment	20	48
Taxes (other than income tax)	(55)	136
Other	353	189
Total	30,247	27,011

