



Detsky Mir

ANNUAL REPORT 2020

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WELCOME

TO THE 2020 PJSC DETSKY MIR ANNUAL REPORT

ABOUT THIS REPORT

This is the Annual Report for the period from 1 January 2020 to 31 December 2020 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"). The list of subsidiaries included in this Annual Report and Detsky Mir's shareholdings in these subsidiaries are disclosed in the notes to the IFRS consolidated financial statements for 2020.

The Annual Report provides consolidated information on the main results of the Company's activities, as well as its strategic priorities and goals for both the short and medium term. This Annual Report focuses in particular on the Group's activities in the areas of sustainability and corporate governance.

ANNUAL REPORT PREPARATION STANDARDS

The Annual Report has been prepared on the basis of Detsky Mir's management reporting and also the Company's audited consolidated financial statements for 2020 under International Financial Reporting Standards (IFRS). The Annual Report also discloses the Company's environmental, social and governance (ESG) performance metrics.

Detsky Mir's IFRS consolidated financial statements for 2020 were audited by AO Deloitte and Touche CIS. Although the Company has been applying IFRS 16 Leases (International Financial Reporting Standard establishing the financial reporting procedure for leases) since 1 January 2018, key financial metrics in the statements are compared excluding the effect of IFRS 16.

Please note that in this report, immaterial deviations in the calculation of ratios, percentages, subtotals and totals are due to rounding. Figures in this Annual Report may differ slightly from previously reported numbers due to rounding differences.

APPROVAL OF THE ANNUAL REPORT

The Company's Annual Report has been preliminarily approved by the Board of Directors (Minutes No. 10 dated 26 May 2021).



The Company's previous annual reports are available on its dedicated shareholder and investor relations website: ir.detmir.ru/en/.

DISCLAIMER

This Annual Report has been prepared by Detsky Mir solely for informational purposes, using information available to the Company at the time of its preparation, including information obtained from duly appointed third parties. The Company reasonably believes that this information is complete and accurate as of the publication of this report but does not make any representation or warranty that this information will not be updated, revised, or otherwise amended in the future.

The Company's Annual Report may contain forward-looking statements or projections themselves. Such statements or forecasts relate to matters that are not historical facts or statements and that reflect the intentions of the Company, its beliefs, or current expectations regarding operational performance, financial condition, prospects, growth rates, and the strategy of the Company and the industry in which it operates. Many factors may cause the actual results of Detsky Mir's operations to differ materially from the projected results contained in the forward-looking statements. These include, but are not limited to, factors such as general economic conditions; the competitive environment; risks associated with operating in the Russian Federation, Kazakhstan, and Belarus; rapid technological changes and changes in the market conditions in the industries in which Detsky Mir operates; the impact of the COVID-19 pandemic on the macroeconomic situation in the markets where the Company is present and on its financial performance; as well as other risks connected with Detsky Mir and its activities.

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DETSKY MIR TODAY

Detsky Mir Group is a multi-format retailer and the undisputed leader in the children's goods market in Russia and Kazakhstan, as well as a significant player in Belarus. The Company is one of the largest and fastest-growing online retailers in the children's goods segment in Russia.



MARKET POSITION

Undisputed leader in the
children's goods market

22%

share of the total children's
goods market in Russia
(+3 p.p. year-on-year)*

*Source: Ipsos Comcon

OUR MISSION

Our omnichannel retail chain creates the optimal conditions for society to make safe, high-quality, and high-potential investments in the younger generation. Since its inception, the Detsky Mir chain has been guided by a governing principle that has become its motto: “A happy childhood for everyone!”

OUR BRANDS



832 STORES

The most recognizable Russian brand
in the children's segment with a 73-year history

20

Detmir Pickup
stores

331

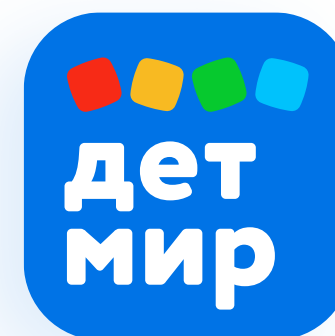
cities across Russia,
Kazakhstan, and Belarus

216 m

store visits
in 2020

897,000 m²

of total selling space



DETMIR.RU

One of the largest and
fastest-growing online stores
for children's goods



453 m

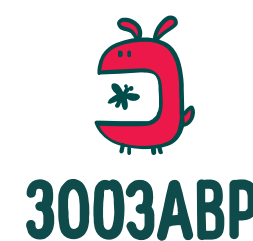
visits in 2020

30%

online sales share in total
revenue (Q4 2020)

65%

of online orders made
through the mobile app
(52nd week of 2020)



ZOOZAVR

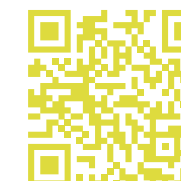
A modern pet
supplies chain

20

stores



online store at
zoozavr.detsky-mir.ru



OUR PRODUCTS

A wide assortment
of unique products
for children
and pets

250,000 SKUs

44.5%

share of private label and
direct imports in total sales

SHAREHOLDERS AND STAKEHOLDERS

75%

free float

50%

of the Board of Directors are
independent directors, including
the Chairwoman of the Board

#1

among Russian retailers
in the Forbes ranking
of top employers

INFRASTRUCTURE

80%

of Russia's urban population
can pick up orders within
60 minutes

138,000 m²

of warehouse space

280

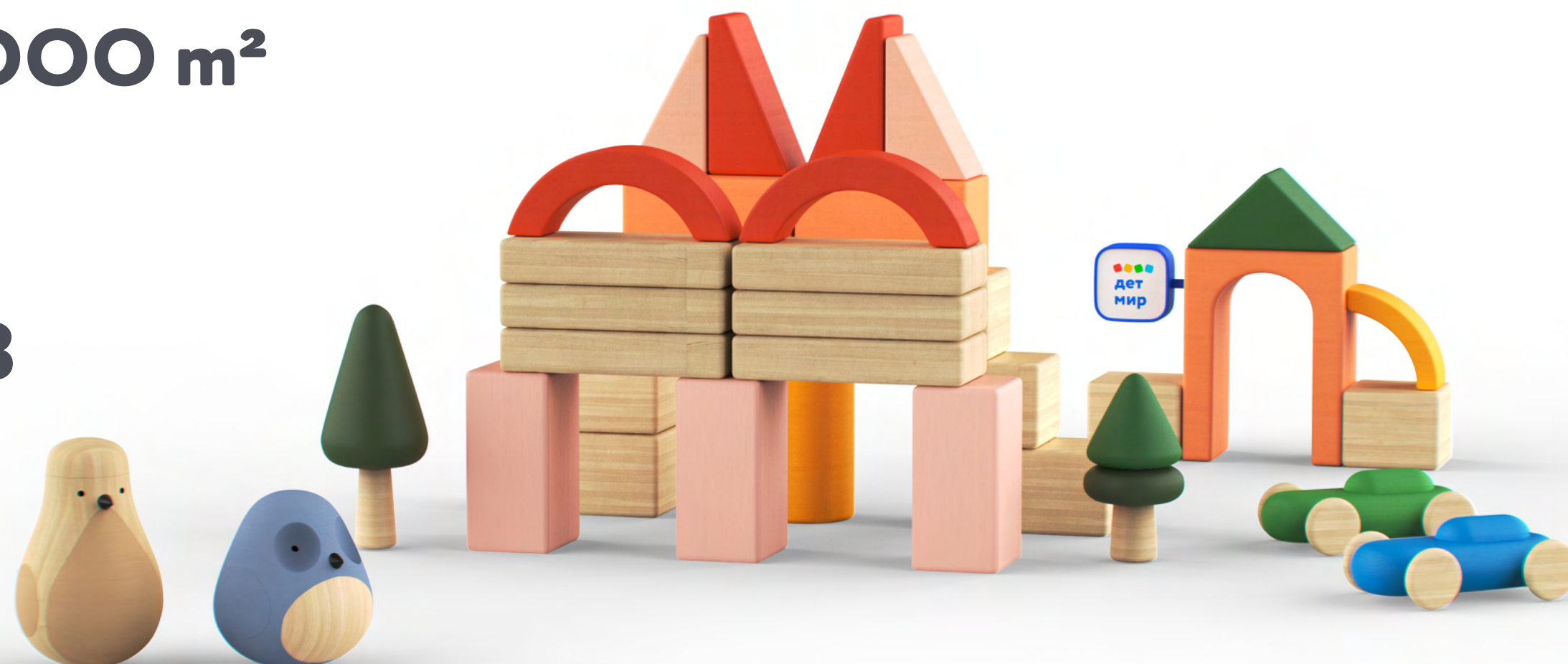
Russian cities offer super
express delivery service within
2 hours

6,568

pickup points
for online orders

ESG PRINCIPLES

Road map developed for integration of ESG principles
into business model and strategy



BUSINESS SCALE

Total revenue

RUB 142.9 bn

15,000

employees

RUB 7.8 bn

in dividends

11.9%

adjusted EBITDA margin

MEDIUM-TERM STRATEGY (2024)

Further consolidation of the children's goods market

New verticals that meet a wide range of customer needs and carry high growth potential

45%

online channel share in Detsky Mir's total sales

2.4 m

total SKUs

+500

new Zoozavr stores

30%

share of the online channel in Zoozavr's total revenue

2021

launch of digital services for children and parents

+230

new Detsky Mir retail stores

+800

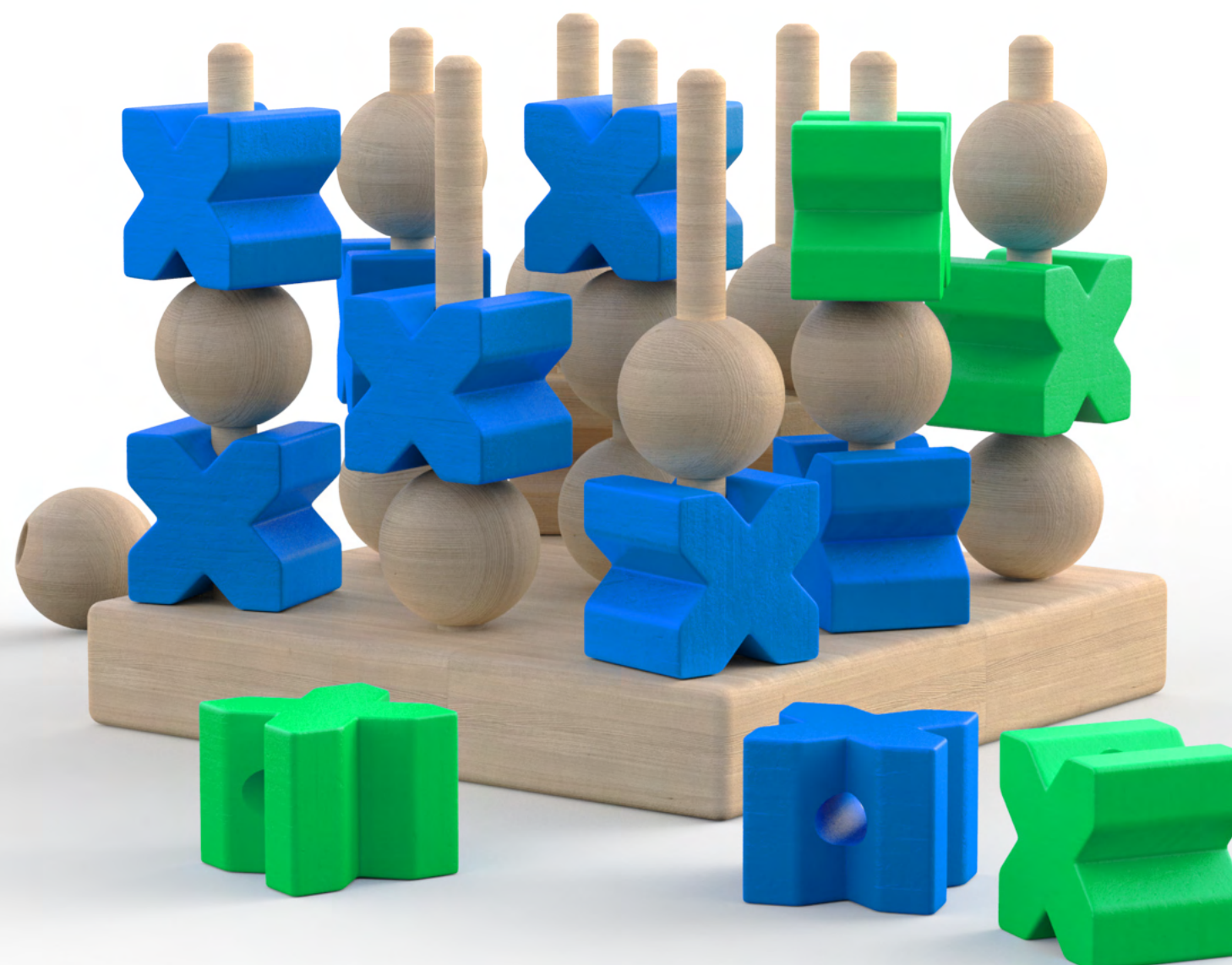
new compact-format Detmir Pickup stores

80%

of all online orders with access to next-day delivery

70% NPS

Net Promoter Score



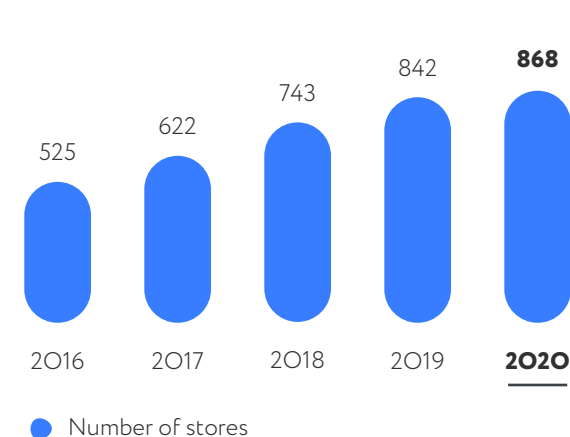
2020 HIGHLIGHTS

OPERATING AND FINANCIAL PERFORMANCE

Total stores

13%

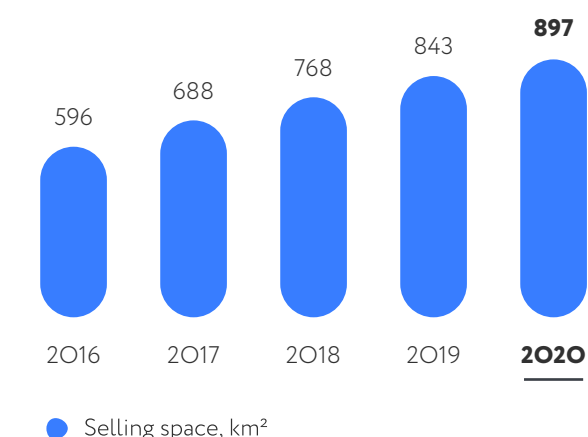
CAGR 2016–2020



Selling space

11%

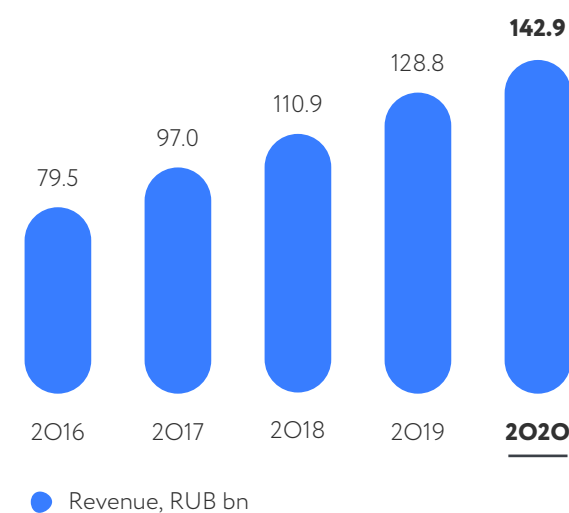
CAGR 2016–2020



Total revenue

16%

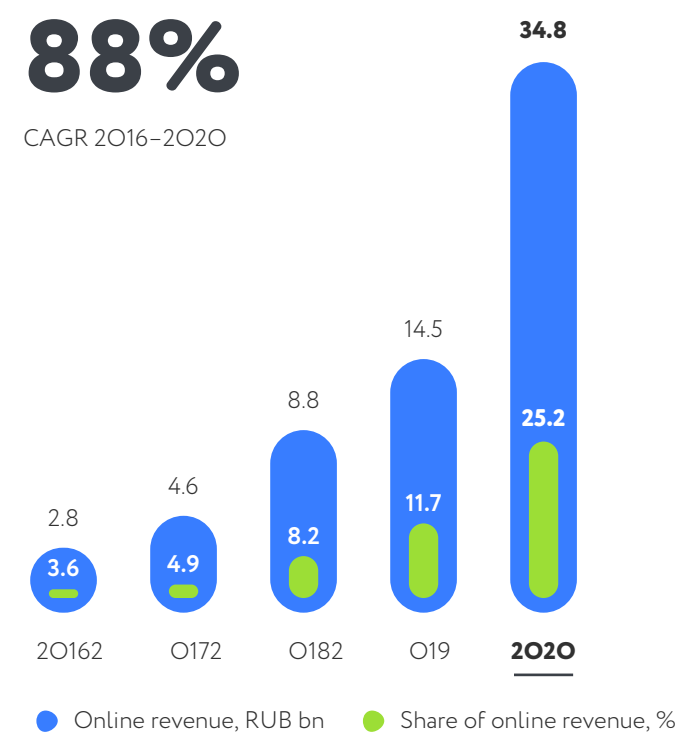
CAGR 2016–2020



Online revenue

88%

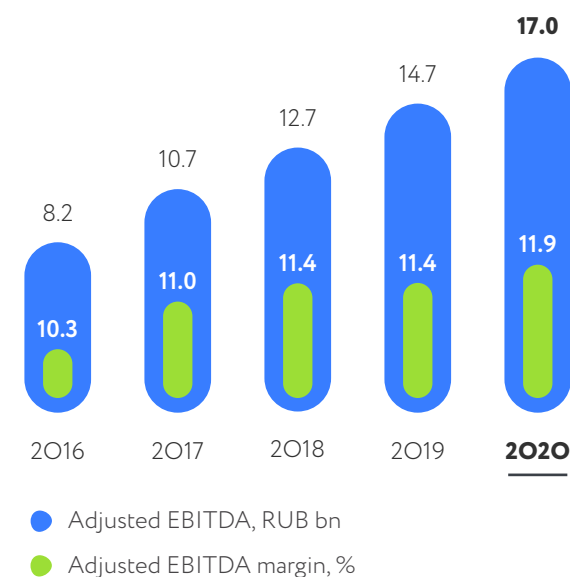
CAGR 2016–2020



EBITDA

20%

CAGR 2016–2020



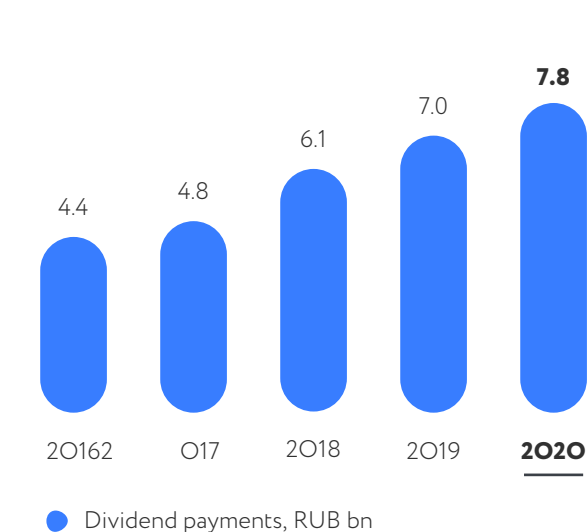
Dividends

15%

CAGR 2016–2020

100%

Dividend payout ratio (RAS)



A NEW ERA FOR THE RUSSIAN STOCK MARKET

COMPANY SHAREHOLDER STRUCTURE

100%

free float

Following several successful placements, in September 2020, Detsky Mir became the first company in the Russian market with a 100% free float.

75%

free float

At the end of December 2020, Gulf Investments Limited (Altus Capital) acquired a 25% stake in Detsky Mir. As a result, the free float of the Company's shares was 75%.



IPO

BEGINNING OF PUBLIC HISTORY

RUB 85

Detsky Mir's history as a public company began in February 2017 when the Group conducted an initial public offering (IPO) on Moscow Exchange that represented a landmark transaction for the Russian capital market. The offer price was set at RUB 85 per share.

SPO

CONSISTENT FREE FLOAT INCREASE

RUB 91

In November 2019, AFK Sistema and the Russia-China Investment Fund (RCIF) successfully completed a secondary public offering (SPO) of Detsky Mir shares priced at RUB 91 per share. As a result, the free float of the Company's shares reached 57.6%.

SPO

EMERGENCE OF NEW SHARE- HOLDERS

RUB 112

In June and September 2020, AFK Sistema and the RCIF completed two more transactions to sell all of their remaining shares of the Company at RUB 93 and RUB 112 per share, representing a minimal discount on market prices of approximately 4% and 1%, respectively. The total size of these transactions amounted to 40.9% of Detsky Mir's share capital. More than half of the final placement was acquired by international investment funds from the UK, continental Europe and the US. The largest minority shareholders of the Company were investment funds including Goldman Sachs Group and Capital Group with respective shares of 8.6%* and 6.1%.

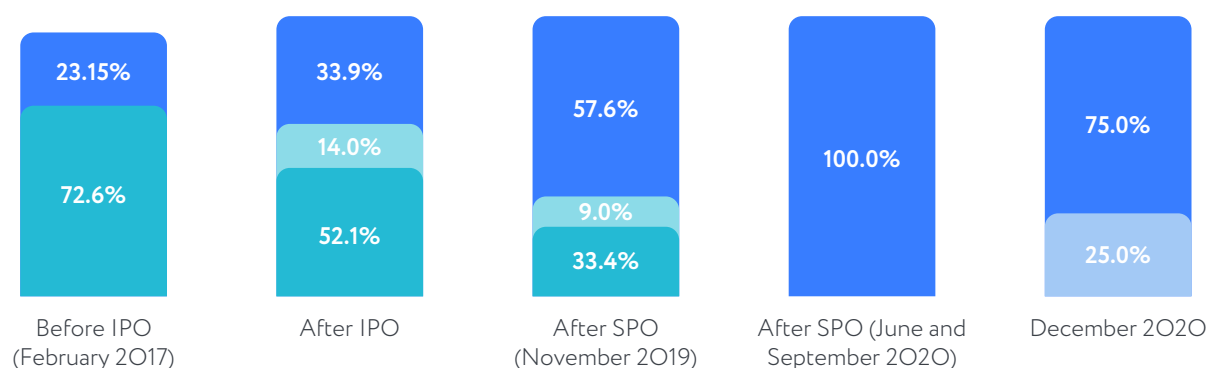
EMERGENCE OF A NEW MAJOR SHAREHOLDER

On 30 November 2020, Altus Capital announced its intention to acquire up to 29.9% of Detsky Mir shares at RUB 160 per share (a 28% premium on the closing price on 27 November 2020). On 28 December 2020, the Company received a notification from Altus Capital regarding the acquisition of 25% of Detsky Mir shares.

Detsky Mir's management welcomes the Company's new shareholder and plans to continue implementing its strategy in the interests of all shareholders.

* At the end of December 2020, Goldman Sachs Group reduced its ownership to 5.3%.

● AFK Sistema ● RCIF ● Altus Capital ● Free float

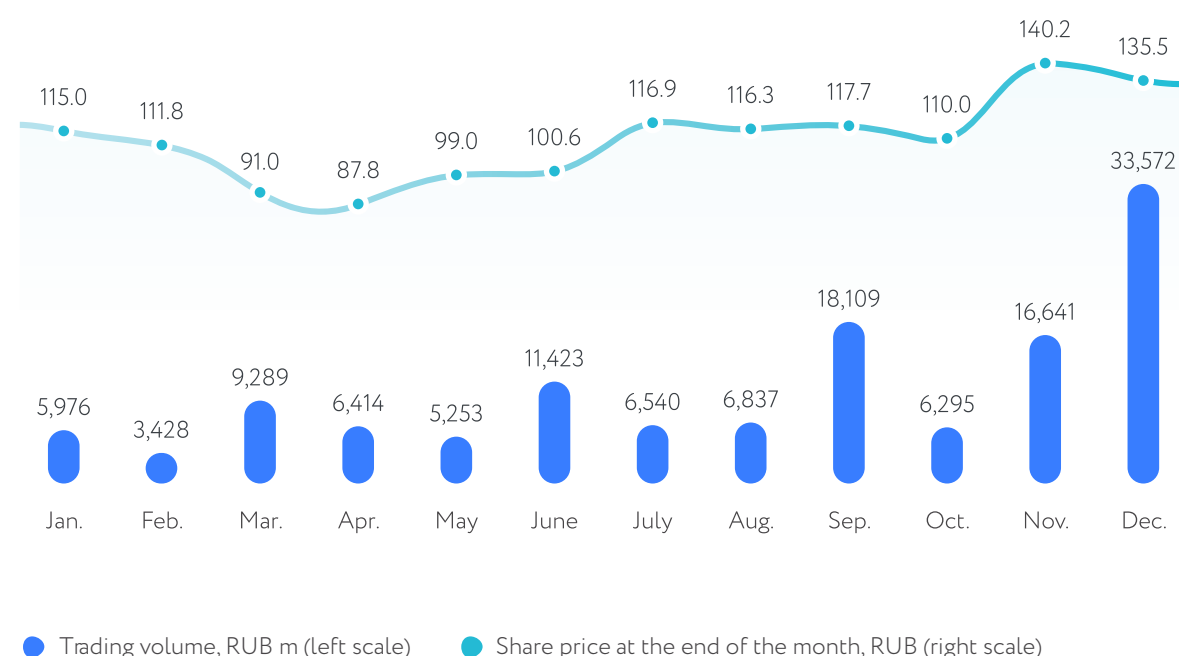


SOLID GROWTH OF SHAREHOLDER RETURNS AND LIQUIDITY

The Company's total shareholder return (TSR) since its IPO has been 100.4%. In 2020, Detsky Mir ranked for the first time as one of most valuable public Russian companies, taking 58th place with a market capitalization of USD 1.362 bn

in the RIA Rating compiled at the end of the year.* By the end of 2020, the average daily trading volume of Detsky Mir shares was up more than sevenfold on the previous year, to RUB 519 m.

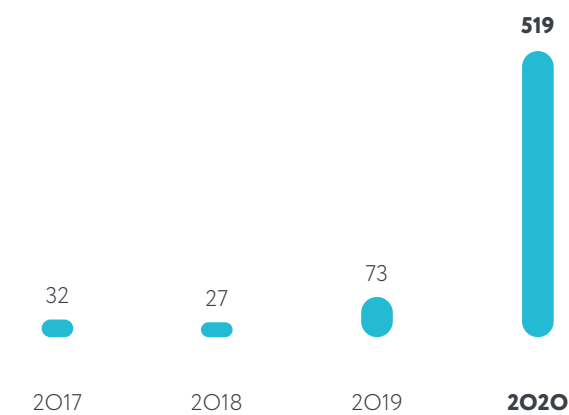
Detsky Mir trading volume and share price in 2020**



Detsky Mir maximum and minimum share price, RUB**



ADTV of Detsky Mir shares on Moscow Exchange, RUB m**

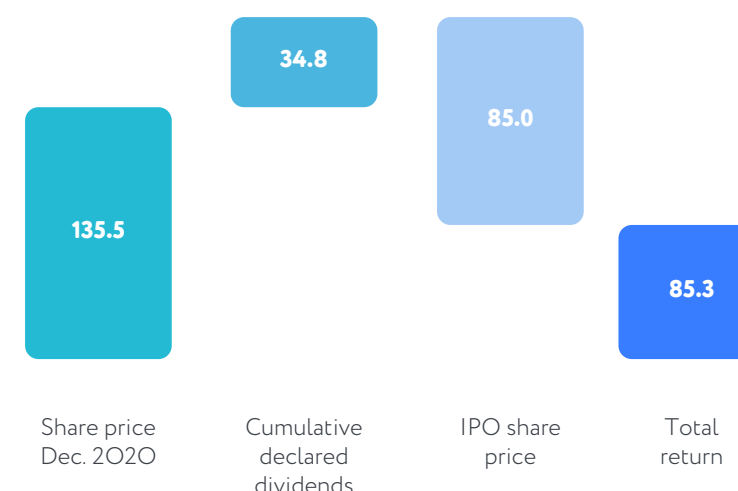


TSR 100.4%

Maria Davydova,
CEO of Detsky Mir:

“Detsky Mir has delivered significant achievements since becoming a public company, transforming itself into a leading omnichannel retailer in Russia, delivering solid sales growth and consistently high levels of profitability, and providing attractive returns to shareholders through dividend payments.

“We greatly appreciate the interest in the Company's shares from a wide range of Russian and foreign investors and are pleased to welcome our new shareholders on board. We recognize the enormous level of responsibility that this places on us, and we will make every effort to achieve all our goals, the most important of which is to continue to provide high shareholder returns.”



* The RIA Rating is based on information from Moscow Exchange, issuers, and the Bank of Russia. The estimated capitalization was based on the value of ordinary shares or depositary receipts traded on stock exchanges at the end of December 2020. Conversion into US dollars was made at the rate set by the Bank of Russia at the end of 2020. The gain was estimated in USD.

** Source: Moscow Exchange

INVESTMENT HIGHLIGHTS

Detsky Mir's investment case leverages long-term drivers of shareholder value growth.

UNDISPUTED LEADER IN THE CHILDREN'S GOODS MARKET

with significant growth potential in the online segment

22%

market share in 2020

+140%

online sales growth rate in 2020



BRAND WITH NATIONWIDE RECOGNITION

high consumer demand and long-standing market presence

73^{years} 99%

as a brand

brand recognition

MULTI-CATEGORY PRODUCT RANGE

ensuring high rates of customer traffic growth, as well as double-digit total sales growth

250,000

SKUs at the end of 2020

+14.3%

total sales growth rate in Q4 2020



UNIQUE OMNICHANNEL BUSINESS MODEL

with a number of new initiatives to further grow the online business, including the development of a marketplace

30%

online sales share
of total sales in Q4 2020

80%

of Russia's urban population
can pick up orders within
60 minutes

LOW CAPITAL INTENSITY BUSINESS MODEL

provides high returns on capital and consistently high dividends

76%

ROIC in 2020

100%

of net profit under RAS
paid as dividends

NEW GROWTH VERTICAL

through consolidated leadership
in the large and growing pet
supplies market

+500 stores

medium-term target with
30% share of online sales

RUB 296 bn

Russian pet supplies market in 2020
(+10% year-on-year)

STRONG MANAGEMENT TEAM

with successful experience of growing the business and high corporate governance standards

8 years

management team's
average tenure

50%

independent members of
the Board of Directors including
the Chairwoman of the Board

REGIONAL AND INTERNATIONAL EXPANSION



In 2020, the Group opened 71 new Detsky Mir stores. As a result, 38 cities across Russia, Kazakhstan, and Belarus gained their first Detsky Mir stores.



The Company also continued developing its new compact Detmir Pickup format, opening 12 new stores across Russian cities with a population of less than 40,000 inhabitants. This format adds a pickup point for online orders to traditional retail outlets.



In December 2020, Detsky Mir opened its second flagship hypermarket in Moscow (MEGA Teply Stan mall). The new store is designed as a shopping and entertainment center for the whole family.



THE YEAR'S KEY EVENTS

NEW STRATEGY

In August 2020, Detsky Mir updated its medium-term growth strategy. We are focusing on:

2x

total sales over the next four years thanks to strengthening leadership in the children's goods market, as well as developing our omnichannel business model



developing digital services for children and parents, as well as in the pet supplies segment



A recording of an online conference discussing the updated strategy is available here: [Detsky Mir's Medium-Term Strategy](#).

NEW ONLINE RECORDS

Online revenue

RUB 34.8 bn

2x

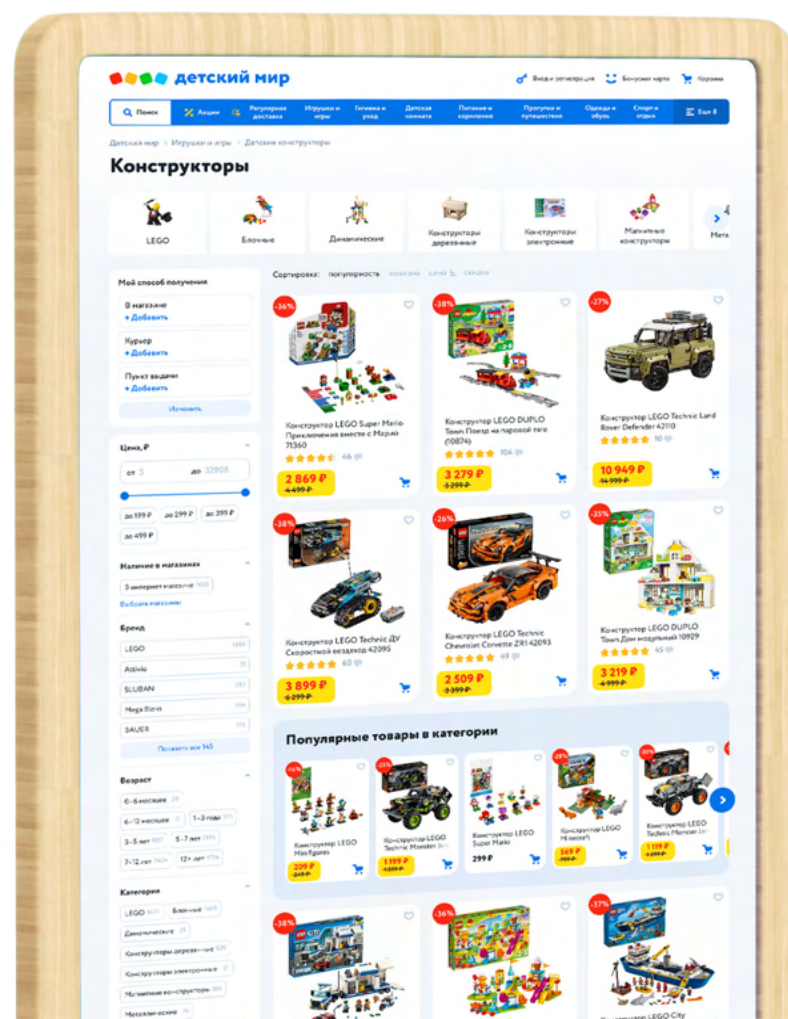
In 2020, online revenue increased 2.4x year-on-year to RUB 34.8 bn. The online segment's share of Detsky Mir's total revenue reached 30% in Q4 2020.

52%

Online share in total sales of Detsky Mir during the Black Friday sale (November 2020).

45%

The Group set several online records in Q4 2020. On the peak day of November's Black Friday sale, the online segment accounted for 52% of Detsky Mir's total sales. By the end of the last week of December, total goods sold online amounted to more than RUB 1.5 bn, a record for the Company. The medium-term target for the online segment's share of total revenue is 45%.



EXPANDING THE ZOOZAVR PET SUPPLIES CHAIN

In 2020, as part of its strategy to enter the pet supplies market, Detsky Mir opened 10 new Zoozavr stores, doubling the number of sites within a year.

In 2021, the Company plans to open at least 70 stores; in the medium term, at least 500 more retail outlets are expected.

2020

+10

new stores

2021

+70

new stores

2021–2024

+500

new stores

BUSINESS MODEL DEVELOPMENT AND ASSORTMENT EXPANSION

44.5%

In 2020, the share of total sales from private labels and direct imports increased by 2.9 p.p. year-on-year to 44.5%.

250,000

In October 2020, Detsky Mir announced the full-scale launch of its own marketplace. As a result, the Company's total product range has grown 2.5x since the end of 2019, reaching 250,000 SKUs. Medium-term plans call for a tenfold increase in the assortment.



IMPROVING THE CUSTOMER EXPERIENCE

6.1 m

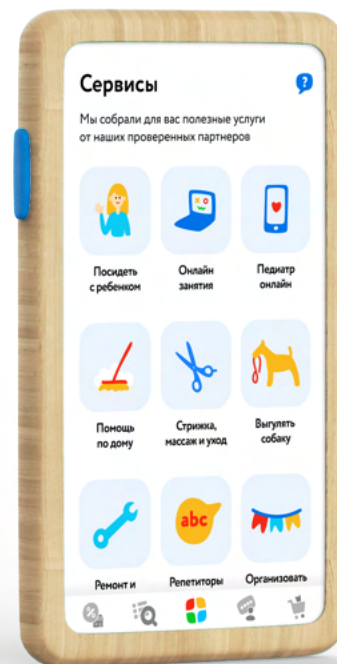
In December 2020, total downloads of the Detsky Mir mobile app exceeded 6.1 m. During the last week of December, 65% of all online orders were placed through the mobile app. The app scores highly among free apps in Russia, with average ratings of 4.7 in the Apple App Store and 4.8 in Google Play. It is also one of the top 10 Russian apps in the Shopping category.

↑15%

In 2020, the Company continued to improve its online store detmir.ru: a new personal account was launched, the shopping cart optimized, and Apple Pay and Google Pay integrated with the mobile app shopping cart. Based on A/B testing results, revenue per user increased by 15%.

280 cities

In October 2020, the Company launched a super-express delivery service from Detsky Mir stores, guaranteeing delivery within two hours. The service is already available in 280 Russian localities.



DIGITAL SERVICES

At the end of December 2020, the Company launched a pilot project to provide digital services and family-oriented games in the Detmir mobile app.

LOGISTICS INFRASTRUCTURE DEVELOPMENT

In December 2020, the Company entered into an agreement with PNK Group for the construction of a third nationwide distribution center near Yekaterinburg with 63,200 m² of space. Commissioning is scheduled for Q1 2022.

In October 2020, the Company signed a preliminary agreement to open a second regional distribution center at a Russian Post fulfillment center in Kazan with 8,000 m² of space. Commissioning is scheduled for Q2 2021.

In July 2020, the Company launched its first regional distribution center in Rostov-on-Don. It is located at PNK Park Rostov-on-Don, a Class A+ rated industrial park, and has 6,000 m² of space.

MANAGEMENT AND CORPORATE GOVERNANCE

In December 2020, the Company's Board of Directors took the decision to convene an extraordinary General Meeting of Shareholders (EGM) to be held on 12 March 2021, and on the recommendation of the Nomination and Remuneration Committee proposed that the EGM consider new candidates for election to the Board.

In December 2020, Nikolay Ermakov was appointed as the new Chief Technical Officer. Nikolay has over 16 years of experience in information technology, digital transformation, and product development (X5 Retail Group, Gett and Rambler & Co).

In September 2020, Detsky Mir senior managers were recognized in eight categories in the annual Top 1,000 Russian Managers ranking. The Company's CFO was named among the best in her category in the EMEA region (Europe, Middle East and Africa), according to **Institutional Investor** in 2020.

In July 2020, Denis Gurov was appointed as the new Logistics Director. He has over 16 years of experience in retail and logistics companies (Dixy Group, 36.6 pharmacy chain, and DHL).

In March 2020, the Company's Board of Directors approved the early termination of the authority of Vladimir Chirakhov as CEO and Chairman of the Management Board, and the appointment of Maria Davydova, Deputy CEO for Commercial Activities, to this position from 3 April 2020. Maria has more than 14 years of experience in the consumer sector, including over eight years in leadership positions at Detsky Mir.

PANDEMIC RESPONSE AND CONTRIBUTION TO COMBATTING COVID-19

In 2020, to combat the spread of COVID-19 and protect the health of customers and employees, the Company introduced contactless delivery for online orders. Online store couriers as well as retail store and distribution center employees were provided with essential personal protective equipment. Enhanced cleaning and disinfection were carried out in all of

the Company's commercial premises and buildings. Office employees also moved to a remote working arrangement.

In March 2020, Detsky Mir was included on the list of strategically important organizations for the Russian economy. The Russian government also approved a list of essential

goods, including diapers, nappies, pacifiers, feeding bottles, and children's hygiene products. This national-level decision allowed the Company to continue working during the period of quarantine to provide people with essential goods.



SUSTAINABILITY

ESG

In 2020, the Company completed its first ESG analysis and developed a road map to further integrate ESG principles into its business model and strategy.

RUB 751 m

In 2020, the Company continued to promote its “Participate!” campaign. Together with customers, Detsky Mir continuously collects essential goods for orphans and children left without parental care, children living in childcare institutions, children from low-income families, and children with special needs. The 2020 campaign took place in 331 cities across Russia, Kazakhstan, and Belarus, and collected gifts totaling RUB 751 m.

RUB 2 m

In April 2020, the “Comfort in a Shelter” campaign was launched at Zoozavr stores. The campaign aims to help homeless animals. Customers can purchase any product from a list posted at store checkouts of items that animals need, and put it in a special container. As a result, essential goods and feed worth a total of RUB 2 m were collected.

4 tons

In 2020, 27 stores and the Company’s head office organized a campaign to collect clothing and shoes for recycling. More than 4 tons of waste from the textile and footwear industries were collected.

#1

In November 2020, Detsky Mir Group took 29th place in the 2020 *Forbes* index of the 50 Best Employers in Russia, ranking first among Russian retailers.



DIVIDEND PAYMENTS

RUB per ordinary share

5.08

In December 2020

Detsky Mir distributed all of its net profit as interim dividends for nine months of 2020. Dividends amounted to RUB 3.8 bn, which corresponds to RUB 5.08 per ordinary share. The total amount of dividends paid in 2020 increased by 11.3% year-on-year to RUB 7.8 bn, or RUB 10.58 per ordinary share.

RUB per ordinary share

2.50

In October 2020

The Company distributed the remainder of its retained earnings for Q4 2019. The amount of dividends amounted to RUB 1.8 bn, which corresponds to RUB 2.50 per ordinary share.

RUB per ordinary share

3.00

In July 2020

The Company paid out dividends for 2019 in the amount of RUB 2.2 bn, which corresponds to RUB 3.00 per ordinary share.

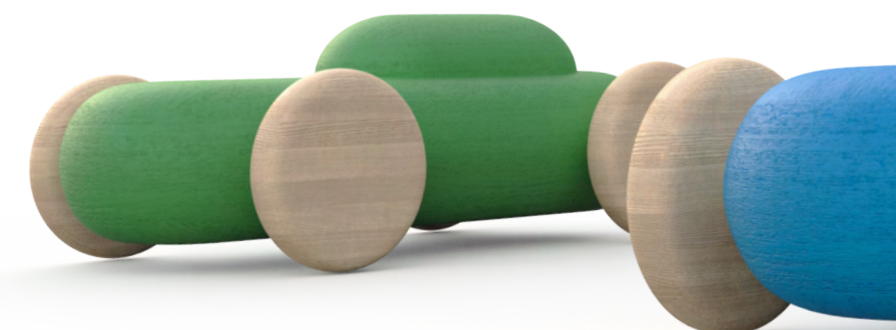
BONDS AND CREDIT RATINGS

7%^{per annum}

In April 2020, Detsky Mir successfully issued and placed series BO-06 exchange-traded bonds with a total nominal value of RUB 3 bn and a coupon rate of 7.0% per annum. The bonds have a tenor of three years.

RU A+

In March 2020, the Expert RA rating agency confirmed the long-term credit rating of PJSC Detsky Mir at ruA+ with a stable outlook.



BUSINESS MODEL



ASSORTMENT

250,000 SKUs

44%

private label and direct import



INFRASTRUCTURE

140^{ths} m²

warehouse
space

280

cities with
access to
express
delivery

3

distribution
centers

30

transport
companies



SUPPLIERS

300

marketplace
partners

20%

share
of 20 largest
suppliers

37%

share
of imported
purchases

1,000

major
suppliers



DISTRIBUTION

868

retail
stores

897^{ths} m²

selling
space

5,700

partner
PUPs

30%

share of online
sales placed
through detmir.ru



669 m

visits made to the Group's
offline and online stores



24 m

loyalty card holders
(83% share of total sales)



80%

of Russia's urban population
have access to self pickup
within 60 minutes



22%

share in Russia's children's goods
market (total revenue of the Group
at the end of 2020 was RUB 142.9 bn)



7.8 bn

paid in dividends by the Group
in 2020 (100% of RAS net profit)



+45.1%

was the total shareholder return
in 2020

GEOGRAPHIC PRESENCE

Stores are an important part of the shopping experience, a center of attraction for shoppers with children, and a key element of Detsky Mir's logistics infrastructure. The Company intends to continue expanding its chain of stores while developing its online platform.

The retail chain is our key competitive edge against pure online players. Ninety percent of all online orders in Russia come from retail stores, underscoring the high efficiency of the omnichannel business model. The active expansion of the geography of the retail network and the increase

in the number of the different types of stores ensure convenience and quick delivery of online orders. Since the chain's stores are storage centers for the Company's inventory, our customers can receive orders within 60 minutes of placing them on the website.

868

Group stores

5,700

partner pickup points

331

cities in Russia,
Kazakhstan, and Belarus

An extensive retail
chain is our
key advantage

80%

coverage of the Russian
urban population

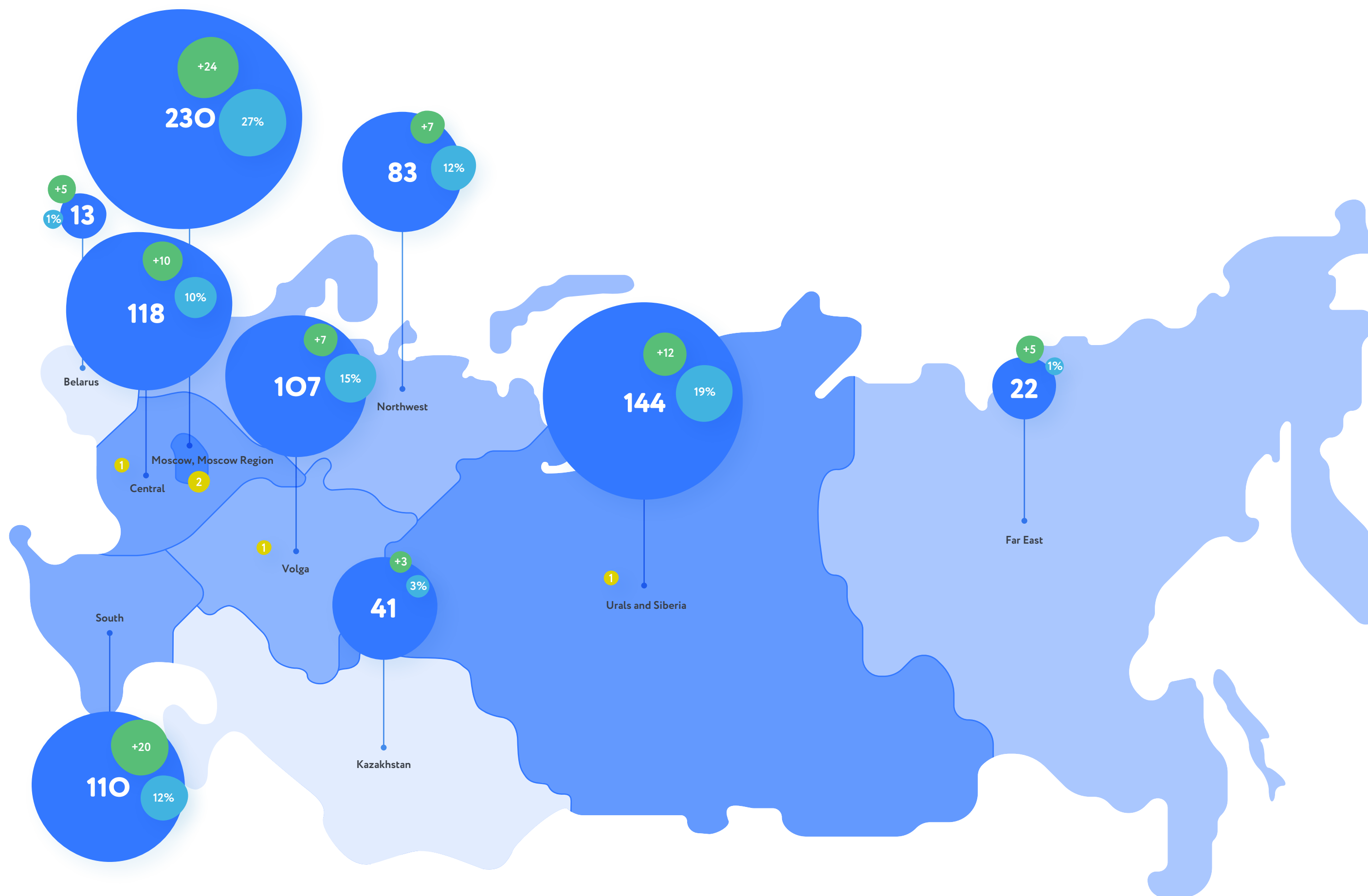
82%

of all online orders fulfilled
from the retail chain's stores



Moreover, customers can take advantage of our super-express delivery service, which has enabled us to be among the first to deliver home orders to customers in 280 Russian localities within a few hours.

Detsky Mir plans to provide full geographic coverage of the Russian, Kazakh, and Belarusian markets. As of 31 December 2020, Detsky Mir was represented by 832 stores in 331 cities across Russia, Kazakhstan, and Belarus, and the Detmir Pickup chain had 16 stores. The Zoozavr pet supplies chain includes 20 stores. Our retail chain covers the entire territory of Russia, with the easternmost store of the Group located in Petropavlovsk-Kamchatsky and the westernmost in Kaliningrad.



- Total number of Group stores
- Share of Group sales
- 2020 Openings
- Distribution centers

AWARDS

RECOGNITION AND RATINGS

EMPLOYEES

Forbes

Detsky Mir was ranked 29th in the 50 Best Employers in Russia 2020 rating published by Forbes.



Detsky Mir won the Growth Leader: Stayer category in the annual rating of Data Insight.



Detsky Mir was ranked 113th in the annual RBC 500 rating of the largest Russian companies.

Forbes

Maria Davydova, CEO of Detsky Mir Group, was included on the list of 200 women heading the largest Russian companies, based on Forbes data.



Vladimir Chirakhov, as CEO of Detsky Mir Group, was awarded the Order of Friendship, a Russian state-affiliated award.



The rating agency RAEX (Expert RA) confirmed the long-term credit rating of Detsky Mir at ruA+ with a stable outlook.



Anna Garmanova, Chief Financial Officer of Detsky Mir Group, was recognized as one of the best by Institutional Investor.



Detsky Mir is recognized as a leader in the technology engagement rankings published by AWG and Data Insight.

Forbes

Detsky Mir took 86th place in the annual Forbes rating of the 200 largest companies in Russia.



In 2020, eight senior managers at Detsky Mir Group were ranked in the 21st Top 1,000 Russian Managers rating prepared by the Russian Managers Association and published in Kommersant.



Detsky Mir entered the top three in the Best Corporate by Small Cap IR Russia 2020 category based on a survey conducted by Moscow Exchange in cooperation with Institutional Investor magazine.



Detsky Mir topped the rating of the most active non-food retailers in the Russian market in 2019, according to Knight Frank, a leading international consulting company. Detsky Mir opened 85 new stores in 13 regions across Russia.

Brand Finance®

Detsky Mir ranked among the top 50 most valuable Russian brands, according to Brand Finance, a British consulting company.



The Detsky Mir Group won in four categories in the Golden Bear Cub national awards for the children's goods industry: Best School Uniform (Chessford collection), Best Products for Babies (educational Baby Go toy walker), Leader of the Year - Special Nomination for Quality (Nina Leonidovna Mehling, Head of the Certification, Quality, and Claims Department) and the award for best Charity Project (for the Detsky Mir Charitable Foundation's "Opera" ("Support") Project).



Detsky Mir topped the rating of the most recognizable children's clothing stores, according to RBC Market Research.



STRATEGIC REPORT

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MESSAGE FROM THE CHAIRWOMAN



Maria Gordon

Chairwoman of the Board
of Directors, Independent
Director

Dear shareholders, investors, and partners,

It is a great honor for me to lead the Board of Directors as Detsky Mir enters a new phase in its evolution.

Detsky Mir is a business that serves a wide range of stakeholders. For customers, we are a modern retailer that provides an ever-improving customer experience. We are also seen as a historic brand that has strong associations with family values—a brand that has continued to evolve over generations. Our omnichannel approach, flexible range of sales platforms, robust IT infrastructure, affordable prices, wide assortment, and quality control make Detsky Mir the first choice for the majority of families in the regions where we operate.

For our partners, Detsky Mir is a market leader that not only sets high quality requirements for goods and services but also opens up tremendous opportunities for growth and development. With the launch of our marketplace in November 2020, the Group's partner network will grow and contribute to our overall strategic goal of providing families with safe, high-quality products. For employees, Detsky Mir is a reliable employer and a comfortable and safe platform for personal fulfillment and career growth.

Finally, for our shareholders, Detsky Mir is a high-quality investment story that combines sustainable growth with a high level of operational efficiency and regular returns to investors, even in challenging market conditions. Last year, amid the challenges brought about by the COVID-19 pandemic, the Company

underscored its ability to quickly and successfully adapt to changes in the market. We increased revenue by 11% and improved our adjusted EBITDA margin and cash flow, thereby supporting a high dividend payout ratio.

Between our February 2017 IPO and March 2021, Detsky Mir's total shareholder return was more than 100%.

I am confident that the Company will be able to create even more value going forward. In 2020, the management team updated its mid-term strategy, confirming its intention to strengthen the Company's leadership in the children's goods market by expanding the retail chain

and achieving superior online sales growth. At the same time, we have identified new future growth avenues and set ambitious goals for digital development. Starting this year, the Group will intensify its expansion into the high-potential pet supplies market, which will further diversify our business. In addition, Detsky Mir is successfully developing its business model and expanding its assortment through its new marketplace. We are also working on the launch of new digital services for the whole family, which will create new revenue opportunities from the Group's extensive customer base. The strategy is backed by clear targets that will enable us and all stakeholders to regularly evaluate the Company's success.

Going forward, our priorities will include further improvements to corporate governance, continuing to

increase openness and transparency for investors, and a continued focus on maintaining dividends.

Sustainability also remains an important part of the Group's evolution, and we are just beginning our important mission to fully integrate ESG principles into our business model and strategy.

To facilitate this journey, the Board of Directors will contribute to developing specific environmental, social, and governance (ESG) goals and monitoring progress toward achieving them.

On behalf of the independent directors as well as the entire Board, I would like to thank our shareholders for the trust they have placed in us. We will make every effort to help the Company continue developing apace in the face of increased competition and the trend toward digitalization.

CHIEF EXECUTIVE OFFICER'S STATEMENT



Maria Davydova

Chief Executive Officer

**Dear shareholders,
colleagues, customers,
and partners,**

2020 was not an easy year for the retail sector. Both in Russia and across the globe, the industry faced an array of challenges brought about by the pandemic and the resulting economic fallout from lockdown restrictions. Increased uncertainty coupled with new operational and logistical challenges have made us more resilient and given us the opportunity to showcase the efficiency of our business model and strategy. In 2020, both the consumer and the competitive environment changed. Online demand grew at an impressive pace, which has motivated a number of retailers to step up their efforts to digitalize their commerce. For many companies, online

sales became a more important distribution channel during the reporting year.

In this context, our team placed an increased focus on further transforming the Company into a highly efficient omnichannel business, expanding the geographical presence of the retail chain, strengthening our national and regional logistics infrastructure, expanding our assortment through the development of the marketplace, and improving customer service quality across all sales channels.

In 2020, Detsky Mir unarguably strengthened its leadership in the Russian and Kazakh children's goods market, and also continued to actively grow its business in Belarus. At the same time, we delivered strong financial performance and began developing new strategic

directions that have potential for significant growth. In the face of the COVID-19 pandemic, we demonstrated our commitment to being a responsible business, quickly implementing all the necessary measures to protect the health and safety of both our employees and customers, while also ensuring the uninterrupted flow of essential goods to the public.

Detsky Mir is a strong team of professionals. In the past eight years, we have proven that the Company can cope with any challenges that come our way and that we have significant potential for further growth and development.

AN EVEN STRONGER DETSKY MIR

By successfully tackling the challenges of COVID-19, we managed to not only avoid revenue losses in Q2 at the height of the pandemic but also to significantly accelerate our sales growth rate in Q3 and Q4. As a result, Detsky Mir Group's consolidated revenue increased by 11% year-on-year to RUB 142.9 bn.

Ninety-three store openings, 140% online sales growth and a 30% online share of total business in Q4, the full-scale launch of our own marketplace, and the launch of a two-hour super-express store-to-home delivery service are just a few of the key accomplishments that helped us achieve double-digit business growth in the reporting year.

We continued to actively develop our private label brands across all categories. We also continued our efforts to switch to direct contracts with import suppliers, ensuring exclusivity and a best-in-class price offering. For the full year, private label and direct import goods accounted for nearly half of total sales.

Searching for new ways to optimize operating costs and improve the efficiency of business processes is an important aspect of our business, which helped us achieve impressive operating profit growth in 2020.

**Adjusted EBITDA
increased by 15.2%
year-on-year to RUB
17.0 bn**

**Adjusted EBITDA
margin increased by
0.5 p.p. year-on-year to
11.9%.**

Detsky Mir's financial position remains strong and stable thanks to our disciplined approach and our ability to generate significant operating cash flow. As of the end of the year, we had reduced our net debt to adjusted EBITDA ratio to 1.1x, while continuing to fully implement our investment and dividend programs.

OUR MARKET POSITION

The growth of our business has always been reflected in the strengthening of our market position, the consolidation of our retail network and our entry into new markets. Our Company has performed especially well during the crisis. When ineffective retailers have been forced to leave the market, Detsky Mir has not only strengthened its market leadership but is also driving the accelerated development of the entire industry, directly benefitting consumers.

22%

In 2020, our share of the total children's goods market in Russia increased to 22%, up from 19% in 2019.

This growth resulted from consumer traffic attracted to Detsky Mir from competing retail chains by our high safety standards, low price, wide and exclusive assortment, and the active development of Detsky Mir's own online store.

100%

We also continued expanding our logistics infrastructure to meet the needs of the growing online channel. In July, we opened our first regional distribution center in Rostov-on-Don, and by the end of the third quarter, it had reached 100% capacity and hit its profitability targets.

6.1 m

The new mobile app, launched at the end of last year, is also enjoying considerable popularity among our customers. By the end of the reporting year, it had been installed more than 6 m times.

ACCELERATED GROWTH OF THE ONLINE SEGMENT

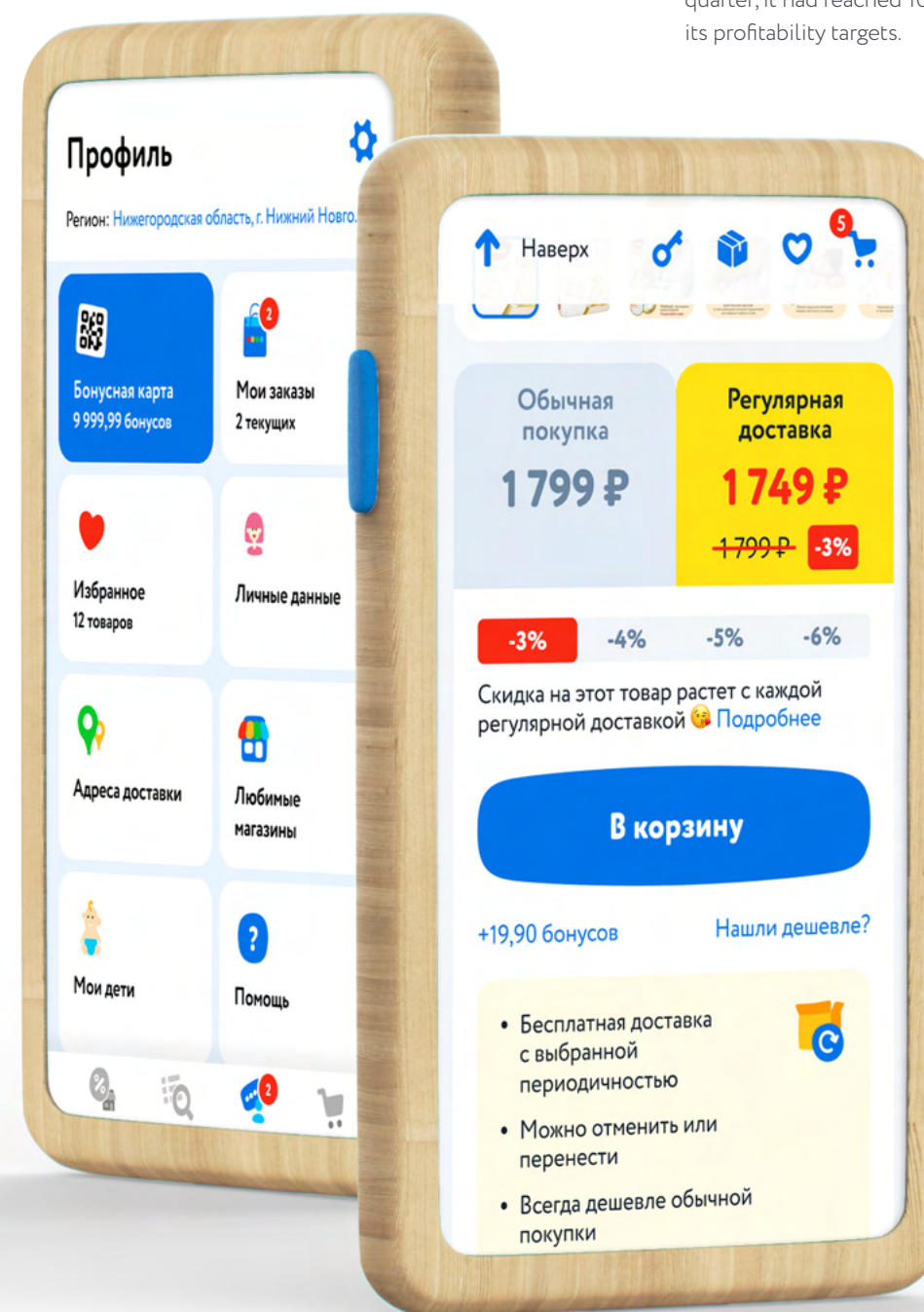
Online sales are growing in popularity every year, and this trend intensified further during the reporting year as a consequence of the pandemic. We successfully managed increased demand through our omnichannel offering and strengthened our position as one of the largest and fastest-growing e-commerce retailers of children's goods.

2.4x

As of the end of 2020, the online business had increased 2.4x year-on-year to RUB 34.8 bn and accounted for a quarter of the Group's sales.

Last year, we were able to speed up the implementation of all previously planned online initiatives. In October 2020, we announced the full-scale launch of our own marketplace, and have since expanded the platform to all categories, including fashion, toys and games, products for newborns, and pet supplies. The launch of the marketplace was accompanied by the unveiling of a new personal dashboard for our partners to use on the site.

Accordingly, our growth rate was more than three times the market average.



65%

Sales through the mobile app accounted for 65% of online sales in the last week of December.

280 cities

We also launched an express delivery service from Detsky Mir stores. Customers in 280 cities across Russia can now receive orders within two hours of placing them on the website. Some express delivery orders in Moscow are now completed by our own courier service.

OMNICHANNEL INFRASTRUCTURE DEVELOPMENT

The development of our retail chain is a key advantage over pure online retailers. About 80% of online orders are delivered to customers for collection at retail stores, which once again confirms high levels of demand for this format among our customers. We do this quickly and free of charge. Moreover, our store format allows us to deliver even the most sought-after products within just a few hours.

In 2020, we continued the active expansion of the Company's presence in Russia, Kazakhstan, and Belarus. By the end of 2020, we had opened 93 new Detsky Mir stores, 12 new Detmir Pickup stores, and 10 Zoozavr stores.

As part of a pilot project, the new compact Detmir Pickup store format demonstrated its high efficiency, combining a local retail store with a convenient point for collection of online orders.



RESPONSIBLE BUSINESS CONDUCT

Today, Detsky Mir is not only the industry leader but also a systemically important Russian company that performs a socially significant function by providing children with essential, high-quality food and non-food products. The affordability and variety of our assortment of children's goods along with our advanced online sales system, extensive geographical presence and involvement in social programs all make Detsky Mir of utmost importance to the Russian market.

The Company considers protecting the health and safety of its employees and customers, supporting children from underprivileged backgrounds, and accounting for environmental, social, and governance factors in all area of the business to be its undisputed priorities, regardless of the business environment.



HIGH SHAREHOLDER RETURN

Detsky Mir is a unique story in the Russian equity market—one that combines double-digit business growth and high dividends.

Despite the high degree of turbulence in 2020, we continued to pay dividends totaling 100% of RAS net profit. As a result, dividend payments increased by 11.3% year-on-year to RUB 7.8 bn.

45%

I would also note that total shareholder returns in the reporting period totaled 45%.

DIVIDENDS RUB 7.8 bn

↑11.3%



UPDATED MEDIUM-TERM STRATEGY

2x

In the context of new market opportunities and challenges, the management team took the decision to update the Company's medium-term strategy. Above all, Detsky Mir plans to maintain its leading position in the children's goods market and double its total sales over the next four years, driven by the development of our omnichannel business model.

45%

We have set ourselves an ambitious goal: to increase the online channel's share of total sales to 45% in the medium term, driven by the growth of our direct delivery and click-and-collect services.



Our key priority is to provide the greatest customer experience across all sales channels. This includes becoming the leader across all e-commerce products thanks to a highly intuitive and user-friendly mobile app and online store.

2.4 m SKUs

In addition, we plan to significantly expand our assortment to 2.4 m SKUs by further developing our own marketplace.

80%

We want to provide next-day delivery for at least 80% of all online orders by building an efficient regional logistics network.

stores

800

By the end of 2024, we plan to open at least 800 new compact Detmir Pickup stores, which will enable us to simultaneously increase our presence in smaller communities while also improving our online order delivery service.

stores

230

At the same time, we are going to open at least 230 traditional Detsky Mir retail stores and maintain a double-digit adjusted EBITDA margin.

NEW BUSINESS VERTICALS

A successful pilot to enter the fast-growing and fragmented pet supplies market has made it possible for us to actively expand the Zoozavr chain. In the medium term, we plan to open at least 500 retail outlets and increase pet supplies' share of online sales to 30%.

Based on the high traffic coming to our detmir.ru online store, we also see an excellent opportunity to enter the digital services market for children and parents. At the end of the year, we launched a pilot project with our partners, and plan to make a decision concerning the further development of this business line based on its performance during 2021.



FREE FLOAT GROWTH AND THE EMERGENCE OF NEW SHAREHOLDERS

Another important event in 2020 was our successful secondary public offering, as a result of which Detsky Mir became the first Russian company with a 100% free float. At the end of December, Altus Capital acquired a 25% stake in the

Company at a significant premium to the market, which confirmed the high level of investor interest and confidence in the Group. At the same time, Detsky Mir retains a very high free float. We are encouraged

by the significant interest that the market continues to show in our business and intend to grow and develop further for the benefit of our shareholders.

Maria Davydova

CEO of Detsky Mir

OUR MARKETS

Detsky Mir operates in the children's goods market in Russia, Kazakhstan, and Belarus. At the end of 2020, the Group occupied 22% of the Russian children's goods market (including all of the country's cities) in terms of sales.

In Q4 2018, the Company entered the Russian pet supplies market by opening four pilot stores. In 2019–2020, the Company continued to develop this pilot project by opening an additional 16 new outlets under the Zoozavr name. In the medium term, it plans to open at least 500 new stores.

22%

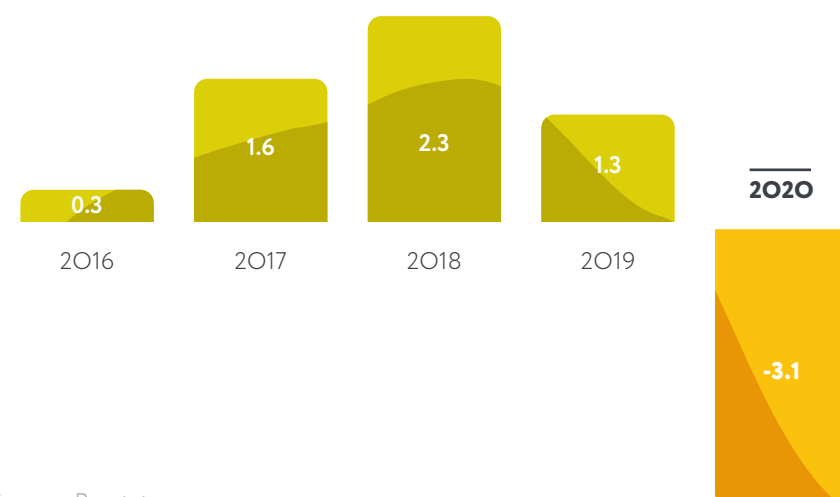
Detsky Mir market share in Russian children's goods

RUSSIAN MACROECONOMIC SITUATION

USD 1.7 tn

Russia's real GDP growth year-on-year, %

Russia's GDP in 2020, making it the 11th-largest economy in the world and the fifth-largest in Europe.



Source: Rosstat

From 2016 to 2019, Russia's average annual real GDP growth rate was 1.9%. In 2020, due to the introduction of COVID-19 restrictions and the decline in global energy demand, real GDP fell by 3.1%. This was the most significant drop in the Russian economy since 2009, when GDP fell by 7.8%.

The Federal State Statistics Service (Rosstat) has identified the following factors responsible for the decline in GDP: a significant decrease in the value added in the service industry, with hotels and restaurants down 24.1%, cultural and sports establishments down 11.4%, and transport businesses down 10.3%.

In addition, an unfavorable export environment and lower prices for energy resources led to a decrease in

the index of the physical volume of value added in the mineral extraction industry (-10.2%).

Beyond that, household end use expenditures decreased by 8.6% due to a drop in consumer demand, primarily for non-food goods and services.

In early 2021, the IMF improved its assessment of the Russian economy's performance. By the end of 2021, the IMF expects Russian economic growth of 3%, instead of the 2.8% indicated in the forecast from October 2020. The world economy, according to the IMF, will grow by 5.5% in 2021.

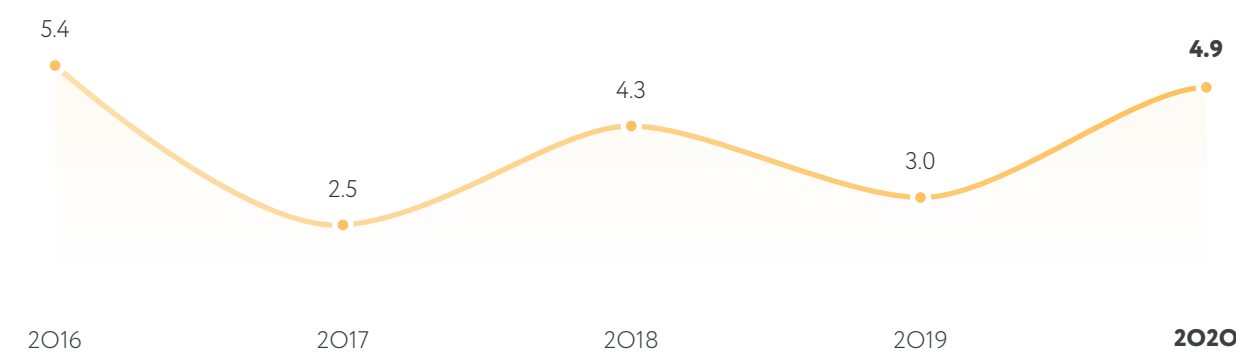
As noted in the IMF review, the revised GDP forecast reflects expectations of an increase in

economic activity coinciding with the start of vaccinations and additional government support. At the same time, the IMF notes persisting uncertainty due to the second wave of the pandemic at the end of 2020, as well as the emergence of new COVID-19 strains.

According to the Federal State Statistics Service, 2020's 4.9% annual inflation rate was the highest since 2016. Inflation was most acutely seen among food products, which rose in price by 6.7% over the reporting year. Prices for non-food products grew by 4.8% year-on-year.

The Bank of Russia (December 2020) predicts an inflation rate of 3.5%–4.0% in 2021, with this continuing to remain close to the 4% target in the future.

Consumer Price Index (inflation) in Russia, %



Source: Rosstat

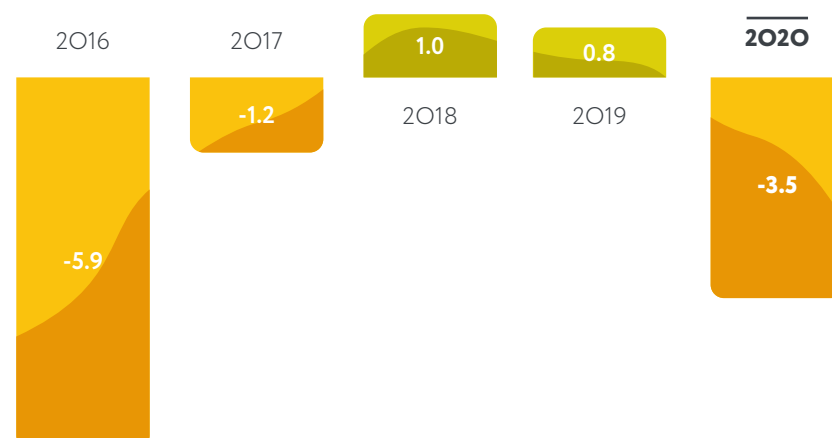
Russians' real disposable incomes decreased again in 2020 after two years of growth. According to Rosstat, in Q4 2020 disposable incomes decreased by 1.7% on an annualized basis, and over the year as a whole they fell by 3.5%, the largest decline since 2016 (-5.9%).

At the same time, Russian economic stagnation has led consumers to demonstrate continued prudence when purchasing essential goods. As a result, consumers are looking to eliminate impulse purchases and cut costs by lowering the volume of purchases or by switching to less expensive products, which, in turn, is lowering average tickets across the retail sector.

Detsky Mir has adapted its assortment and pricing policy to mitigate the negative impact of these macroeconomic factors on the Company's financial performance. Sales growth across the Detsky Mir chain was supported by its best-in-class price offering, especially in traffic-generating categories like Products for Newborns.



Real disposable income growth in Russia, %



Source: Rosstat

RUSSIAN DEMOGRAPHICS

According to Rosstat, Russia's permanent population declined by more than 500,000 in 2020, the most since 2005. As of 1 January 2021, Russia's population was 146.2 m. On 1 January 2020, it was 146.7 m.

In contrast, 2019 saw a decline of only 35,600. The sharp demographic downturn in 2020 was caused by three factors: a decrease in the birth rate, a sharp decline in immigration, and an accelerated natural decline due to the COVID-19 pandemic.

- The number of births was down 3.3% year-on-year in 2020
- Natural loss doubled to 688,000 people
- Due to border closures, migration inflows totaled only 86,000 people, compared with 223,000 a year earlier

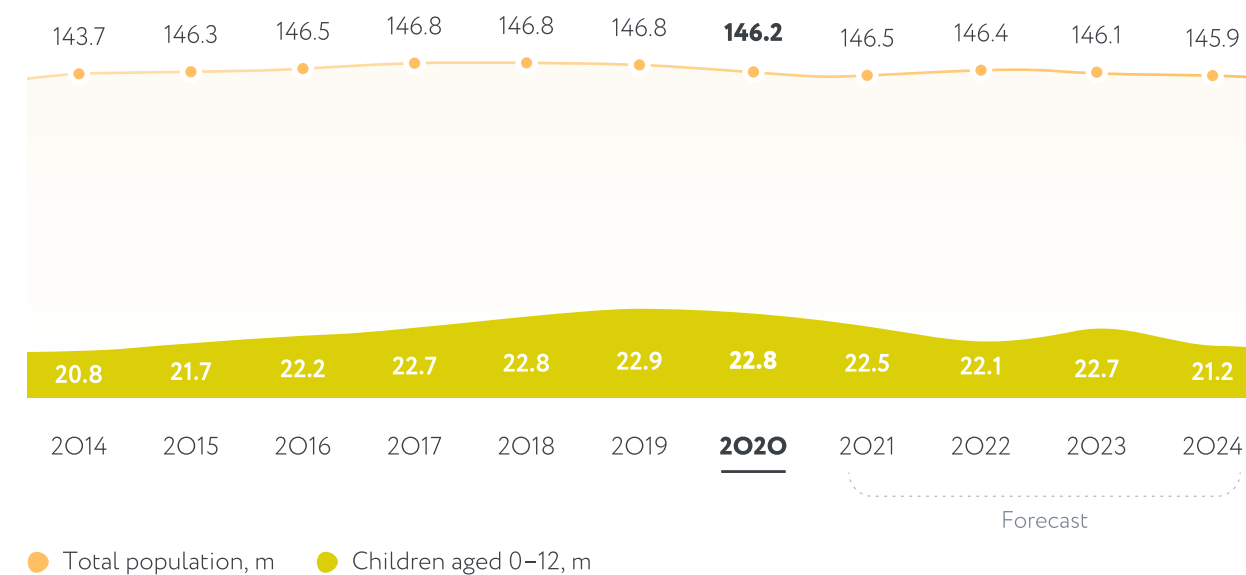
A similar decline was last seen in 2005, when the Russian population decreased by 565,000. A baby boom between 2009 and 2017 led to a natural increase, after which the decline resumed.

Detsky Mir's target audience are children aged 0 to 12 years

At the end of 2020, there were 22.8 m children aged 0 to 12 years (Detsky Mir's target audience) in Russia. This figure is the highest among European countries, and children aged 0 to 12 account for approximately 16% of Russia's total population, comparable to many European countries.

Population of children aged 0 to 12 in Russia

As of 31 December



● Total population, m ● Children aged 0-12, m

Source: Rosstat

The average annual population growth rate from 2016 to 2020 was 0.1%. Over the next four years, the population of children in Russia is expected to decline at an average rate of 1.8% per year, reaching 21.2 m by the end of 2024. The post-2020 decline will be the result of the low birth rates seen since 2017. In 2020, the fertility rate fell by 3.0 to 9.8, down from 10.1 in 2019. One factor influencing

the decline in the birth rate during the reporting period was the demographic crisis of the early 1990s. The economic downturn observed in Russia over the past few years has also had a negative impact on birth rates.

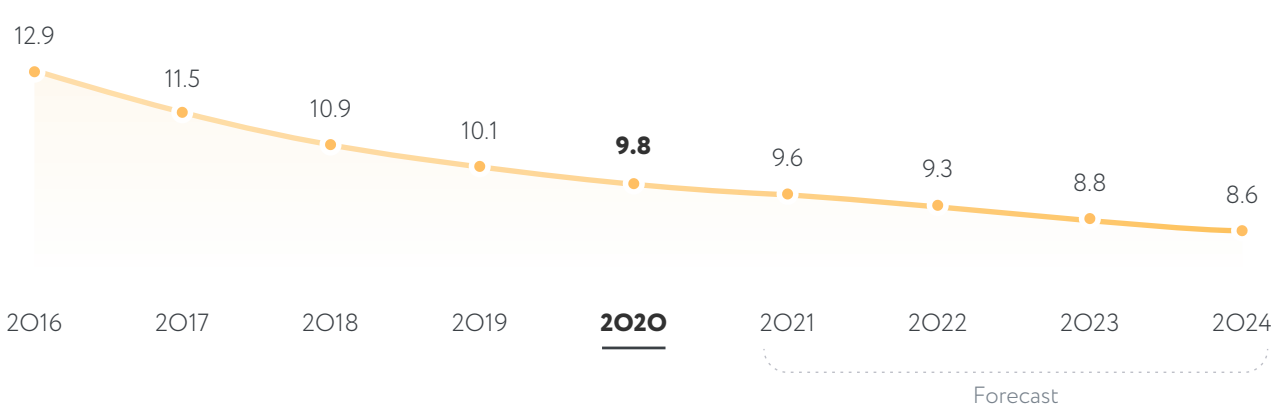
According to Rosstat, the age structure of the population of children in Russia will change

considerably in the near future. The share of children aged 0 to 4 is expected to decrease (from 37% in 2020 to 32% in 2024), while the share of children aged 5 to 9 should grow to become the largest segment (42% in 2024). At the same time, an increase in demand for high-margin goods—toys and clothes—is expected due to the increase in the share of children aged 5–9 and 10–12 years over the next few years.

Population of children aged 0 to 14 in 2019 by country

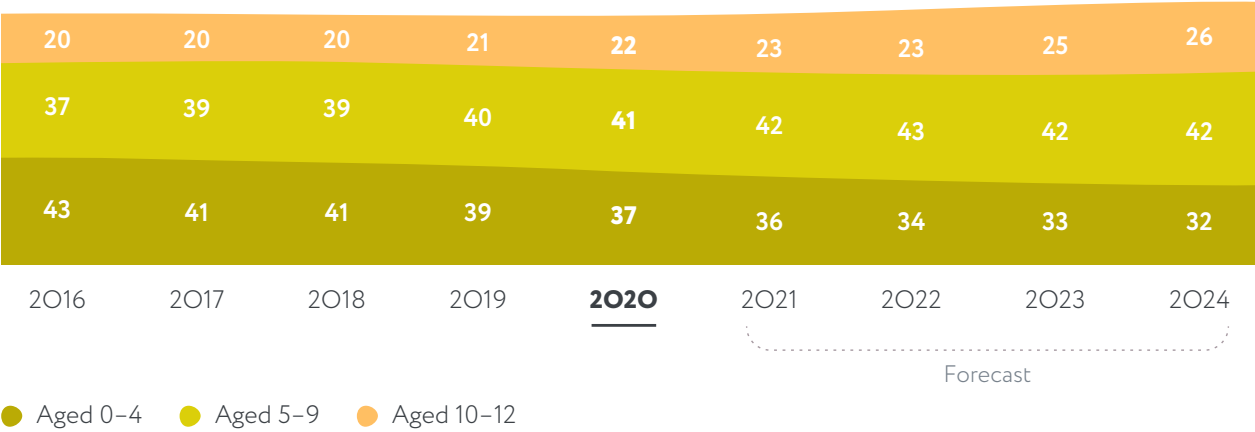
Country	Children, m	Share of children in the total population, %
India	363.7	26.6%
China	249.9	17.8%
USA	60.9	18.5%
Brazil	44.4	21.0%
Russia	26.2	18.6%
Turkey	20.2	24.3%
UK	11.8	17.7%
France	11.9	17.8%
Germany	11.5	13.8%
Poland	5.8	15.2%
Kazakhstan	5.4	28.9%
Belarus	1.6	17.0%

Total birth rate*



Source: Rosstat

Population of children aged 0 to 12 in Russia by age group, %



Source: Rosstat

* Number of births per thousand of the population of all ages.

SUPPORT FOR FAMILIES WITH CHILDREN

RUB 600 bn

In 2020, more than RUB 1.5 tn was allocated to support families with children at the national level. Nearly RUB 600 bn of this came in the form of additional family support measures amid the COVID-19 pandemic.

Social support measure	Category of families and citizens	Support provided
Temporary social support measures related to the coronavirus pandemic		
Monthly payment per child up to 3 years of age	Families with children under 3 years of age	RUB 5,000 per month (for 3 months, April–June)
Additional payment for each child under 18	Families with parents registered as unemployed and receiving unemployment benefits	RUB 3,000 per month (for 3 months, April–June)
Lump-sum payments for children between 3 and 16 years of age	All families with children aged 3 to 16	RUB 10,000 payment could be redeemed until 1 October 2020
Lump-sum payment for children under 16	Families with children under 16 years of age	RUB 10,000 payment could be redeemed until 1 October 2020
Lump-sum payment for children under 8	Families with children under 8 years of age	RUB 5,000 payment can be redeemed until 1 April 2021

New permanent social support measures reinforced by the COVID-19 pandemic		
Monthly payment for each child between 3 and 7 years of age	Families with an average per capita income not exceeding the per capita living wage for Q2 of the previous year	Half of the minimum wage per child for Q2 2019, payable from 1 June 2020
Monthly allowance for caring for a child until the age of 18 months	a) Nonworking citizens, including students, b) women on maternity leave	The minimum allowance has been doubled to RUB 6,752 per month

Another important demographic initiative is the maternity capital program, which was significantly expanded in 2020.

FIRST CHILD MATERNITY CAPITAL

All families where the first child was born or adopted on or after 1 January 2020 were granted the right to maternity capital.

INCREASE IN MATERNITY CAPITAL

Until 2019, the maternity capital entitlement stood at RUB 453,026. In 2020, this amount was raised to RUB 466,617 (for the birth of a first child) and RUB 616,617 (for the birth of a second and subsequent children). In 2021, the amount of maternity capital is planned to increase by 3.7%.

EXTENSION OF THE MATERNITY CAPITAL PROGRAM

The maternity capital program has been extended until the end of 2026. All families with children born or adopted from 2020 to 2026 will be entitled to state support in the form of maternity capital.

USE OF MATERNITY CAPITAL

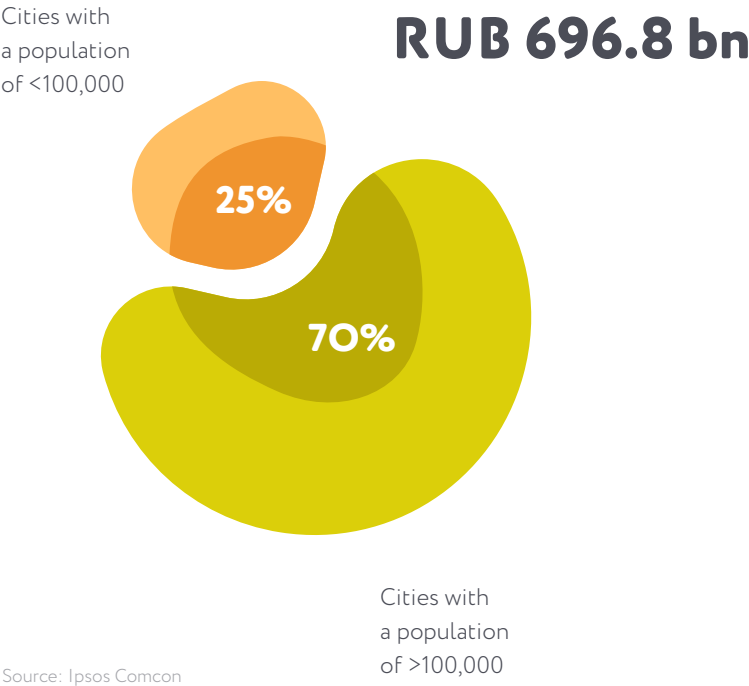
- monthly payment for low-income families with a second child from 1 January 2018
- improving living conditions
- payment for children’s education
- mother’s pension savings
- payment for goods and services essential to children with disabilities



CHILDREN’S GOODS MARKET IN RUSSIA

Russian children’s goods market in 2020

In 2020, Ipsos Comcon expanded its assessment of the state of the children’s goods market at the end of 2019–2020, adding to its calculation all towns with a population of less than 100,000. As a result, the size of the children’s goods market in Russia in 2020 amounted to RUB 696.8 bn (previous estimate RUB 526.0 bn), while in 2019 it was RUB 705.6 bn (previous estimate RUB 526.5 bn).



In the reporting year, the sales volume of children’s goods in Russia decreased by 1.2%. The following positive and negative factors influenced sales in 2020.

- Positive factors:**

 - ↑ Growth in the share of online sales
 - ↑ Demand for fast and inexpensive home delivery
 - ↑ Demand for greater convenience of online shopping (UX)
 - ↑ Demand for personalization
 - ↑ Growth in the average ticket size/ hedge buying
 - ↑ Increased demand for neighborhood format
 - ↑ Expansion of programs to support families with children
- Negative factors:**

 - ↓ Falling birth rate
 - ↓ Increased decline in consumer incomes
 - ↓ RUB depreciation
 - ↓ Increased saving rates and preference for less expensive products
 - ↓ Disconnect in incomes between Moscow and the regions
 - ↓ Reduced traffic in stores
 - ↓ Concerns over safety and social distancing

Ipsos Comcon expects the market to slowly recover in the medium term, after falling in 2020 due to the coronavirus crisis, with near-zero growth rates of +0.6% forecast for 2021 and +0.7% for 2022.

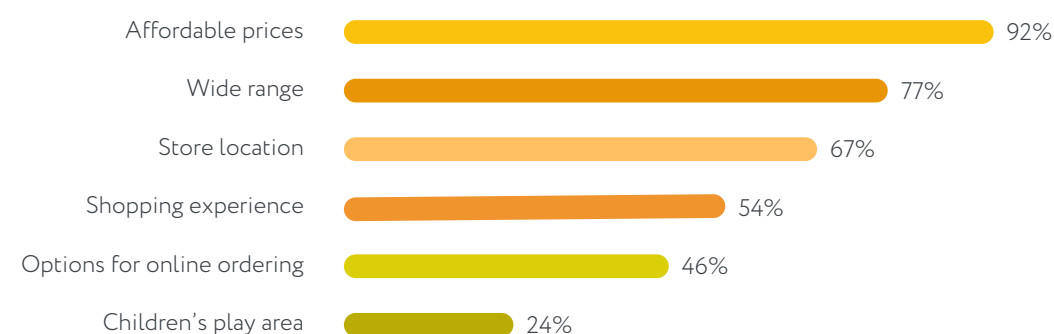
Children’s goods market in Russia by category, RUB bn*

	705.6	696.8	701.1	705.8
	64.8	65.0	65.6	66.9
	212.6	213.0	218.4	224.9
	214.1	208.3	204.8	198.9
	91.7	92.6	93.0	94.0
	122.4	117.9	119.3	121.1
2019	<u>2020</u>		2021	2022
			Forecast	
● Footwear	● Apparel	● Products for Newborns	● Stationery	● Toys

Source: Ipsos Comcon

* Ipsos Comcon estimates the size of the Russian children’s market in terms of retail sales (including 10% VAT) based on all cities.

What do customers consider when choosing where to shop for children's goods?



Source: Ipsos Comcon

Fashion is traditionally the largest category in the children's goods market. In 2020, the aggregate share of goods in this category increased by 0.6 p.p. year-on-year to 39.9%. Toys decreased by 0.4% year-on-year to 16.9% due to a decrease in consumer purchasing power. In line with the negative birth rate over the past few years, the Products for Newborns category also saw a decrease in sales growth rates, with its share decreasing by 0.4% year-on-year to 29.9%.

Ipsos Comcon predicts that Fashion will remain the fastest-growing category over the next few years. In 2022, its share is forecast to increase 2 p.p. on 2020 to 41.4%.

Price is the most important factor for consumers when making a purchase. Consumer behavior is shifting toward less expensive

products, which is leading to a flow of consumer demand from the premium and mid-price segments to the mass-market and lower price segments. Russian-made private label goods are gaining considerable popularity, as their prices are significantly lower than similar foreign or branded products. Detsky Mir is actively developing its own private labels (for more details, see the [Assortment and Supply Chain](#) section).

As of the end of 2020, there were two main sales channels in the children's goods market: specialized retail chains (Detsky Mir and its closest competitors) and food retail chains. The online channel remains the only segment in the children's goods market that is experiencing growth. Other retail (open markets, kiosks, traditional grocery stores and other similar outlets) is losing its share each year, given its status

as a target of consolidation for large market retailers.

Over the past few years, several specialized retailers have left the market. This was especially prevalent in the reporting year due to the COVID-19 pandemic. The remaining national and regional chains have closed a significant number of their stores, demonstrating a significant decrease in overall sales. Nevertheless, specialized retail maintains parity in terms of market share with food retail, which is largely due to Detsky Mir's active growth.

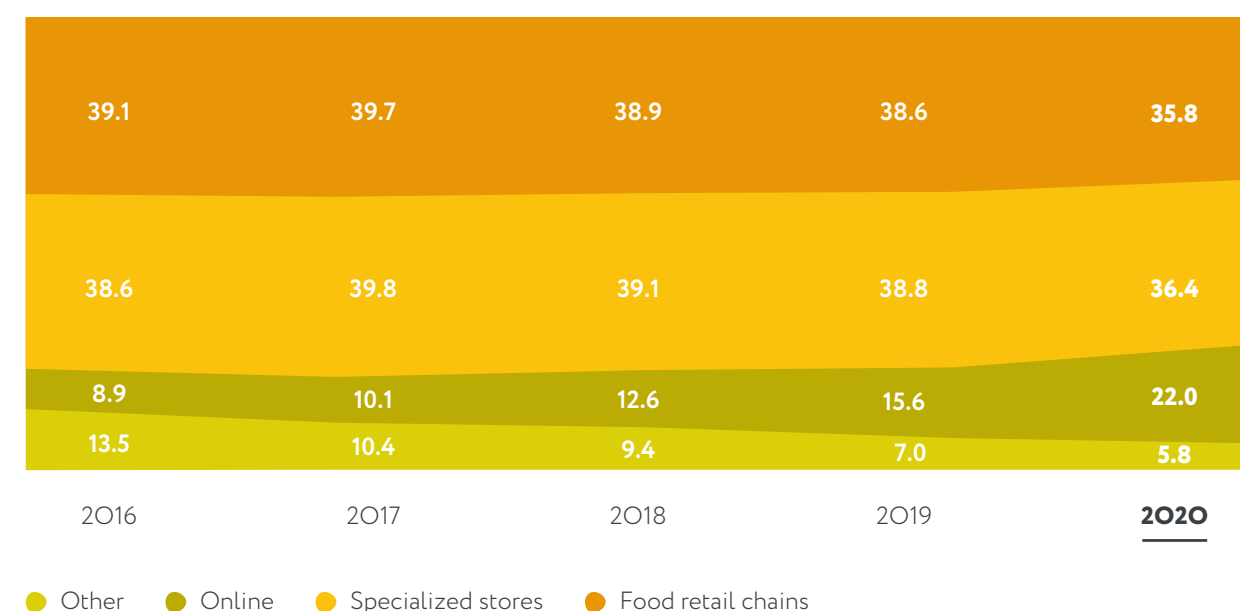
In 2020, the shares of specialized and food retail chains decreased by 0.3 p.p. year-on-year to 38.9% and 38.6%, respectively.

Online sales are growing in popularity every year due to the wide assortment and attractive prices available, as well as the convenience of selecting products and reading reviews. In 2020, buyers' transition to the online segment accelerated following the introduction of restrictive measures in relation to the COVID-19 pandemic. As a result, the share of online sales grew by 6.4 p.p. year-on-year to 22.0%, while the sales growth rate in rubles stood at 39.2%.

Sales of children's products in Russia vary by region and income level. According to Ipsos Comcon, the highest per capita spending on children's products in 2020 was recorded in Moscow (RUB 10,600 vs. RUB 6,400 in Russia as a whole). Approximately one-fifth (19%) of Russians' spending on children's products takes place in Moscow.

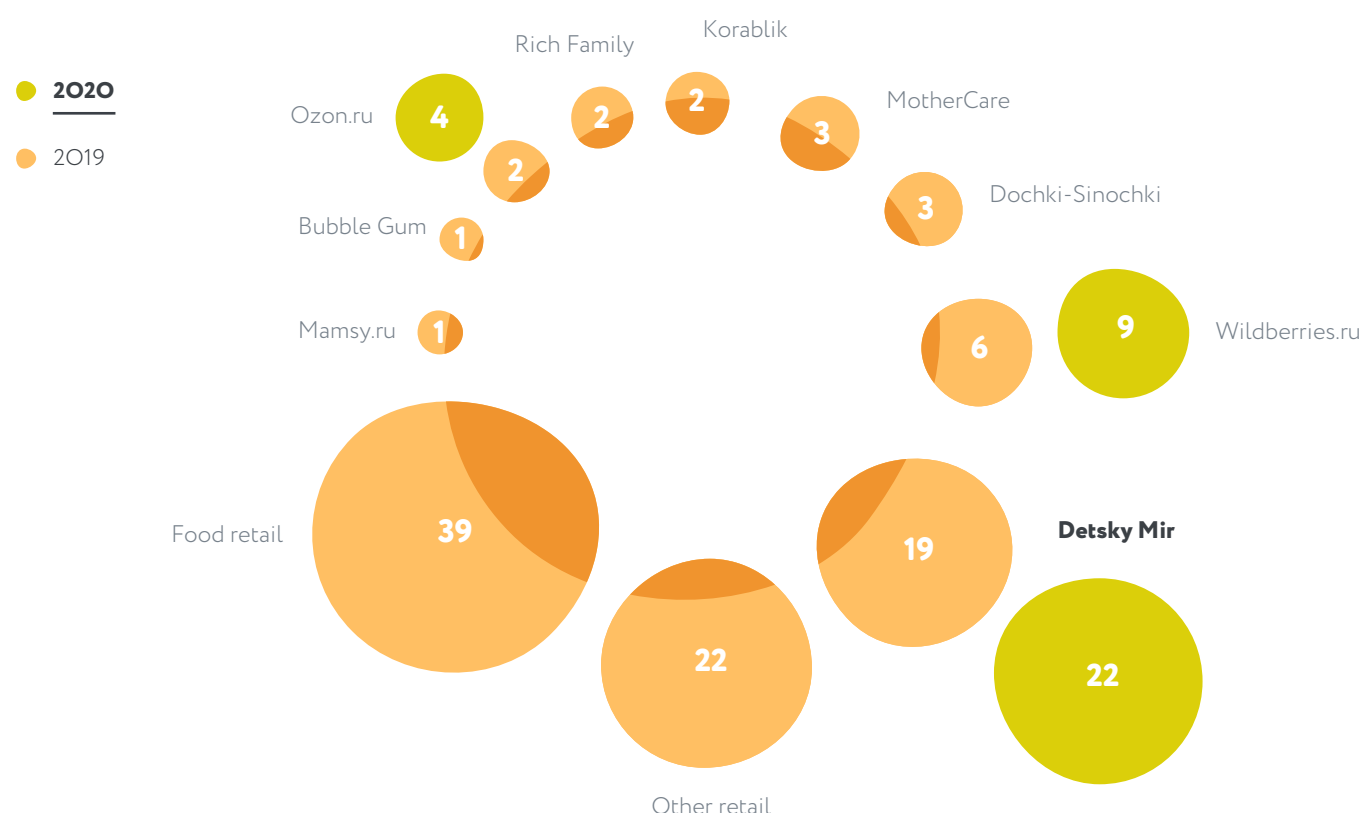


Children's goods market by sales channel, %



Source: Ipsos Comcon

Key children's goods retailers in Russia, %



At the end of 2020, the Company's share in the Russian children's goods market by revenue was 22% (19% in 2019). Detsky Mir is the absolute leader in the children's goods market. Based on its performance in 2020, it has a 2.5x larger share than its closest competitor.

The Company's share of the children's goods market among specialized retailers increased from 50.2% in 2019 to 59.8% in 2020 due to the active rollout of the omnichannel platform and efforts to attract consumer traffic from competing retail chains.

The main drivers of the Company's growing market share in 2020 were the Toys and Products for Newborns categories, which increased their market shares from 39.5% to 43.6% and from 22.1% to 25.0%, respectively. Detsky Mir's market share in 2020 increased across all categories of children's goods.

The online children's goods market is highly fragmented and, along with several large retailers, includes a sizeable number of small stores that are exclusively present online. By the end of 2020, detmir.ru had become one of the largest online retailers, ahead of wildberries.ru and ozon.ru in terms of digital sales growth.

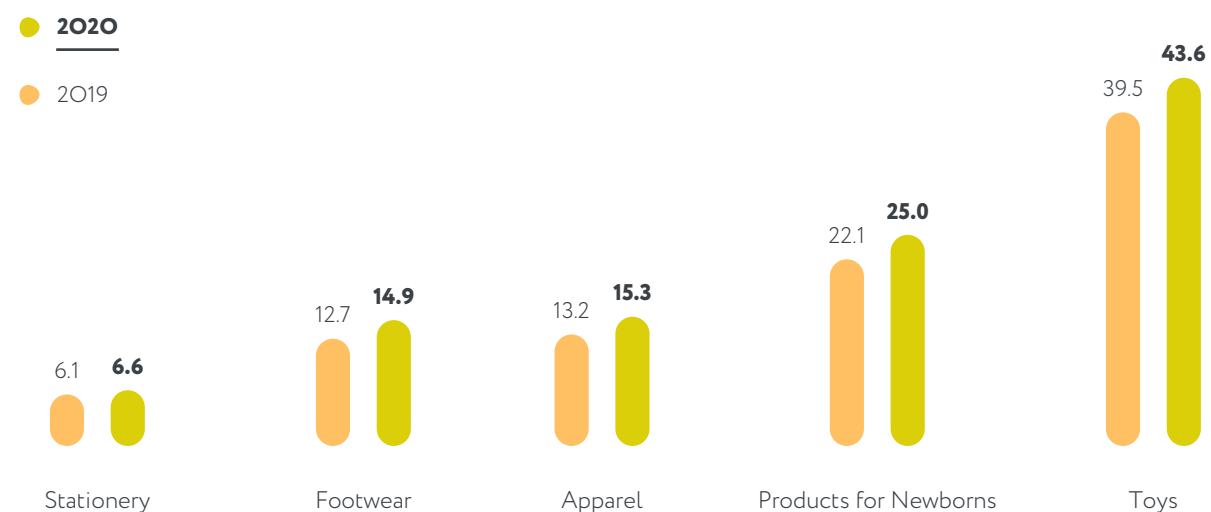
Russia's retail market is going through the same cycle as markets in developed countries: following a period of intensive growth, the market is beginning to consolidate. Detsky Mir sees its role as the key market consolidator and is positive about its organic growth prospects in the current economic environment of weaker competition and inefficient retailers exiting the market.

Sales of key retailers in the online children's goods market in 2019–2020*

			2019		2020	
			RUB bn	Change, y-o-y	RUB bn	Change, y-o-y
WB	1	wildberries.ru	42.0	+81%	71.0	+70%
дет мир	2	detmir.ru	16.0	+65%	38.4	+140%
ozon	3	ozon.ru	12.4	+96%	27.3	+120%
mytoys	4	mytoys.ru	3.4	+19%	n/a	n/a
dochkisinochki	5	dochkisinochki.ru	3.0	+30%	n/a	n/a
mamsy	6	mamsy.ru	3.8	-14%	n/a	n/a
akusherstvo	7	akusherstvo.ru	2.4	-13%	n/a	n/a

* Sales are shown inclusive of VAT.

Detsky Mir Group's market share by children's product category, %



Source: Ipsos Comcon



OPPORTUNITIES IN KAZAKHSTAN

As in Russia, Kazakhstan's economy was also affected by restrictions imposed to combat the COVID-19 pandemic and the impact of lower hydrocarbon prices.

According to Kazakhstan's Ministry of National Economy, the country's real GDP fell by 2.6% in 2020. For the service sector, the decline was 5.6%, albeit with a recovery by the end of the year caused by the easing of quarantine measures in the second half of the year (resumption of flights, removal of restrictions on catering facilities, etc.).

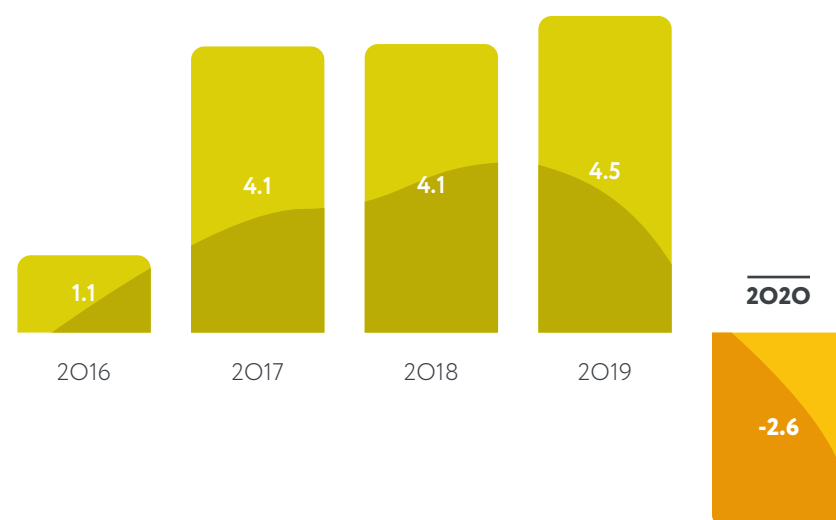
The IMF predicts that Kazakhstan's economy will recover in 2021 and grow by 3.3%, taking into account 2020's low base and the lifting of quarantine restrictions.

Despite the high increase in the mortality rate due to COVID-19, the country's population increased by 1.3% to 18.9 m people during 2020. The birth rate increased by 2.7%. A record number of children were born in Kazakhstan: 425,600 were registered, which is 22,600, or 5.6%, more than in 2019. The birth rate was 22.4 births per 1,000 people.

The growing share of children in Kazakhstan's population has a beneficial effect on the children's goods market. The Company's data show that the volume of the children's goods market in 2020 was RUB 100–120 bn, approximately seven times smaller than the Russian market. At the same time, the market has a large share of unorganized retail, which creates opportunities for early consolidation. As of the end of 2020, 41 Detsky Mir stores were operating in Kazakhstan.

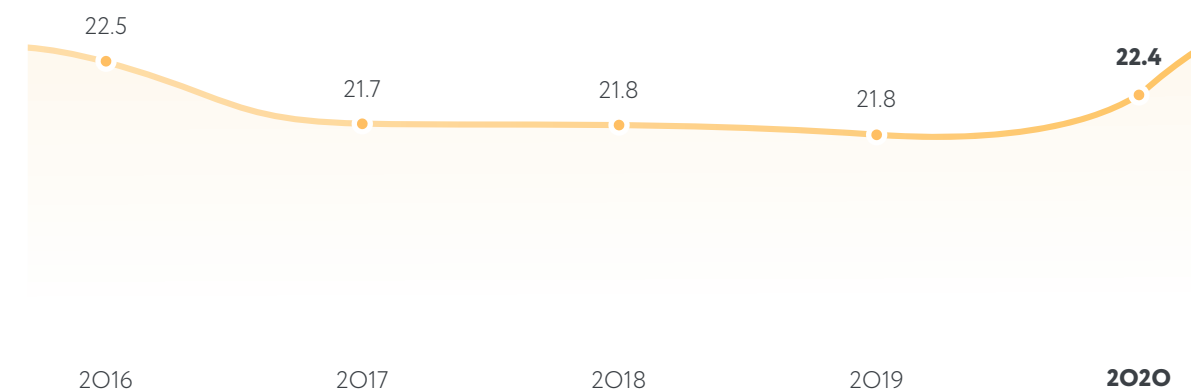


Kazakhstan's real GDP growth year-on-year, %



Source: National Bank of Kazakhstan

Kazakhstan's demographics (birth rate per 1,000 people)



Kazakhstan's competitive landscape (number of stores, 2020)

Detsky Mir	41	Magnums	64	Erkema	7
Marwin	32	Ramstore (including Ramstore Express)	17	Kari Kids	12
Anvar	36				

Kazakhstan maintains close political and economic ties with Russia. Both countries are members of the Commonwealth of Independent States and the Eurasian Economic

Union, and are also part of a single customs space with free movement of goods, services, capital, and labor. Kazakhstan is also developing relations with China, which is one of its largest trading partners.



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 is located in close geographic proximity and has good transport links not only with the European part of Russia but also with the countries of Central Europe. Belarus's economy is closely connected with and highly dependent on Russia, which is the

main market for Belarusian industrial and agricultural products. Belarus also serves as an important transit and processing center for energy imports from Russia.

At the end of 2020, the population of Belarus was 9,418,000 people. In 2020, the country's population increased by approximately 47,800 people, and in 2019 the population decline was 14,700 people.

The decline in population accelerated mainly due to an increase in mortality, a fall in the birth rate, and an additional migration outflow.

Experts estimate that the size of the children's goods market for 2020 is about RUB 45 bn, 15 times smaller than the Russian market. With a large number of small and medium-sized retailers, the Belarusian children's goods market is fragmented and at the consolidation stage.



Belarus's real GDP growth year-on-year, %



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

Belarus's competitive landscape (number of stores, 2020)

Buslik	45	Kari Kids	15	Mothercare	13
Fantastic	32	Waikiki	16	Orange Camel	7
Shagovita	28	Detmir	13	Aleshka	5

Source: Detsky Mir

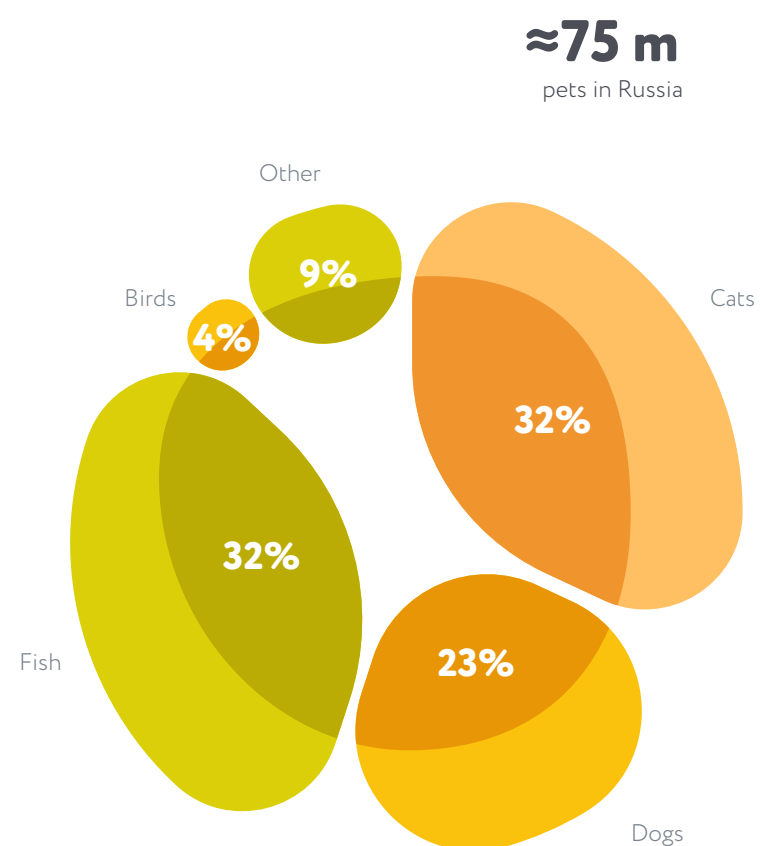


PET SUPPLIES MARKET IN RUSSIA

Pet ownership in Russia in 2019

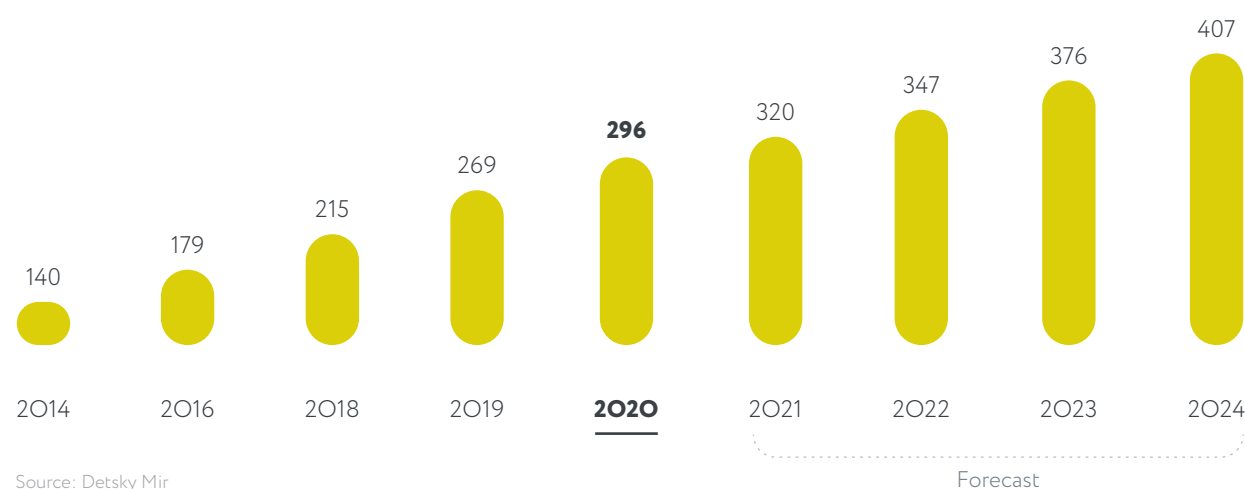
The Russian pet supplies market is one of the largest globally by number of pets (c. 75 m), with cats and dogs accounting for approximately 50% of the total. Between 2013 and 2020, the number of cats and dogs increased at an average rate of 2% per year.

The Company estimates that the market for pet supplies in 2020 stood at RUB 296 bn. Pet food accounts for 79% of this market. This share is experiencing constant growth due to the increase in the number of owners switching to canned or dry food. The Russian market for pet supplies grew even during the economic downturn (2013–2020), which indicates a reluctance among owners to reduce spending on their pets.



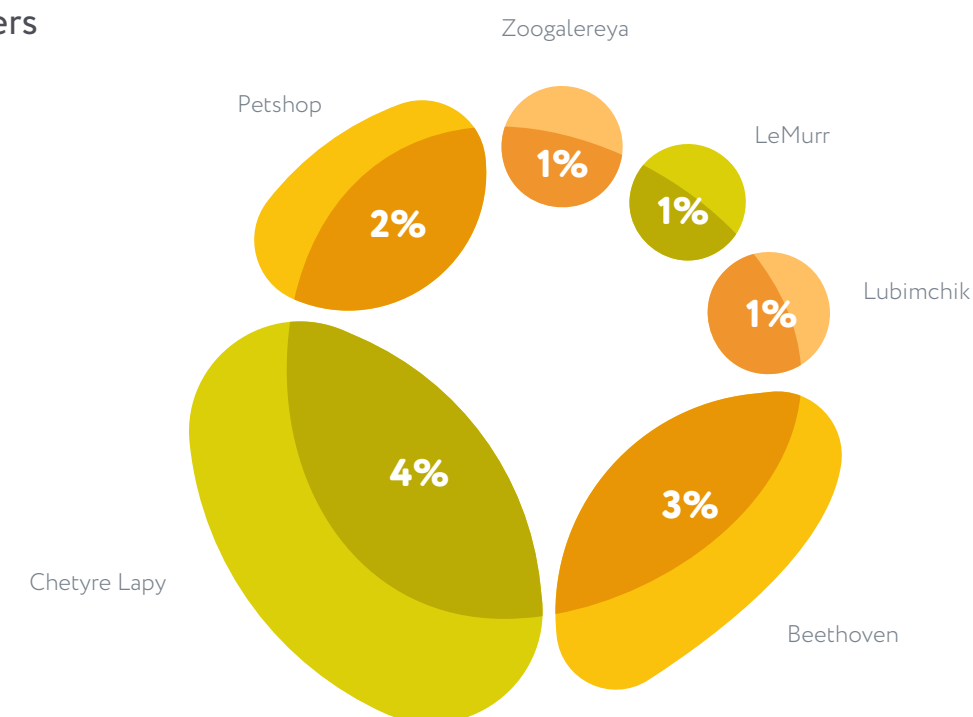
Source: Detsky Mir

Pet supplies market in Russia, RUB bn



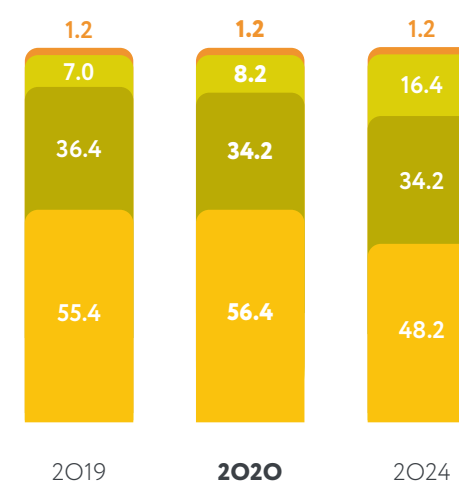
Overall market share of top specialist pet supplies retailers in 2019

Source: Detsky Mir



Pet supplies sales channels, %

- Vet clinics
- Online stores
- Specialized retail
- Food retail



Source: Detsky Mir

The Company estimates that the Russian market for pet supplies will continue growing and that the average annual growth rate for the market as a whole will be 8.3% for 2020–2024.

There are two main sales channels, food retail chains and specialized stores, with market shares in 2020 of 56.4% and 34.2%, respectively. The Company expects that the average annual sales growth rate through specialized stores will be 7% for 2020–2024.

In the reporting year, online shopping was the fastest-growing sales channel (+17% year-on-year). The share of online sales is expected to double from 8.2% in 2020 to 16.4% in 2024.

The Russian pet supplies market is highly fragmented, with the combined share of the five largest market retailers totaling approximately 12%. All specialized retail stores are actively developing their own online platforms, sales channels in large chain stores, and compact points of sale.

STRATEGY FOR RAPID GROWTH AND HIGH DIVIDENDS

In August 2020, against the backdrop of new market opportunities and challenges, Detsky Mir presented the Group's new medium-term strategy to 2024.

The approved strategy identifies two main areas of strategic focus for the medium term.

ENTERING NEW MARKETS WITHIN THE GROUP'S CORE BUSINESS

Launching digital services



Aggressively expanding the Zoozavr chain, including its online platform



STRENGTHENING LEADERSHIP IN THE CHILDREN'S GOODS MARKET



Developing omnichannel sales



Increasing investments in logistics infrastructure



Achieving a first-class customer experience in all sales channels



Developing a marketplace for the entire family



To strengthen our leading position in the children's goods market, we intend to focus on four key areas:



The goal is to almost double the share of the online sales

FROM 25% → **TO 45%**
in 2020 in 2024

As part of the development of new business verticals, the Group plans to:

Actively develop the Zoozavr chain of pet supplies stores based on an omni-channel business model similar to that of Detsky Mir

Launch at least two digital services, along with services in the children's segment, as the first step toward creating an ecosystem and a single platform for buyers and suppliers of goods and services




The Company expects to double total sales in the medium term. The Group will continue improving its operating efficiency in order to maintain its double-digit adjusted EBITDA margin over the medium term (excluding the application of IFRS 16 Leases).

50% of consolidated IFRS net profit (excluding the effect of IFRS 16). At the same time, the ratio of net debt to adjusted EBITDA at the end of the reporting year should not exceed 2x over the entire forecast period.

Historically maintained regular dividend payments equal to 100% of RAS net profit. The Group's dividend policy states that the dividend payout ratio cannot be lower than



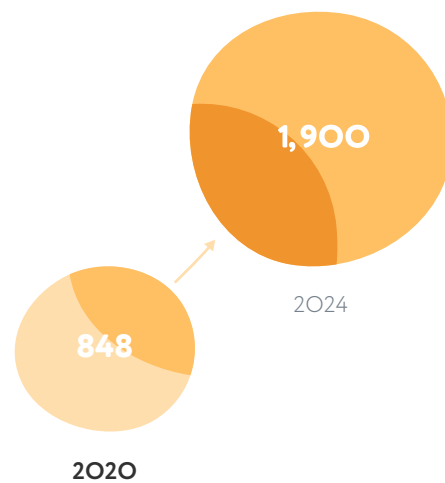
MEDIUM-TERM GUIDANCE

FY 2020 RESULTS				NEW STRATEGY (AUGUST 2020)	2021	2021–2024
NEW STORE OPENINGS	 Detsky Mir	Stores	+71		Stores	Stores
	 Detmir PUP		+12		+70	+230
	 Zoozavr		+10		+100	+800
					+70	+500
REVENUE		11.0% total revenue growth rate	3.9% LFL sales growth rate	25.2% share of online sales	2x total sales	45% share of online sales
ADJUSTED EBITDA MARGIN		11.9% under IFRS (IAS 17)	18.0% under IFRS (IFRS 16)	10% under IFRS (IAS 17)	Double digits under IFRS (IFRS 16)	60% share of private labels and direct imports in sales
		30.8% gross margin rental expenses: 7.5% of revenue payroll expenses: 7.4% of revenue		Further reduction in the rental expenses share of revenue by improving commercial terms. Payroll expenses share of total revenue to remain unchanged.		
LEVERAGE		1.1x net debt to EBITDA	<2.0x — target leverage below 2.0x despite accelerated investment in logistics and IT			
DIVIDENDS		94% of IFRS net income	100% of RAS net income	>50% of IFRS net income (dividend policy)		

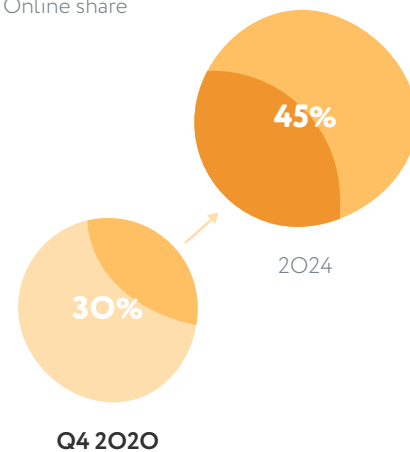
STRENGTHENING LEADERSHIP IN THE CHILDREN'S SEGMENT

Expand omnichannel retail platform

Number of Detsky Mir
stores and Detmir
pickup points

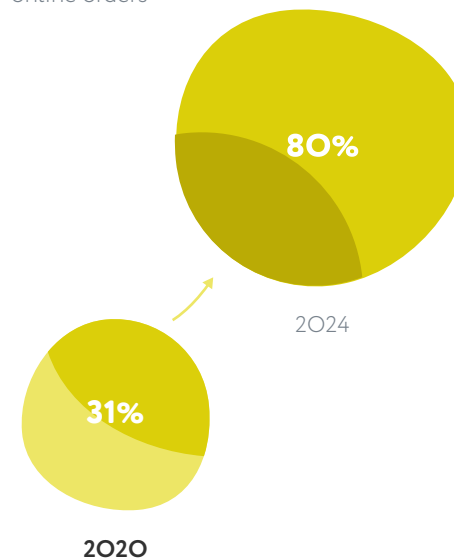


Online share



Accelerated investment in logistics

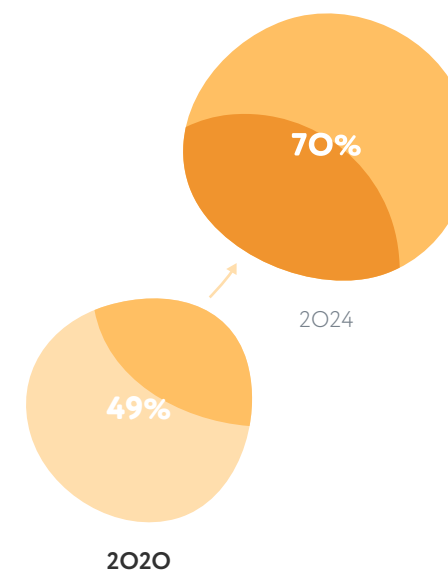
Share of next-day
delivery in total
online orders



- Launch of 2 federal DCs and 3 regional DCs
- Federal DC capex – RUB 2.5 bn
- Regional DC capex – RUB 100 m

Enhancing User and Customer Experience

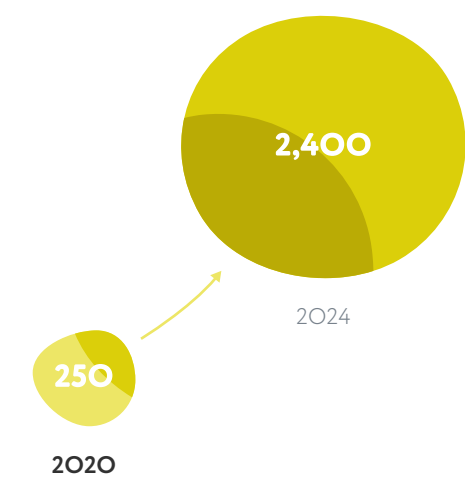
NPS



- Mobile first concept
- Developing best-in-class app
- Store digitalization initiatives that facilitate online sales via offline channel

Marketplace to drive assortment breadth

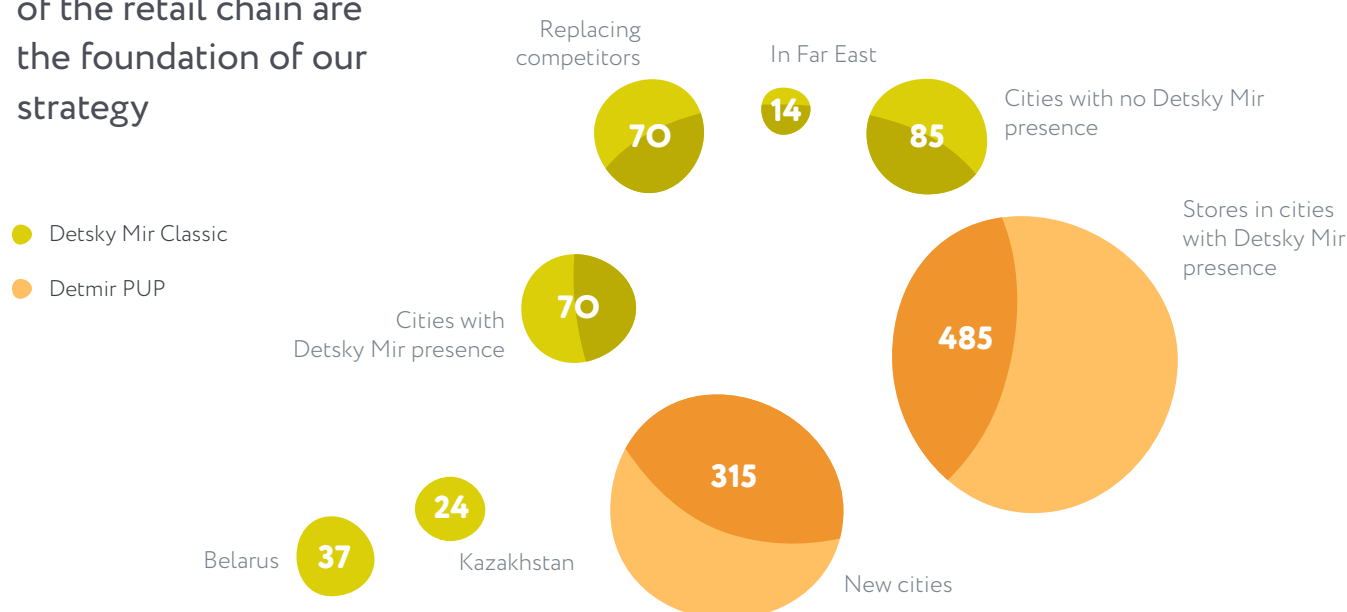
Ths SKUs



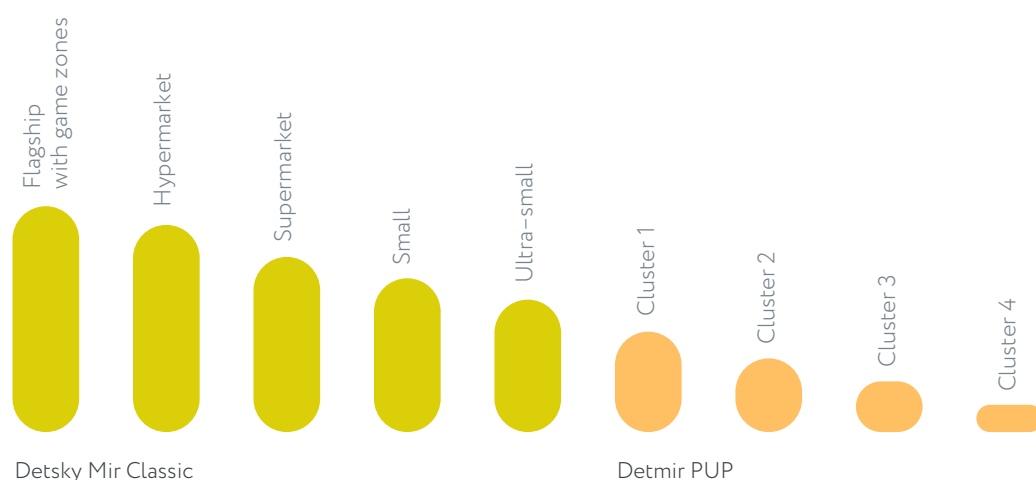
- Leader in assortment breadth
- Development of VAS for merchants—accounting, advertising, and promotion

DEVELOPING THE OMNICHANNEL PLATFORM

Digital transformation and further expansion of the retail chain are the foundation of our strategy



In terms of retail expansion, we are guided by a nested-format strategy



The number of retail outlets in all formats in the children's goods segment could increase

FROM 848 → TO 1,900

in 2020

in 2024

All Detsky Mir chain store formats have an online order pickup point. Prior to the reporting year, the Company operated stores ranging from 400 m² to 2,500 m² in size. In 2020, we launched the new Detmir Pickup compact format as a hybrid between a retail store and a pickup point, with total selling space of about 200 m².

Development of this format will allow us to improve and accelerate online order delivery,

as well as continue consolidating the market by increasing penetration into localities with populations of less than 40,000 where the Group has not previously been present.

The Company plans to open at least 230 stores in the traditional Detsky Mir format in Russia, Kazakhstan, and Belarus by 2023. It also intends to launch 800 Detmir Pickup stores by 2024. As a result, the number of

retail outlets in all formats in the children's goods segment could increase by 2.2x from 848 at the end of 2020 to nearly 1,900 in 2024. This will also provide significant stimulus to our online sales. We expect the share of online sales in the medium term to be at least 45%, versus 25% in 2020.

At the same time, we plan to modernize our existing store formats to capitalize on the rapid growth of online sales, most of which are collected by customers at retail pickup points. We plan to combine all service areas into a single service center for online customers. In addition, we will introduce a separate storage area for online orders and adapt all processes for product assembly and storage, including prepaid products and marketplace goods. For example, employees will have a separate mobile app that will help them gather orders more quickly and efficiently. An additional checkout will also be added for online orders and for processing returns and exchanges, which will reduce the load on the main checkout stations during high season.

The advertising and promotional concept of the modernized stores will create a visual link with the Detsky Mir website and digital services. In addition, electronic kiosks with access to the full Detsky Mir marketplace will be installed in all stores, which will contribute to sales growth.

In order to digitalize the customer experience in 2021, we plan to test the Scan & Buy* and drive-in pickup** services.

* A separate full self-service area for customers offering the ability to pay by registering in the Detsky Mir mobile app

** Delivery of products from the store to the parking lot, car or shopping center entrance.

PRODUCT ASSORTMENT EXPANSION DUE TO MARKETPLACE DEVELOPMENT

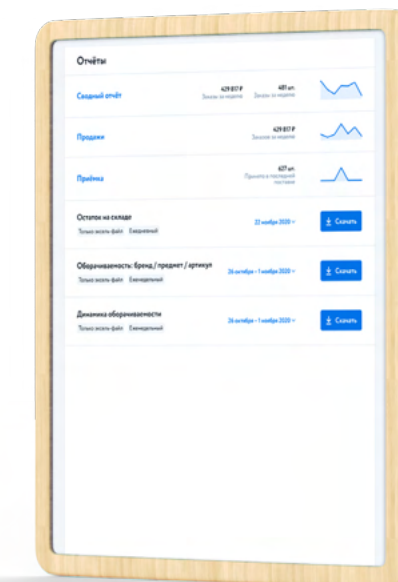


We believe that the omnichannel model and the marketplace model (selling products from third-party sellers or manufacturers on the Company's website for a commission) are highly effective and have significant long-term growth potential. The Company's management has made a strategic decision to develop both marketplace models as an extension of the Group's traditional omnichannel model.



WHY DETSKY MIR'S MARKETPLACE?

Our advantage in marketplace development stems from our use of existing logistics and retail infrastructure, our large volume of free organic traffic in stores, and our low marketing and operating costs. We see all of this as an opportunity to implement a marketplace project that is more profitable than that of our competitors. The first step will focus on all children's categories and pet supplies. In the future, the Group plans to test related categories, going beyond children's products but taking the direction of the brand into account.



A convenient online platform

A convenient online platform for customer interaction and effective inventory management



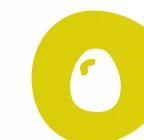
Lower operating costs

Lower operating costs than competitors due to the use of existing infrastructure



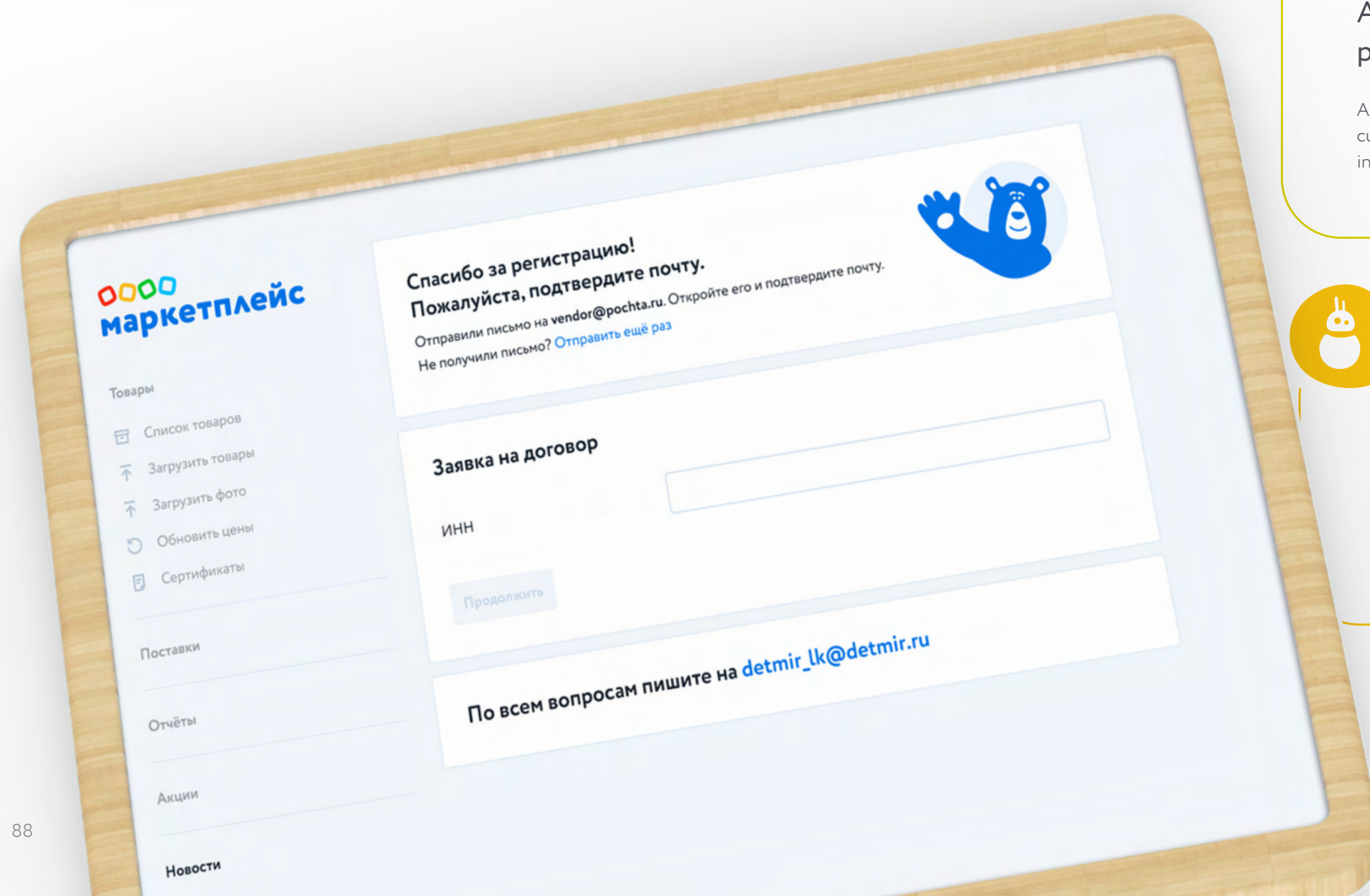
The widest assortment

The widest possible product assortment for our customers



Limited capex

Low volume of additional capital investments and working capital required



SKUs

250,000 →

in 2020

SKUs

2.4 m

in 2024

In November 2019, Detsky Mir announced it was launching a pilot version of a marketplace for the Fashion category. Nearly a year later, the Company expanded its marketplace to all categories, including toys and games, products for newborns and pet supplies. Thanks to the platform's launch, the total assortment on the Company's website increased by 2.5x to 250,000 SKUs during this time. In 2021, the Company plans to approach 1 m SKUs, and in the medium term, it plans to increase the number to 2.4 m. The Company has already launched long-term partnerships with local and foreign brands, including Acoola, Gulliver, Kapika, Kerry and Kotofey.

LONG-TERM VISION



Outstripping main competitors by breadth of product range in corresponding categories



Double-digit share of marketplace sales in total online sales



Competitive commission rate



Expense structure:

- Primarily logistics and payroll expenses
- Low marketing expenses compared with other retailers thanks to free traffic and a recognizable brand



INCREASED INVESTMENT IN LOGISTICS AND IT

Expanding and deepening our competencies in logistics is a key component of the Group's omni-channel strategy. The main principle that we are using to develop the logistics infrastructure is proximity to customers. We strive to provide maximum convenience and speed of delivery and service, using both distribution centers and retail stores.

Our omnichannel infrastructure provides us with an important competitive advantage over other online retailers: orders collected by customers at Detsky Mir stores account for more than 80% of online sales.

As of the end of 2020, Detsky Mir's logistics infrastructure consisted of two federal distribution centers (with capacity to hold up to 2.4 m SKUs) and one regional distribution center (with capacity for up to 200,000 SKUs).



Our commitment to be closer to our customers defines our ambitious goal of direct next-day delivery for at least 80% of all online orders. The Group is moving in this direction by further developing a regional logistics network based on distribution centers with an area of 5,000–10,000 m². This approach makes it possible for us to ensure next-day delivery both to buyers directly and to stores within a radius of 500 km from the distribution center. It also helps us to reduce logistics costs by reducing shipment distances.

We are actively developing an express delivery service from retail stores, giving customers record delivery times.

Express delivery
within a matter
of hours is a unique
advantage

No online retailer in the Russian market is able to provide this level of service throughout the country.

DISTRIBUTION CENTER LOGISTICS DEVELOPMENT PLANS

Between 2021 and 2024, Detsky Mir plans to commission five additional distribution centers: three leased regional centers and two fully owned federal centers.

In Q2 2021, the Company plans to open an 8,800 m² regional distribution center in Kazan using a Russian Post fulfillment center located at Kazan International Airport. The center will serve as a testing ground for the third-party

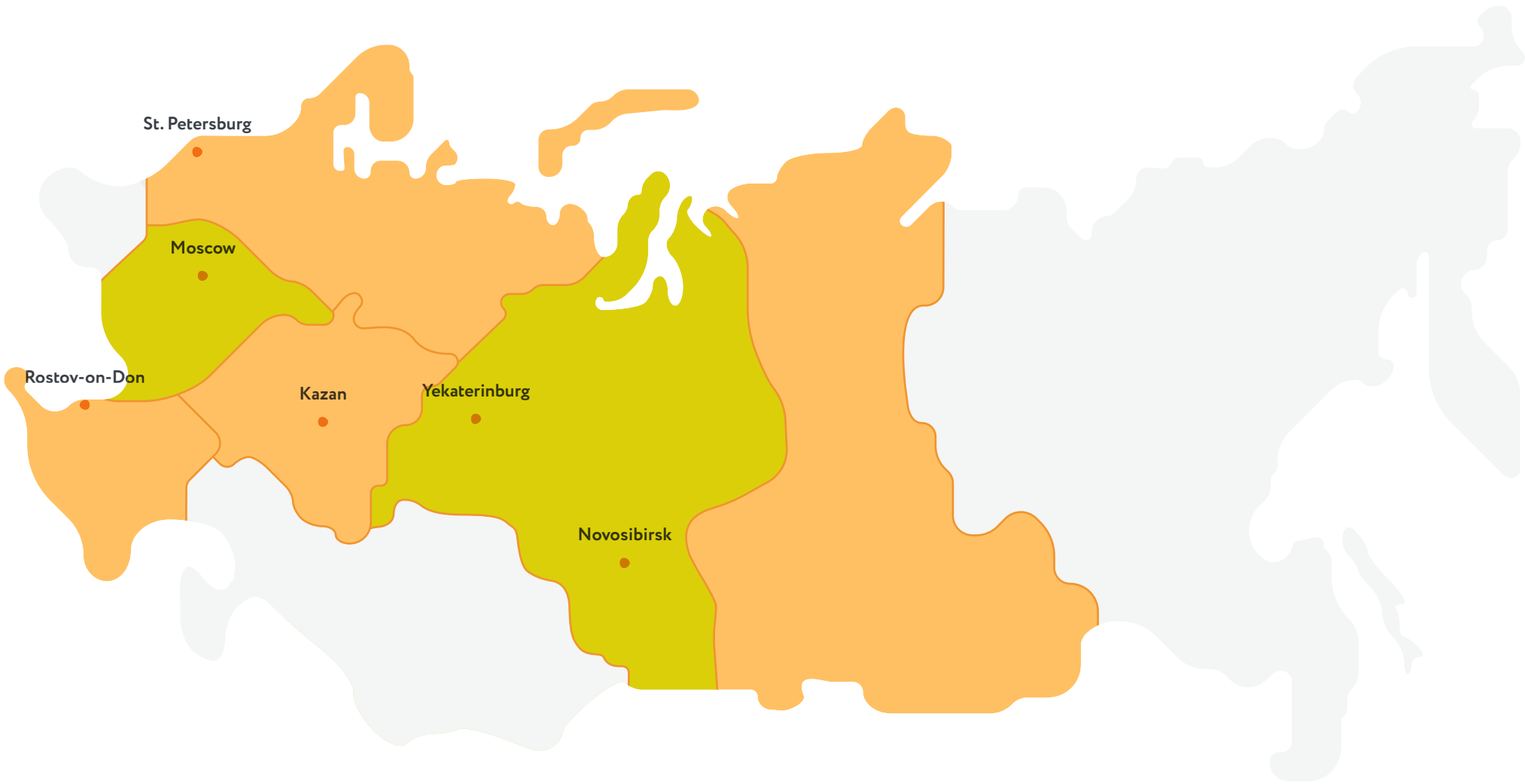
logistics (3PL) model, which will allow the most efficient model to be chosen when opening this type of distribution center in the future. In 2022, two regional distribution centers will be opened in St. Petersburg and Novosibirsk.

The Company also plans to open a third federal distribution center in Yekaterinburg in early 2022. The fourth distribution center will be opened in 2024, with the location to

be chosen in due course based on the needs of the business. As a result, distribution center infrastructure with the ability to provide next-day delivery of online orders may cover 84% of the Russian population by 2023, an increase from 33% at the end of 2020.

	Federal DC	Regional DCs	Last mile through retail chain
Assortment	2.4 m SKUs	200k SKUs	20k–30k SKUs
Number of locations	2 federal DCs +2 DCs in the pipeline	1 regional DC +3 DCs in the pipeline	500 stores
Coverage	95% of the Russia's population	84% of Russia's population within 500 km of a regional DC	30% of Russia's population with 5 km of a store
Speed	1–20 days	Next dayS	ame day ~3 hours

● Federal DCs' coverage ● Regional DCs' coverage

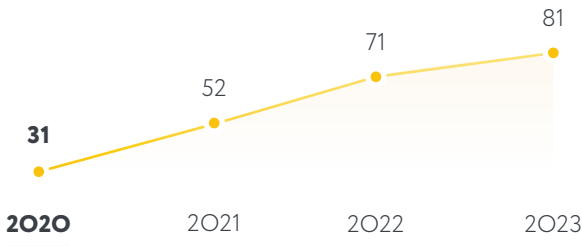


Overview of distribution centers

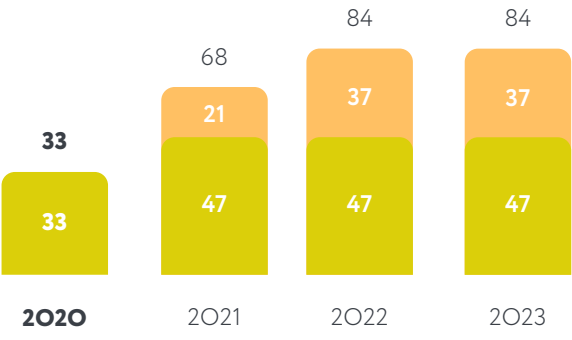
Distribution center	Launch	SKUs, m	Population, m
Moscow (Bekasovo 1 and 2)	Opened	2.4	48.3
Rostov-on-Don	Opened	0.2	15.9
Kazan	H1 2021	0.2	14.9
Yekaterinburg	2022	2.4	20.5
St. Petersburg	2022	0.2	9.5
Novosibirsk	2022	0.2	14.4
Federal DC #4	2024	2.4	TBU
Total			123.5

Growing availability of next-day delivery

Share of next-day delivery
in total revenue, %



Federal and regional DCs' coverage as %
of Russian population



● Federal DCs (2.4 m SKUs) ● Regional DCs (0.2 m SKUs)

IMPROVING THE CUSTOMER AND USER EXPERIENCE

Customer demands are evolving continuously toward greater convenience and comfort. For today's shoppers, it is important not only to get the right product on time and at the best price but also to experience a high level of service. Increasing competition requires that customers find the shopping process in all sales channels to be pleasurable, convenient, and comfortable.

Increased customer satisfaction (the primary indicator of which is the net promoter score [NPS], which reflects the shopper's willingness to recommend a seller and make repeat purchases) is an important aspect of Detsky Mir's strategy.

The Group's updated strategy calls for a goal of increasing NPS across all sales channels from 49% in 2020 to 70% by 2024.

Many factors contribute to NPS, including the convenience of a store's location, the friendliness of staff, assortment range and price, and the accuracy and speed of delivery. However, the usability of our digital storefronts—the online store website and mobile app—also has a significant

impact on the NPS. The new strategy therefore sets a goal to significantly improve the user experience when digitally interacting with the Company.

At the end of 2019, we successfully launched the Detsky Mir: Store for Kids mobile app. In 2020, the app was downloaded more than 6 m times, and also ranked in the top 10 online apps in the Shopping category in the Apple and Google Play app stores.



6.1 m

downloads



10th

App Store rating in the Shopping category



10th

Google Play rating in the Shopping category

MOBILE FIRST CONCEPT

Developing the app has had a significant impact on the nature of our traffic and has become a key priority for the Group.

Whereas in 2018 the share of mobile traffic to the detmir.ru website was 64%, with 36% of traffic coming from desktop computers, by the end of the last week of 2020, 89% of traffic came from mobile devices, with approximately 65% of orders placed on the mobile app.

Improving the mobile app's functionality has become a top priority for the Group. In our updated strategy, we set out to switch to Mobile First development starting in 2021, which calls for the mobile app's functionality to exceed that of the detmir.ru website.

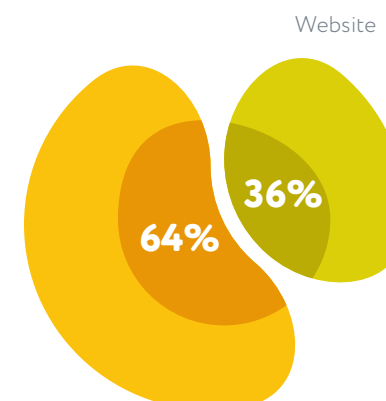
Creating an app with maximum functionality:

- Filter by production process
- New basket
- Favorites
- Apple Pay, Google Pay, Samsung Pay
- New dashboard

The Company regularly benchmarks its mobile app against similar apps on the Russian market. As part of the analysis, we divided these applications into three groups based on the development of functionality. As of the end of 2020, the Detsky Mir app was at the stage of transition from the second group to the first. The Company intends to complete this transition in 2022 and increase the functionality of the mobile app to the highest level among Russian retailers.

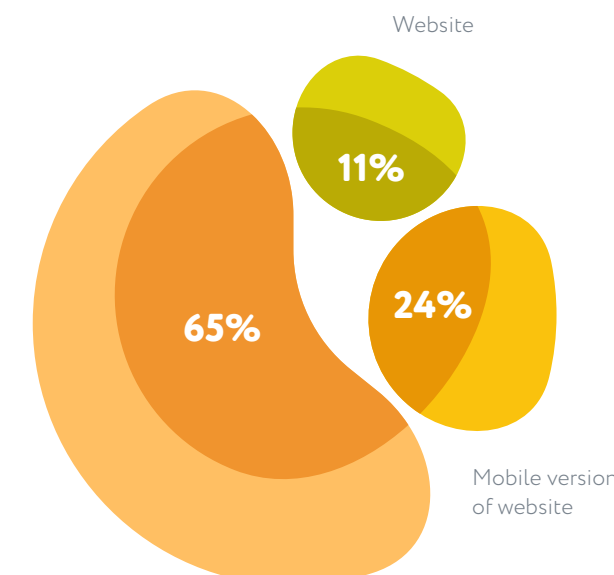
Online sales

2018
51st week



Mobile version of website

2020
52nd week



Mobile app

DEVELOPMENT OF NEW BUSINESS VERTICALS

DIGITAL SERVICES AND ENTERTAINMENT FOR CHILDREN

ZOOZAVR
SPECIALIZED PET
SUPPLIES RETAILER

500 stores

We plan to open 500
Zoozavr stores by 2024 and
increase the share of online
sales to 30%

30%

We plan to launch a
collection of private
labels, targeting a 30%
share in the medium
term



KPIs

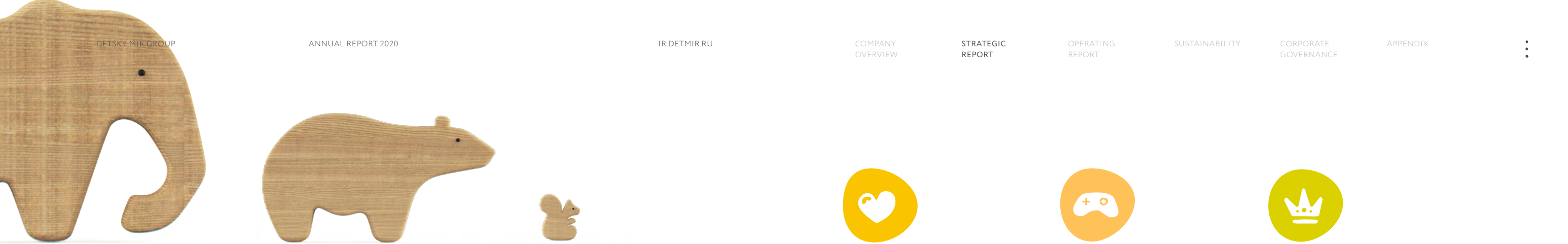
Set core KPIs
and criteria for service
selection

+2

Plan to launch at least two
new digital services for
children in the medium term

∞

Focus on building long-term
customer relationships



EXPANDING THE ZOOZAVR CHAIN

The first project aimed at developing new business verticals and entering new markets was the development of a chain of pet supply stores under the Zoozavr brand using an omnichannel business model.

The Group sees strong opportunities to consolidate the fragmented, extensive, and dynamically growing Russian pet supplies market by working closely together with the Company’s core business. We are confident that Detsky Mir’s high operational efficiency and omni-channel business model will make it possible to increase revenue and market share in this segment quickly and with minimal investment.

The project’s pilot was launched at the end of 2018. Since then, 23 Zoozavr stores have been opened, and various types of locations and formats have been tested. By 2024, the Group plans to open at least 500 Zoozavr outlets, which will allow it to gain a leading position in the pet supplies market. We intend to use the Detsky Mir online platform (website, mobile app, and marketplace) to promote Zoozavr products, while the Group’s logistics infrastructure and stores will serve as pickup points for pet products.

In 2021, the Group intends to open 70 new Zoozavr stores. The online channel will be developed in parallel with retail, with the Group aiming for the online segment to reach a 30% share in total sales. The major project is the launch of private labels in all key categories of pet products by the beginning of 2022. The target share of private labels is 30% of all sales of the Zoozavr chain, which will significantly improve the overall margins of this business.

HIGH-POTENTIAL AREAS FOR THE DEVELOPMENT OF DIGITAL SERVICES FOR THE WHOLE FAMILY

A significant volume of organic traffic, coupled with a wide loyal audience of buyers, opens up significant opportunities for Detsky Mir to develop digital products based on the mobile app and website. Our goal is to cover all the needs of mothers and children through our

app or website, including those outside the Products for Newborns segment. The Company has decided to develop a digital ecosystem that offers buyers a wide range of digital products.



Health
(Remote access to medicine and health services for mothers and children)



Digital content
(Access to online games, apps, cartoons, and books)



Premium subscription
(Providing access to exclusive Detsky Mir products)



Miscellaneous
(Entertainment, cleaning, babysitting, tutors)



Remote learning



Sales of pre-loved products

In each of these areas, we are considering both cooperating with players that already exist in the market and creating projects from scratch. We are confident that integration into the Detsky Mir ecosystem will create a number of important benefits for our partners, customers, and the Group itself:

FOR PARTNERS:

- Free traffic
- Loyal audience

FOR CUSTOMERS:

- A recognizable and reliable brand
- Credible content
- A unique customer experience across all platforms

FOR DETSKY MIR:

- An additional source of traffic and audience monetization
- Business diversification
- Ability to build long-term relationships with customers

At the end of 2020, we selected our first partners (service owners) in virtually all of these areas and launched a pilot project. Upon completion of the pilot in 2021, the Company will make a decision regarding the full-scale launch of individual projects. A detailed plan to develop digital services will be finalized by 2024.

RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

Detsky Mir's goal in its risk management is to build up a comprehensive system that helps the Company to promptly identify, assess, control, and prevent risks arising in the Company's operating activities and during implementation of strategic initiatives. The focus is on reducing the likelihood of risks occurring and reducing any negative impact on the Company's business.



RISK MANAGEMENT FUNDAMENTALS

INTEGRATION INTO GOAL-SETTING PROCEDURES

Results of risk assessments and analyses are used to determine the Company's goals and objectives.

OPENNESS TO DISCUSSION

Open dialogue both within the Company and with key stakeholders.

PROCESS CONTINUITY

Constant updates and improvements to all aspects of risk management.

AWARENESS

A single channel for informing management of the entire spectrum of risks is used to ensure the completeness, quality, and comparability of information provided at each level of decision-making.

VALIDITY

Analysis of costs to reduce the likelihood of a risk against potential damage should the risk materialize.

RISK MANAGEMENT PRIMARY OBJECTIVES

1

Comprehensive quarterly assessment of internal and external risks (identification, assessment of business impact)

2

Risk ranking and prioritization

3

Developing measures to manage all identified risks

4

Implementing and assessing the effectiveness of risk-reduction measures

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

Risk control is exercised at all management levels and in all functional areas. Risk management functions are distributed among the Board of Directors, Management Board, Risk Committee, and structural divisions.



The level of decision-making, as well as risk management priorities, is based on the risk ranking, which uses two primary factors to assess each risk.

FACTORS TO ASSESS RISK

- 1 Probability of risk occurrence
- 2 Potential financial consequences of risk materialization

The Board of Directors considers only key risks facing the Company. Managers at all levels are involved in continuously identifying, monitoring, and managing risks.

As part of the annual strategy review and budgeting process, management re assesses risks and develops response plans to mitigate risks and allocate required resources. The results of this work are subject to constant monitoring and are discussed on a quarterly basis by the Board of Directors' Audit Committee.

The Company has created a dedicated position of risk manager whose function covers:

- Overall risk management coordination
- Developing methodological documents to support risk management processes
- Analyzing the Company's risk portfolio and developing strategy proposals to respond to relevant risks and reallocate resources
- Generating consolidated risk reporting
- Exercising operational control over risk management processes at divisional level
- Preparing and informing the Board of Directors and executive bodies about the effectiveness of the Company's risk management

RISK MANAGEMENT PRIMARY METHODS

- Insurance
- Hedging
- Financial planning
- Diversification
- Compliance with and fulfillment of regulatory requirements
- Avoidance of high-risk investments
- Avoidance of unreliable partners and customers
- Coordination and coherence of programs and management processes that contribute to the Company's development

RISK INSURANCE

Detsky Mir has put in place the following insurance programs to reduce operational risks:

- Property insurance for fully owned retail properties and distribution centers, equipment, and inventory
- Civil liability insurance
- International transport insurance for the Company's own cargo shipments from Asia, the USA, and Europe
- Voluntary medical insurance for employees
- Comprehensive risk insurance for directors and officers (POSI and D&O policies)

The Company is constantly improving its insurance coverage terms and engages with the reinsurance market on a long-term basis. Reinsurance policies are contracted with companies that have a financial reliability rating of at least A on the scale used by international rating agencies.

RISK MANAGEMENT INTEGRATION INTO DECISION-MAKING PROCESSES

Strategy

- Identifying risks in the macro environment
- Identifying relevant risks for each macro scenario
- Identifying risks that are significant with respect to strategy implementation but do not change the relevance of the main strategic goals
- Developing measures to manage these risks

Business planning and budgeting

- Assessing the feasibility of risk management measures
- Budgeting for reasonable risk management measures

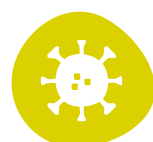
Investment planning

- Analyzing and accounting for project risks

Interaction with counterparties

- Analyzing risks for each counterparty
- Avoiding high-risk counterparties
- Developing measures to manage relevant risks with counterparties who have successfully passed screening

PRIMARY RISKS



EXTERNAL RISKS

Risk	Business impact	Risk reduction measures
Economic and social instability		
The economic and social instability resulting from the COVID-19 pandemic, among other things, as well as the unfavorable demographic situation in the countries where the Company operates may have a negative impact on consumer demand.	Deterioration of operational and financial performance; failure to achieve strategic goals	<ul style="list-style-type: none"> • weekly market monitoring • assortment range diversification (including the development of private labels and exclusive assortment), diversification of sales channels and markets • improvement of commercial conditions • investment in pricing • improving the customer experience • preparation of an anti-crisis budget
Regulatory risks		
Changes in the regulatory environment (legislation and regulatory requirements)	Ensuring compliance with regulatory requirements	<ul style="list-style-type: none"> • regular monitoring of legislation • regular review of compliance with requirements • participation in industry working groups and associations



STRATEGIC RISKS

Risk	Business impact	Risk reduction measures
Possibility of limited growth following saturation of the children's goods market in Russia		
Possibility of limited growth following the saturation of the children's goods market by 2030, when the level of children's goods consumption reaches a level on par with developed countries	Slowing of the Company's business growth rates; need to review the strategy with a focus on finding new markets	<ul style="list-style-type: none"> • weekly market monitoring • business diversification: development of categories outside the children's segment (pet supplies, etc.)
Failure to implement strategic initiatives and plans		
Insufficient management resources to implement projects and initiatives in line with the approved strategy	Failure to achieve strategic goals; need to review the strategy	<ul style="list-style-type: none"> • regular monitoring of plan fulfillment • analysis of implemented projects and their effectiveness • prioritization of future projects based on updated performance indicators and expenditure budget



OPERATING RISKS

Risk	Business impact	Risk reduction measures
------	-----------------	-------------------------

Late delivery of goods

Late delivery of goods due to bad weather conditions, road repairs, a temporary ban on the movement of trucks (including due to the spread of COVID-19), as well as customs delays

Loss of customers; deterioration of operational and financial performance

- weekly monitoring of product supplies
- inventory control
- diversification of portfolio of product and logistics providers
- switch to alternative transportation methods

Reduced staffing levels during the high season

Lack of human resources in distribution centers and shops during the high season due to high employee turnover

Deterioration of operational and financial performance

- weekly monitoring of staffing levels and employee turnover
- workforce planning forecasts during the peak sales season
- outsourcing employees during the peak sales season
- upgraded advertising campaign to attract candidates during the high season
- work to reduce turnover in distribution centers, resulting in a decreased number of vacancies and an increase in the speed of selection
- obtaining a license to hire Belarusian citizens for an additional influx of distribution center employees
- monitoring the level of revenue in the market and revising revenue when necessary

Risk	Business impact	Risk reduction measures
------	-----------------	-------------------------

Technology failure and information security risks

Unauthorized access to information or technological failures in the operation of IT systems (including SAP) due to a system malfunction, accident, or breach of network security can adversely affect the ability to provide services to customers, as well as to perform other Company business processes.

Deterioration of operational and financial performance, as well as the Company's reputation

- proactive development of IT infrastructure for future business growth
- application of a three-level structure of SAP information systems (development systems, test systems, production systems)
- proactive identification and analysis of IT system vulnerabilities through external penetration testing, analysis of wireless network security, analysis of the web and mobile apps (penetration test)

Deterioration in product quality

Arises on the side of the supplier or manufacturer due to a low level of production technology, the use of low-quality raw materials and low-skilled labor, as well as due to irregular production

Deterioration of operational and financial performance, as well as the Company's reputation

- diversification of suppliers
- quality and safety monitoring of products at all stages of the production cycle
- laboratory testing of consignments
- product certification
- product labeling



INDUSTRY RISKS

Risk	Business impact	Risk reduction measures
------	-----------------	-------------------------

Structural changes in markets of operation

Growing competition from online channel and food retailers: strengthening of existing retailers and the emergence of new ones	Deterioration of operational and financial performance, as well as failure to achieve strategic goals	<ul style="list-style-type: none"> • weekly market monitoring • digital transformation • assortment range development and expansion (including private labels and exclusive assortment) • improvement of commercial terms with suppliers • investment in prices • improvement of the customer experience and digital products
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Rapid change in consumer preferences

Loss of or decrease in demand for the Company's products, store formats, digital products, and services in favor of new ones	Deterioration of operational and financial performance; need to review the strategy	<ul style="list-style-type: none"> • analysis of consumer preferences and market trends • accelerated development of digital sales channels • timely consideration of new preferences in goods procurement and in the creation of new digital products and services • updates to formats and retail store digitalization
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Risk	Business impact	Risk reduction measures
------	-----------------	-------------------------

Level of development of transport and distribution center infrastructure

Insufficiently developed transport and distribution center infrastructure in the regions can create challenges for regional development and subsequent supply chain management.	Deterioration of operational and financial performance	<ul style="list-style-type: none"> • increased service capacity of current distribution center complexes • increased logistics centralization • consideration of opportunities to build new storage facilities
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Changes in prices for products that the Company sells

Unplanned change in prices for products sold by the Company (for all market participants).	Deterioration of operational and financial performance	<ul style="list-style-type: none"> • creation of a sufficient level of inventory to reduce dependence on short-term price fluctuations • receipt of additional discounts and bonuses from suppliers as a result of the centralized purchase of goods in large volumes • development of private labels and transition to direct contracts with manufacturers
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FINANCIAL RISKS

Risk	Business impact	Risk reduction measures
Deteriorating financial stability		
Lack of liquidity, occurrences of unforeseen financial losses associated with the depreciation of the ruble and a rise in interest rates	Deterioration of operational and financial performance, as well as a failure to achieve strategic goals	<ul style="list-style-type: none"> early repayment of debt with higher interest rates expanding the circle of partner banks (opening additional credit lines) and diversifying loan products in use concluding forward contracts with a fixed rate for a period of three to six months to hedge against foreign exchange risks



SOCIAL RISKS

Risk	Business impact	Risk reduction measures
Occupational safety and human rights violations		
Violations related to employee training, medical examinations, compliance with health and safety requirements, as well as compliance with labor laws, non-discriminatory and ethical behavior	Deterioration of operational and financial performance, as well as the Company's reputation	<ul style="list-style-type: none"> review of Occupational Safety Regulations creation of an effective professional risk management system



ENVIRONMENTAL AND CLIMATE CHANGE RISKS

Risk	Business impact	Risk reduction measures
Environmental and climate change risks		
Climate change and associated extreme weather conditions that can have demographic and infrastructure effects	Deterioration of operational and financial performance, as well as failure to achieve strategic goals; need to review the strategy	<ul style="list-style-type: none"> introduction of advanced technological solutions and continuous improvement of the management system as it relates to environmental protection, energy efficiency, and occupational health and safety development of emergency preparedness and response measures for prevention and response in case of emergency situations

Risks related to tightening environmental controls

Strengthening regulatory requirements with respect to sustainability, carbon regulation, and information disclosure	Ensuring compliance with regulatory requirements	<ul style="list-style-type: none"> regular monitoring of requirements and trends regular review of compliance with requirements development of the Sustainability Strategy with a focus on best practices
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OPERATING REPORT

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OMNICHANNEL PLATFORM

OMNICHANNEL SALES

Detsky Mir is one of Russia's largest and fastest-growing online players in the children's goods market. The Company's online business was launched in 2011, and now represents one of the Group's key sales channels.

>453 m

Online store visits via the website and mobile app

>24 m

Online orders

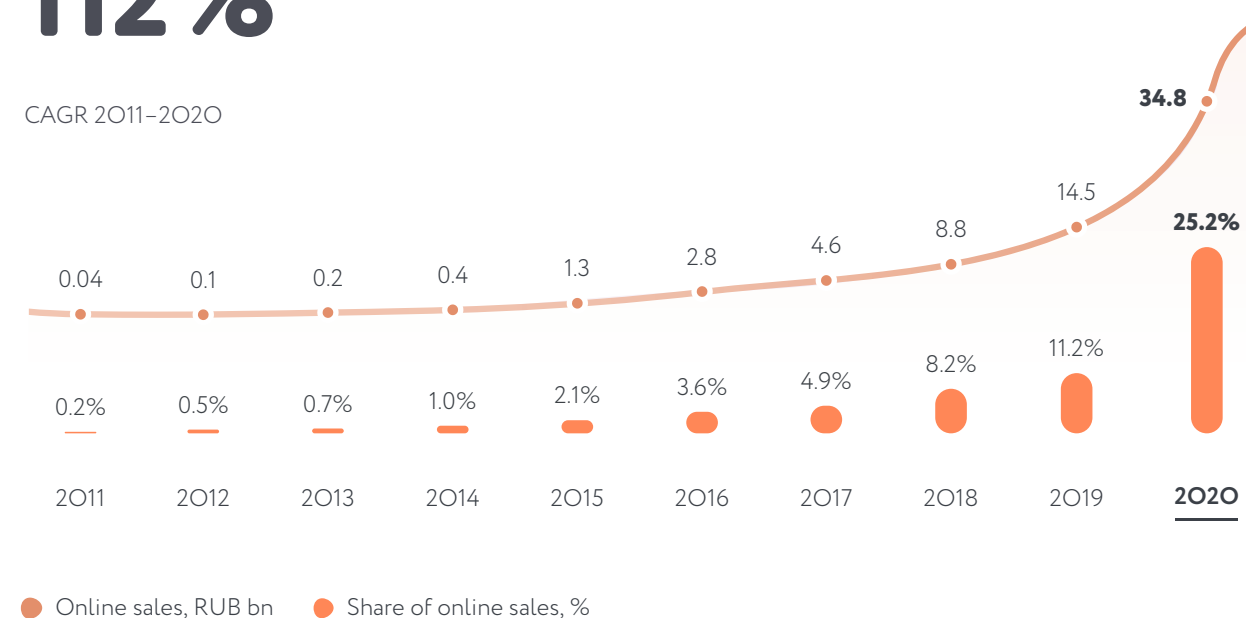
30%

Online share in total sales (Q4 2020)

Growth of online business revenue

112%

CAGR 2011–2020



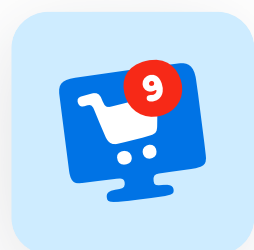
RUB 34.8 bn

Online revenue
in 2020

ACCELERATED GROWTH OF ONLINE BUSINESS REVENUE

In 2020, online revenue increased by 2.4x year-on-year to RUB 34.8 bn. The share of online sales in Detsky Mir Russia's total revenue grew by 2.2x year-on-year to 25%, while the share of online sales in Q4 2020 increased to 30%. By the end of 2020, the Company had registered over 453 m online store visits and fulfilled over 24 m online orders.





DETMIR.RU

DIGITAL PLATFORM

250,000 SKUs

Detsky Mir Group's full assortment includes 250,000 SKUs available for purchase through the online store or the detmir.ru mobile app.



LEADING CATEGORIES IN ONLINE SALES IN 2020



Stationery, Books,
and Multimedia

+261%



Baby Food

+219%



Fashion

+184%



Toys

+131%

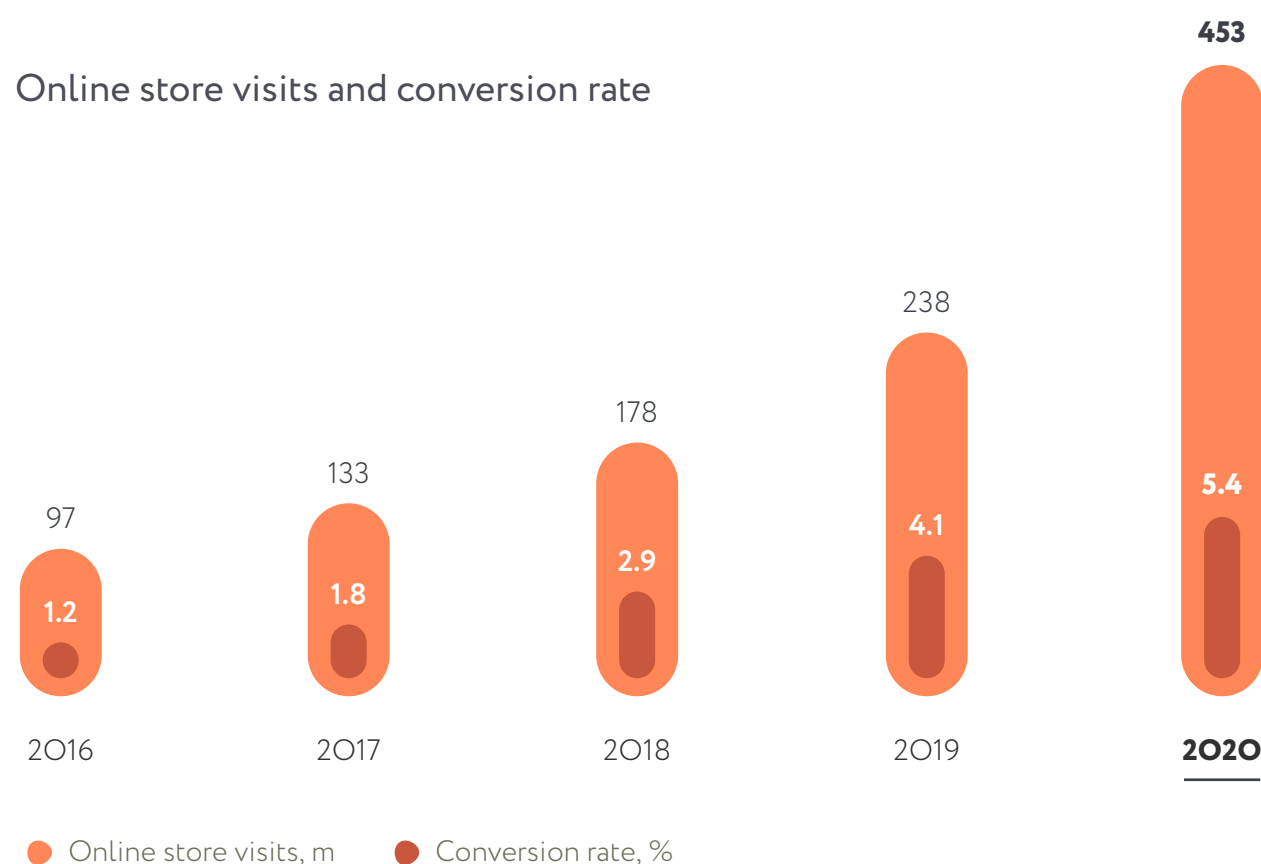


Pet Supplies

+240%

The choice of sales channel impacts the assortment's revenue structure. While the Products for Newborns segment accounts for almost half of total sales in the online segment, in offline retail this category generates just 30% of revenue. At the same time, the share of sales generated by the Fashion category in the online detmir.ru store is 2.2x lower than offline, and stood at approximately 13% for 2020.

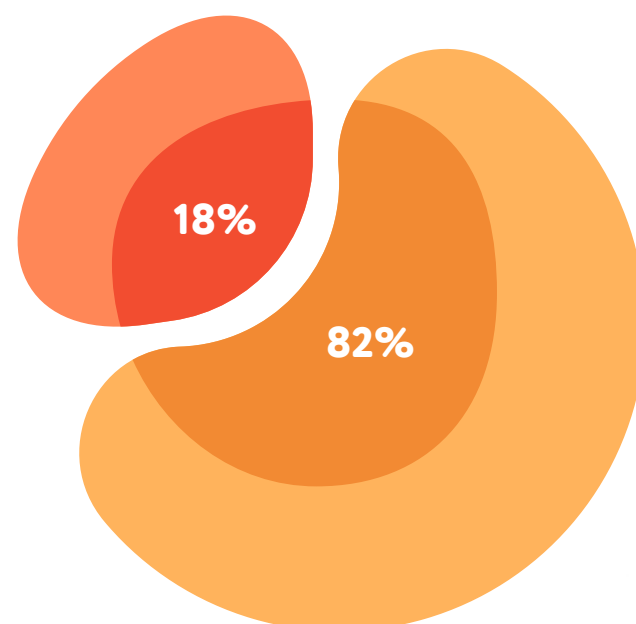
Online store visits and conversion rate



The most popular delivery channel in the Company's online segment was pickup from one of the chain's stores. In 2020, 82% of Detsky Mir's online revenue was generated by orders for pickup at Detsky Mir retail stores (from either a store shelf or a distribution center).

Ways to receive online orders in 2020*

Courier delivery



Click and collect

60 min

We offer a high level of service when it comes to assembling and delivering goods: 95% of orders collected from store shelves are handed over to customers within 60 minutes of the order being placed on the website. In 2021, we will continue to enhance these processes to further improve our customer service quality.



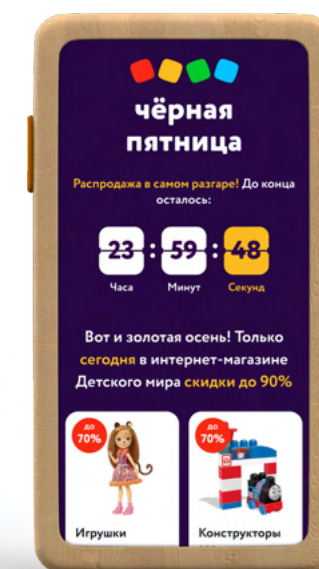
Developing our delivery and pickup services has helped increase the share of online revenue in other Russian cities outside of Moscow, the Moscow Region and St. Petersburg. By the end of 2020, residents of Samara, Kazan, Yekaterinburg, Nizhny Novgorod and Novosibirsk were also able to use these services.

CYBERDAYS

In 2020, the Company introduced a weekly sale in the online store (CyberDays). Suppliers actively participated, assisting with both discounts and marketing activities, which helped the Company to maintain high margins.

BLACK FRIDAY

The detmir.ru online store has become the main platform for the annual Black Friday campaign. From 23 to 29 November, the online store received orders totaling over RUB 1.3 bn. Sales peaked on Friday, 27 November, when 266,000 orders were placed in the online store, double the orders on the previous Black Friday, 29 November 2019. Meanwhile, the online channel's share in Detsky Mir's total sales increased to 52%.



RUB 1.3 bn

From 27 to 29 November, the online store received orders totaling over RUB 1.3 bn

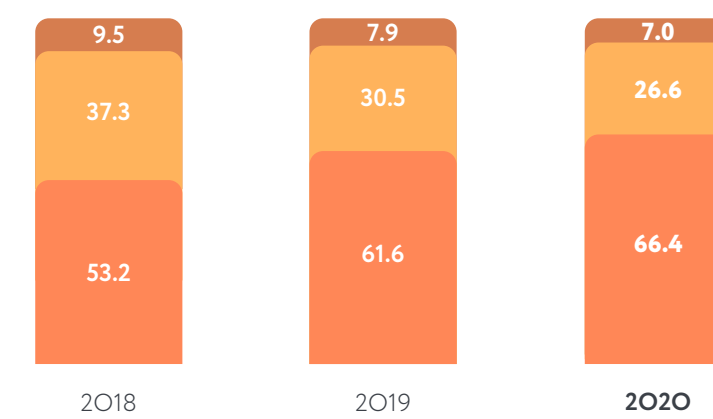
52%

Online share in total sales of Detsky Mir during Black Friday (Nov. 2020).

In 2019, the Company launched a Detsky Mir online store in Kazakhstan—kz.detmir.com—as well as a pickup service. Despite most Detsky Mir stores in Kazakhstan facing repeated closures in 2020 due to the pandemic, we were able to quickly distribute online orders to retail outlets, which allowed us to maintain revenue levels and support strong financial results.

In 2021, Detsky Mir plans to launch a mobile app and next-day courier delivery in Kazakhstan, as well as an online store with an order pickup service in Belarus.

Online revenue, %



● Other regions ● Moscow ● St. Petersburg

* Courier delivery includes delivery to a customer's address and to a partner pickup point. Pickup from stores includes online orders for products that are offered in retail stores and for products that are not there at the time of ordering but that can be delivered to a store from a distribution center through the Company's logistics system at the buyer's request.

DIRECT DELIVERY

As a result of the COVID-19 pandemic, demand increased for courier delivery of online orders. During the lockdown in April, this channel’s share reached almost 30% of the online segment. Thanks to the launch of a new service at the end of 2020 with orders delivered from the nearest retail store, next-day delivery is now accessible in all of Russia’s 30 largest cities.



4,500
orders

700
stores

280
cities

In September 2020, the Company finished development of an IT platform that enables its own courier service to execute express online delivery orders in Moscow. In December 2020, the Company’s couriers delivered 4,500 orders from 25 Moscow stores. In 2021, the Company plans to increase the number of stores offering this service to 100.

The Company also launched a super-express delivery service from more than 700 Detsky Mir stores.

Customers in 280 cities in Russia can now receive their orders within two hours of placing them on the website. Super-express deliveries are fulfilled by Yandex.Taxi, an existing partner of the Company.

RUB 3,200

The delivery method selected for online orders also affects the average order size. The average order size in the direct delivery channel is approximately RUB 3,200 and is twice as large as the average order value in the pickup channel.

High diversification of delivery types to meet the needs of different customer groups



In-store pickup in 60 minutes

Minimum order of RUB 300

Free of charge

Pickup from Detsky Mir or Detmir PUP stores



Next-day delivery to retail stores

Minimum order of RUB 300

RUB 49 (free in Moscow and St. Petersburg)

Pickup from Detsky Mir or Detmir PUP stores



Express delivery from retail stores

Minimum order of RUB 500

RUB 199 delivery fee (within two hours) for orders from RUB 500 to RUB 1,900

Free same-day delivery for orders over RUB 1,900



Next-day delivery from distribution center

Minimum order of RUB 500

RUB 199 delivery fee for orders from RUB 500 to RUB 1,900

Free delivery for orders over RUB 1,900



Next-day delivery at partner pickup points

Minimum order of RUB 500

RUB 199 delivery fee for orders from RUB 500 to RUB 1,900

Free delivery for orders over RUB 1,900



Rostov-on-Don DC

In 2020, we continued expanding our logistics infrastructure. In July, we opened our first regional distribution center in Rostov-on-Don to ensure fast and uninterrupted delivery of

online orders in the Southern Federal District. By the end of the reporting period, this distribution center was processing 1,500 orders daily and had achieved its forecast profitability.



MOBILE APP

249 m app
launches

In December 2019, Detsky Mir released a mobile app that allows customers to make purchases from the online store using the Company's loyalty card. By the end of 2020, this app had been downloaded more than 6.1 m times, with over 249 m app launches on customers' mobile devices. More than 540,000 people now actively use the app every day.

65% of all
online
orders

As of the last week of December, 65% of all online orders were placed through the mobile app. The app has a high rating compared to other free Russian apps, scoring 4.7 in Apple's App Store and 4.8 on Google Play.

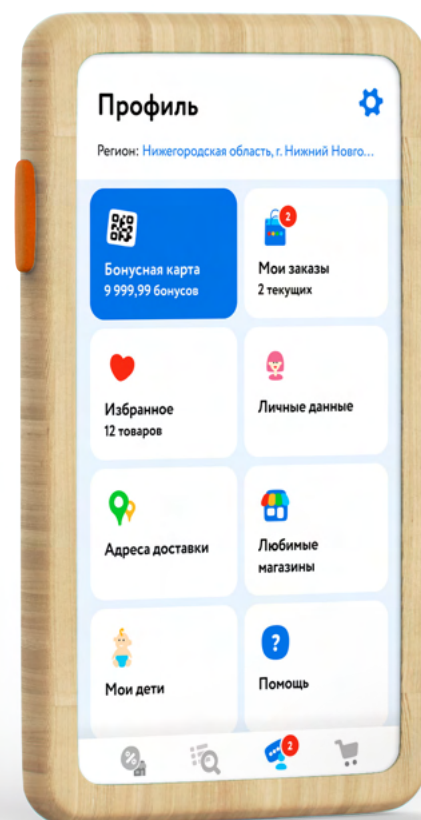
30/70

As of the end of 2020, it was one of the top 10 Russian apps in the Shopping category. Android mobile devices account for 70% of downloads, with iOS devices accounting for the remaining 30%.

4.7 App Store
rating

Google Play
rating

4.8



DEVELOPING ONLINE CUSTOMER SERVICE

As part of our online product development, at the end of Q1 2021, we launched a new regular order subscription service.

The subscription targets customers with newborn babies and pet owners who make regular purchases every one to two weeks, primarily for goods such as diapers and food. Customers can create a basket and select scheduled delivery times for their orders.

The Company's online marketing and advertising strategy is based on developing free and shareware traffic sources: SEO, e-mail, app push, and web push.

96.2%

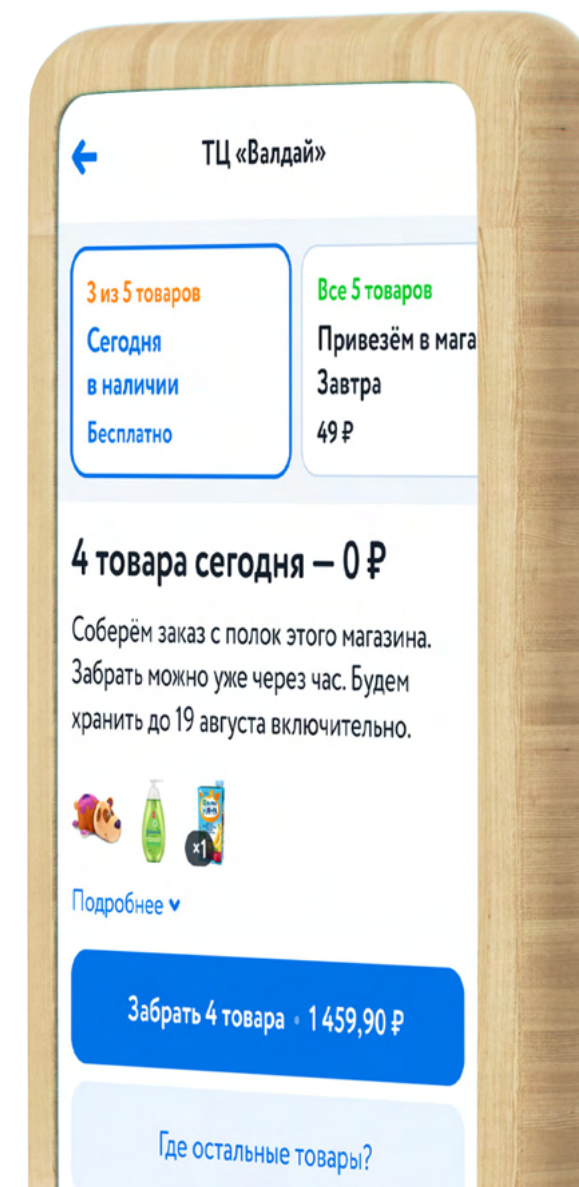
In 2020, free and shareware (with a fixed cost) channels accounted for 96.2% of traffic

15%

Increase in revenue per user following A/B test results

In 2020, the Company continued to enhance its online detmir.ru store:

- Launching personal accounts
- Optimizing the shopping cart
- Integrating Apple Pay and Google Pay





MARKETPLACE

SKUs

250,000



SKUs

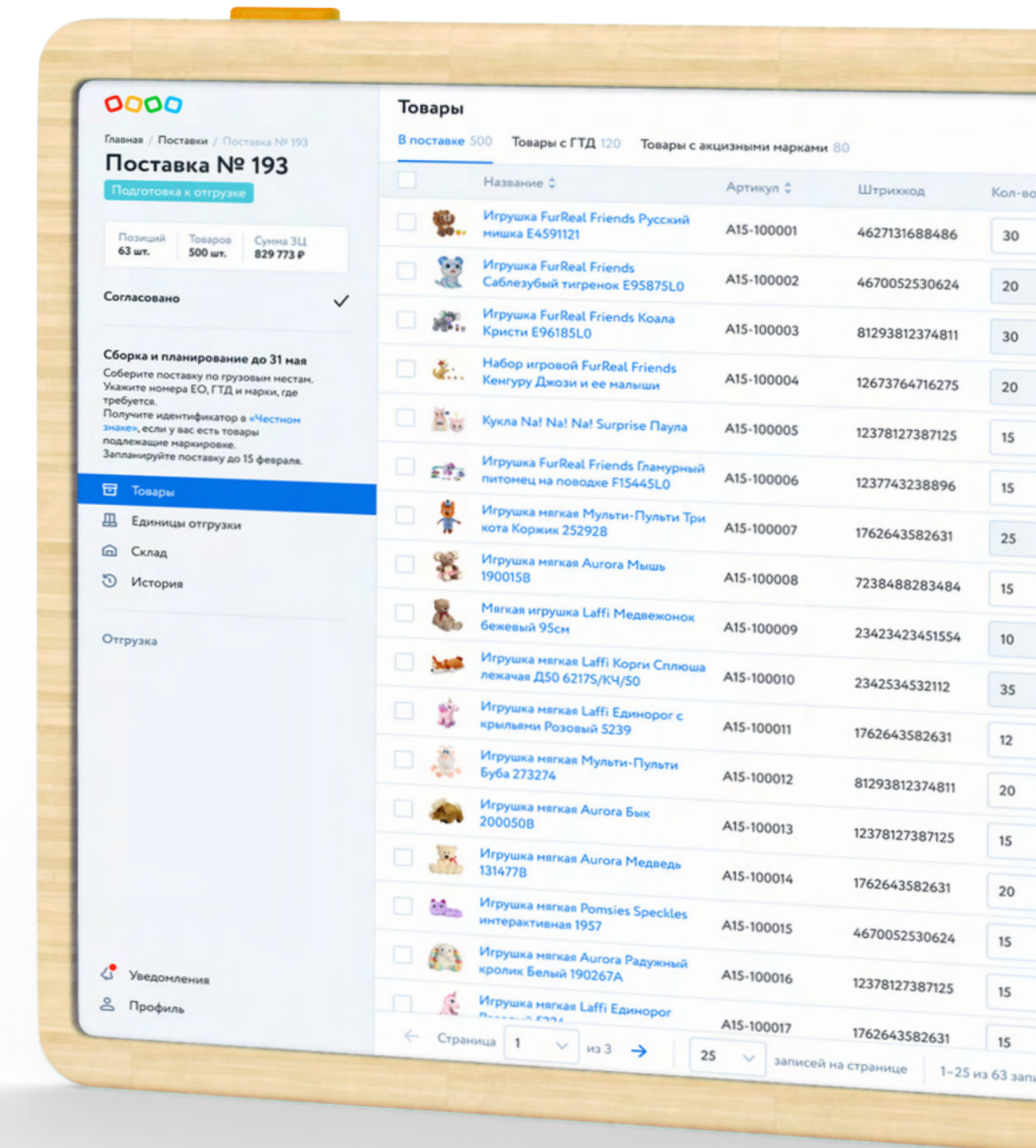
2.4 m

In November 2019, Detsky Mir announced the launch of a pilot marketplace for the Fashion category. Nearly a year later, the marketplace was expanded to cover all categories, including Fashion, Toys and Games, Baby Products and Pet Supplies. As a result, the Company's total assortment has grown 2.5x compared to the end of 2019 and now reaches 250,000 SKUs.

At the end of the reporting year, the marketplace held an insignificant share (about 2%) of total online sales, yet it remained one of the Company's fastest-growing segments. In 2021, Detsky Mir will continue to develop this segment and work towards approaching 1 m SKUs. In the medium term, the Company plans to increase its assortment to 2.4 m SKUs.

Maria Davydova,
CEO of Detsky Mir:

“ Having a wide assortment is an important competitive advantage for any online store, so rolling out this marketplace more widely is a key strategic priority for us. Leveraging our existing retail and logistical infrastructure, while maintaining low marketing and operating expenses, will allow us to implement projects more efficiently than our competitors. We aim to focus on the categories of Children's Goods and Pet Supplies first, and then later test related categories and those beyond children's products — all while taking into account the brand's direction.”



3PL PARTNERSHIPS

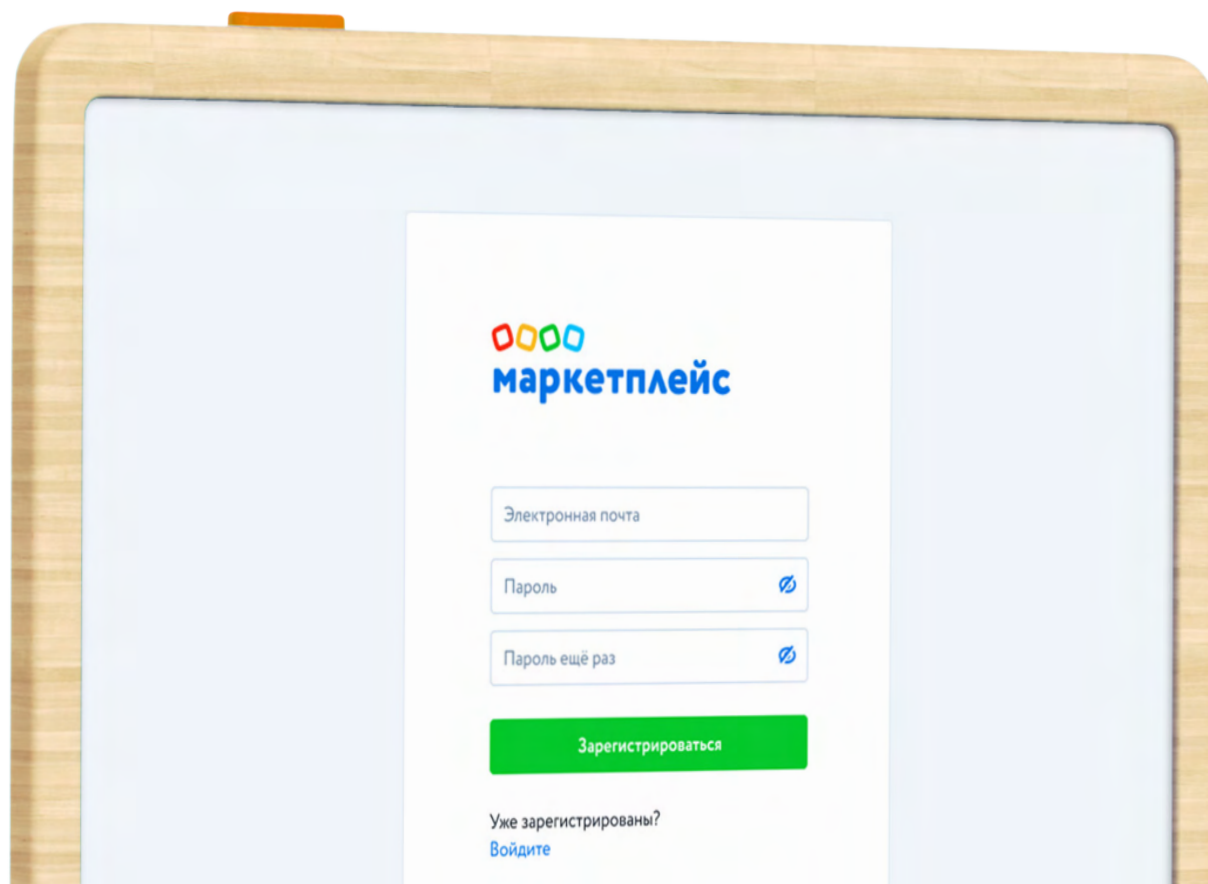
We offer attractive 3PL partnerships (whereby goods are sold from third-party sellers and manufacturers for a commission), which include a competitive flat rate of commission and the opportunity to leverage our existing logistical infrastructure.

DASHBOARD

We have created a dashboard on the online platform for sellers that includes all the functions they need, including analytics, price management, and the opportunity to create and manage their assortment. We are now planning to expand the functionality of this dashboard and to implement a system to manage promotional campaigns, financial reporting, and operational analytics.

FOR CUSTOMERS

This marketplace will provide a unique opportunity for customers to purchase goods from a variety of categories of Russian and foreign branded products. Orders will be available by either pickup or courier delivery. Purchases of more than RUB 1,900 will be eligible for free delivery. Our loyalty program is fully integrated into the marketplace, allowing customers to enjoy the full range of benefits it offers.



RETAIL SALES OF CHILDREN'S GOODS

The retail concept behind
Detsky Mir stores consists of seven
primary components:

1

Affordable prices with a
focus on the middle and
budget segments

2

Convenient store locations
in modern shopping
centers and in densely
populated residential areas
accessible on foot

3

Stores as an extension of the
online shopping experience,
where shoppers can pick up
online orders quickly and free
of charge

4

Stores as a storage center for
inventory in order to enable
fast courier delivery for online
orders (last-mile service)

5

Thoughtful visual
merchandising tailored to
children and parents alike

6

Building long-term
relationships with customers
through a loyalty program

7

Multi-format
children's goods
stores offering an
extensive and unique
assortment

As of 31 December 2020, Detsky Mir
had 832 stores in 331 cities across
Russia, Kazakhstan, and Belarus, while
the Detmir Pickup chain had
16 stores.

The Company successfully delivered
on its annual plan to expand
Detsky Mir and Detmir Pickup chains

by opening 83 new stores.
Most openings—52 of the new
stores—took place in Q4 2020.
At the same time, the Company
continued expanding internationally
in Kazakhstan and Belarus, opening
eight new supermarkets over the
course of the reporting year.

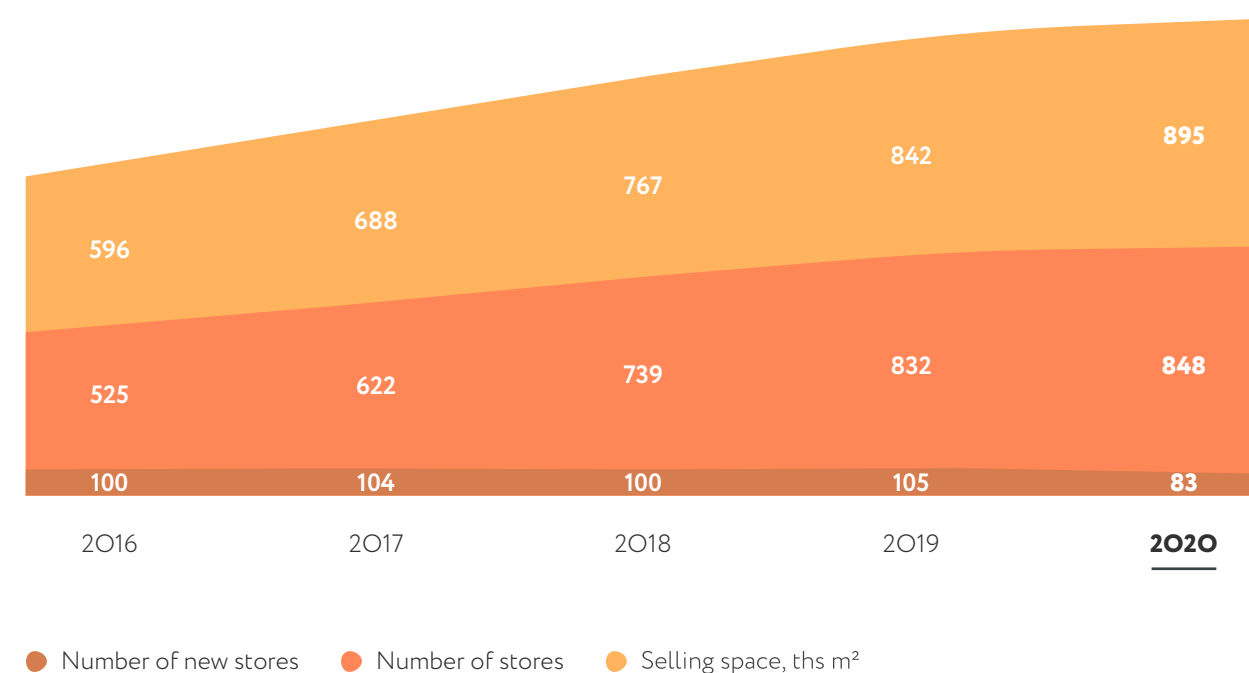
OVER
216 m

store visits per year

848

children's stores

Number of stores
in the children's segment*



* Data presented exclude the Zoozavr chain of pet supplies stores. The number of new stores does not include ELC and ABC chain stores. In order to increase profitability by accelerating the opening of small Detmir Pickup stores, the Group decided to close ELC and ABC stores in Q3 2020, which accounted for less than 0.3% of the Group's total revenue in 2020.

CRITERIA FOR OPENING NEW DETSKY MIR STORES

The Company’s stores are primarily located in modern shopping centers and densely populated residential areas either adjacent to major transport routes or close to metro and train stations.

Almost all stores are located in leased premises, mostly in modern shopping centers. The low capital intensity of this model has allowed the Company to achieve high return on capital and made it possible to quickly change store locations when required in response to changes in demand and traffic in local markets.

The standard store format includes an assortment of 20,000–30,000 SKUs (including from the Fashion category), separate zones for each of the five product categories, and a zone for advertising.

The Company uses a set of strict investment criteria when opening new stores, focusing in particular on its targets for returns on investment:

- The internal rate of return (IRR) of the new store’s financial model should be at least 40% based on a projected seven-year cash flow and excluding the terminal value
- EBITDA breakeven should typically be achieved within four months of opening
- Store ramp-up (achieving targets such as customer traffic and gross profit per square meter) should be reached within 18 to 24 months

Most openings take place during Q4, 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.

If a store fails to meet KPI targets over time, the Company’s management can consider closing the store or where possible moving it to a nearby location where better lease terms can be negotiated or higher customer traffic can be secured. In the past several years, the Company has closed or relocated a handful of stores. In 2020, five Detsky Mir stores were closed or moved to another location.

Approximately 70% of all Detsky Mir stores have 800–1,500 m² of retail space



NEW FLAGSHIP STORE

In 2014, a unique design concept was created for Detsky Mir stores. The Company began integrating interactive play zones for children into its retail stores after learning from the experience of similar global initiatives. This new concept makes it possible to combine shopping and play, making a trip to Detsky Mir an interesting and rewarding pastime for the whole family.

In December 2020, Detsky Mir opened its second flagship store with an interactive zone and fairy-tale-themed decorations. The store has total selling space of more than 6,000 m² and occupies two floors in the new wing of Moscow's MEGA Teply Stan shopping and entertainment center.

The creative design concept behind the flagship hypermarket was developed through collaboration between the Detsky Mir team and Fitch, a brand consulting agency renowned for its spatial design work.

The new store is designed to serve as a shopping and entertainment space for the whole family. The hypermarket includes more than 40 brand zones developed in partnership with leading Russian and global manufacturers and licensors of toys and children's goods, including Lego, Disney, Mattel, Hasbro, Gulliver, Sinbad, Universal, Warner, as well as several artistic features including a magic cave and a real pirate ship.

The entertainment section of the flagship store features a number of interactive zones with virtual augmented reality rides. Innovative lighting and sound solutions help create a unique store atmosphere.

Since stores are places for housing goods, customers will also be able to pick up their online orders there within 60 minutes of placing them on the website or mobile app.

Maria Davydova,
CEO of Detsky Mir:

“ Our new flagship store is at MEGA Teply Stan, one of the Moscow Region's most iconic shopping centers, where the largest international and Russian brands are concentrated. We are confident that this new store will be a convenient place for parents to shop and children to have fun. We now have two flagship hypermarkets. The first one, which has total selling space of 4,000 m², was opened on Novy Arbat in 2019.”



EXPANDING THE DETMIR PICKUP CHAIN

As part of the development of the Company’s omnichannel business model, which aims to consolidate the children’s goods market, the decision was made at the end of 2019 to begin actively testing the new ultra-small Detmir Pickup format, which combines a retail store with an online order pickup point. As of the end of the reporting year, there were 16 such stores operating in the Moscow, Central and Southern regions.

The preliminary estimated capacity of the children’s goods market in these locations is 2,000 Detmir Pickup stores. Further testing of the format will happen in four clusters and will involve selling space ranging in size from 80 to 160 m².

In the medium term, the Company plans to open at least 800 stores in the first cluster, each with selling space of 160 m². Depending on how the remaining clusters perform during the pilot, a decision will be made on expanding the initial development plan.

800
NEW STORES
in the medium term

Priority locations for Detmir Pickup stores will be cities and towns with a population of about 20,000 people

Along with areas where it is not profitable to operate a full-size Detsky Mir store.

	Main Detmir PUP	Additional Detmir PUP formats			
	Cluster 1	Cluster 2	Cluster 3	Cluster 4	
Total area	195 m²	175 m²	125 m²	100 m²	
Selling space	160 m²	144 m²	103 m²	82 m²	
Number of SKUs	1,765–2,122	1,765–2,122	996–1,375		
	+800 stores medium-term	Potential +1,200 stores long-term			

DETMIR PICKUP STORE FORMAT PROFILE

The assortment at Detmir Pickup stores consists of 2,000 SKUs from all categories offered in the Detsky Mir chain. The FMCG category accounts for the majority of the format’s assortment and sales.



Detmir PUP



100–200 m²
total area



FMCG + Fashion
for children
0–24 months old



50% online sales



~80%
selling area



10–40 thousand
small-town
catchment areas













~2,000 SKUs



Next-day delivery from
regional DC



DETMIR PICKUP STORE
SALES STRUCTURE

	Offline	Online	Total	
 Toys	17%	13%	30%	
 Books, stationery, multimedia	1%	1%	2%	
 Food	13%	11%	24%	
 Diapers	10%	10%	20%	
 Personal care	2%	1%	3%	
 Large items	0%	6%	6%	
 Apparel	6%	4%	10%	Growth area with upside to gross margin
 Footwear	1%	1%	2%	
 Sports	0%	2%	2%	
 Seasonal / New Year	0%	1%	1%	
Total	50%	50%	100%	

Online orders collected at Detmir Pickup stores account for at least 50% of a typical Detmir Pickup store's total revenue. This is largely thanks to our rapid delivery offering—all orders are available for pickup within a day of being placed.

50%

online share in Detmir PUPs' sales

ECONOMIES OF DETMIR PICKUP STORE
CURRENTLY IN OPERATION

Taking into account the existing assortment sales structure, the gross margin of the Detmir Pickup network is about 29%. The profitability of this format will grow as a result of the growth of high-margin categories, most notably Fashion. In the baseline scenario, the EBITDA margin for Detmir Pickup stores remains in the 8%–9% range.

As part of its financial model, a Detmir Pickup store has a 30% internal rate of return (IRR) on its projected cash flow for seven years excluding terminal value. The EBITDA break-even target is reached within the store's first year of operation, and the store reaches full capacity in 36 months.



~29%
gross margin



three-year payback
period



8%–9% EBITDA
margin



30% IRR on seven-year
cash flows



EBITDA breakeven
under one year



RUB 3–4 m opening
capex



three-year ramp-up
period



ASSORTMENT AND SUPPLY CHAIN

DETSKY MIR'S ASSORTMENT

Detsky Mir's assortment strategy divides the product offer into two main groups: traffic generators and profit generators. Depending on which of these groups it belongs to, each product category has its own development strategy and its own location in retail stores.



TRAFFIC GENERATOR

Products for Newborns

Share of revenue	30.5%
Private label and direct import	6.4%
Own assortment (1P)	15,200
Marketplace assortment (3P)	1,300
Detsky Mir category market share	25.0%*

Key competitors: food retail and online stores

The Products for Newborns category includes baby food, diapers, and childcare products.

This is an FMCG category and has the highest purchase frequency of multiple times a week.

The Products for Newborns category is strategically important given that it drives a significant portion of customer traffic across all sales channels.

The primary goal of this category is to generate high revenue by offering the best prices for newborn products across a wide assortment compared to direct competitors.

In addition, Products for Newborns mitigates the seasonality that all non-food retailers experience, since sales of these goods are generally not affected.

PROFIT GENERATOR

Toys

Share of revenue	31.4%
Private label and direct import	19.2%
Own assortment (1P)	28,600
Marketplace assortment (3P)	8,000
Detsky Mir category market share	43.6%*

Key competitors: specialized children's chains and online stores

Toys are one of the Company's largest product groups. They drive customer traffic, increase loyalty, and generate a high return on like-for-like sales both in stores and via the online channel. The category's wide assortment and affordable prices have allowed the Company to enjoy greater stability in the face of competition from other market players.

According to Ipsos Comcon, Detsky Mir is the market leader in this category, with a share of approximately 44%. This allows the Company to obtain the best deals as well as access exclusive products from global manufacturers such as Lego, Hasbro, and Mattel.

The Company is also actively developing private labels in this category to maintain competitive prices and high margins.

Large-Size Products

Share of revenue	2.8%
Private label and direct import	68.9%
Own assortment (1P)	10,800
Marketplace assortment (3P)	1,600

Key competitors: specialized children's chains and online stores

The Large-Size Products category includes car seats, baby carriages, and baby furniture. The Company's assortment in this category consists primarily of branded products, although it also offers a significant assortment of private label products.



* Source: Data from Ipsos Comcon (estimate of the size of the children's goods market in Russia in cities with a population of 10,000 or more).

* Source: Data from Ipsos Comcon (estimate of the size of the children's goods market in Russia in cities with a population of 10,000 or more).

Stationery
and Other Goods

Share of revenue	6.8%
Private label and direct import	50.3%
Own assortment (1P)	21,600
Marketplace assortment (3P)	2,900
Detsky Mir category market share	6.6%*

Key competitors: specialized children's chains and online stores

The Stationery and Other Products category includes books, multimedia, sporting goods, and New Year's products. Stationery is a highly seasonal category. Sales peak in this category during the back-to-school period between August and September.



Fashion

Share of revenue	28.5%
Private label and direct import	96.5%
Own assortment (1P)	22,000
Marketplace assortment (3P)	138,000
Detsky Mir category market share	15.3%* (Apparel), 14.9%* (Footwear)

Key competitors: retail clothing and footwear stores, sports stores, and online stores

The apparel assortment consists of outerwear, clothing, underwear, socks, and accessories. The footwear assortment includes classic shoes, casual shoes, sports shoes, hiking shoes, beach footwear and swimming pool footwear.

The Company is actively expanding its assortment in this category and offers a large number of seasonal collections (Fast Fashion). In 2020, for example, it offered eight seasonal collections: Spring, Summer, Beach, Pre-Autumn, School, Autumn, Winter, and New Year's.

Development of private labels is a key part of the Company's growth strategy for this category. At the end of 2020, Detsky Mir was operating 15 private labels, which collectively accounted for most of the sales in Fashion. The Company also sells products from leading international brands such as Lassie (manufactured by Reima) and Blue Seven (manufactured by Obermeyer).

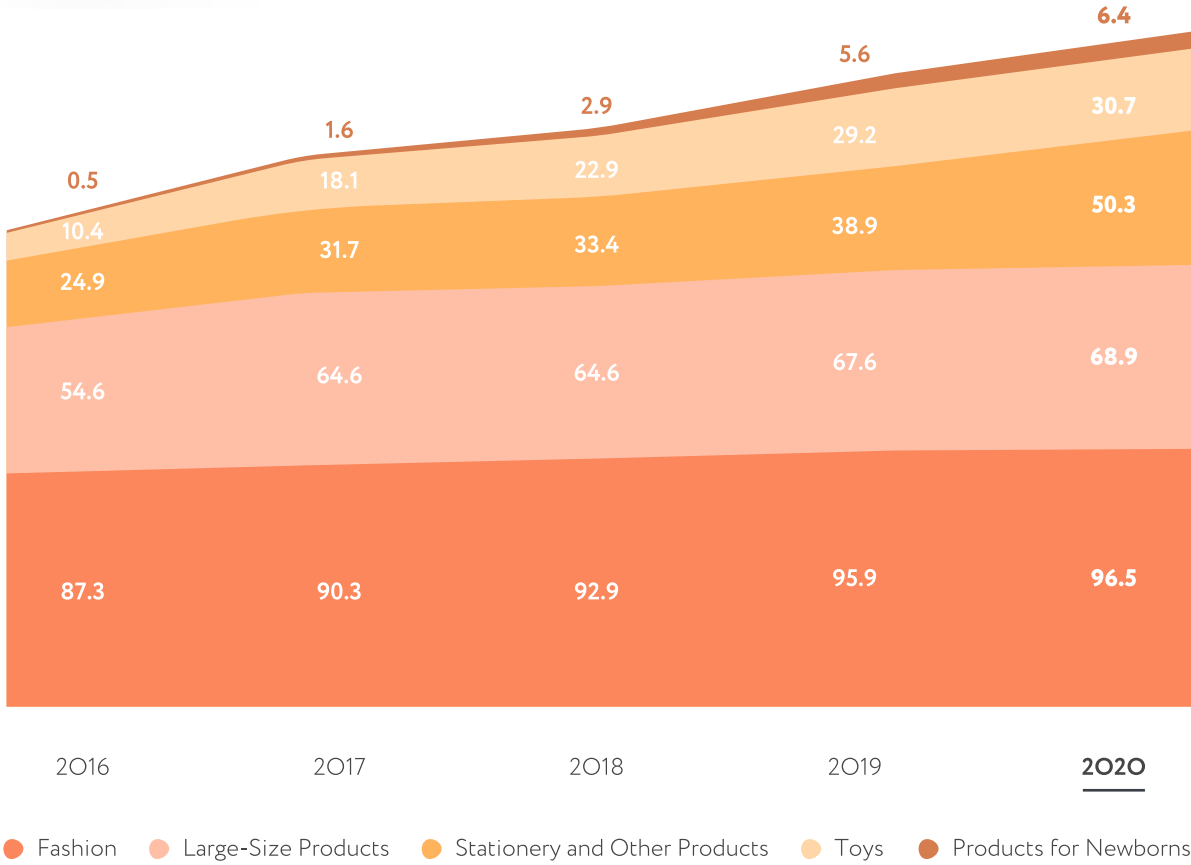
The Fashion category enjoys the highest margins in the entire assortment.

Detsky Mir is constantly improving its supply chain management and aims to build long-term partnerships with suppliers.

Share of private labels and direct imports
in Detsky Mir's sales, %



Share of private labels and direct imports in Detsky Mir's sales by category, %



* Source: Data from Ipsos Comcon (estimate of the size of the children's goods market in Russia in cities with a population of 10,000 or more).

DIRECT CONTRACTS WITH MANUFACTURERS

We are working to reduce the share of distributors among our suppliers by entering into direct contracts with large manufacturers of children's goods. This approach will allow us to optimize purchase prices, manage our assortment effectively, and improve quality control.

This measure also allows us to set favorable prices and gives us direct access to supplied goods. The result is increased revenue and margins, as well as improved service quality due to uninterrupted supply.

At the end of 2020, approximately 74% of the products offered at Detsky Mir were produced by foreign companies, primarily in China, India, Vietnam, and Bangladesh. Roughly half of these goods are purchased in rubles by representatives and distributors from international companies, while the other half are largely bought directly from foreign manufacturers for Detsky Mir's private labels, with payments handled in foreign currency.

The share of direct contracts with manufacturers in the Toys, Products for Newborns, and Large-Size Products categories together exceeded 70%. In these categories, the top seven suppliers accounted for 45% of direct shipments. At least half of all direct deliveries in the Fashion category come from the five largest suppliers.

In the reporting year, the Company made significant progress toward the direct purchase of imported toys. Under direct contracts that have been signed with the largest toy manufacturers, Detsky Mir's product range includes popular brands like Dragon-i, Happy People, Marina & Pau, Splash Toys, and others.



382

producers among
Detsky Mir's suppliers

As of 31 December 2020, Detsky Mir's suppliers included 112 manufacturers in the Toys category, 40 in the Products for Newborns category, 86 in the Large-Size Products category, and 74 in the Stationery and Other Goods category. Approximately 70 manufacturers supply goods for Detsky Mir's Fashion category.

We also strive to arrange special supply conditions with our partners for unique product ranges that increase traffic, promote comparable sales, increase customer loyalty, and protect the Company from price competition in the pre-sale period. For example, unique product ranges accounted for 20% of total goods purchased from Mattel, Hasbro, and Spin Master, with the figure standing at around 5% for Lego and Kimberly.

These unique products allow Detsky Mir to distinguish itself favorably from its competitors, which helps to maintain and strengthen the Company's image as a specialized store with the largest assortment of children's goods.

20%

exclusive assortment given total
Mattel, Hasbro, and Spin Master
purchases

List of brands added
via direct import
contracts in 2020


BECKMANN



MAXLEO

SCENTOS

Dragon-i

FUNSKOOL

**HAPPY
PEOPLE**

**Splash
toys**

MAXI-COSI

Marina & Pau
WE LOVE PLAY

LISCIANI

PRIVATE LABELS

The development of private labels is an important strategic area of focus for Detsky Mir. The Company currently owns 15 private labels in the Fashion category, each with its own target audience, assortment, and price positioning. Collections are developed by the Company's own design studio, which opened in July 2016, as well as by external designers who have been engaged to work exclusively with the Company.

The collections developed by the Detsky Mir design studio accounted for 10% of sales in the Apparel category (over 420 designs).

In addition to unique design, Futurino Fashion's key advantage, as a brand developed entirely in-house, is its ability to obtain a better product at lower prices by requesting a price for each finished design from 5–10 different manufacturers.

The main value of private label brand development lies in the ability to give customers exclusive and in-demand products at the best prices on the market. This is achieved through large production volumes.

By selling private label goods made in Russia and abroad, we can effectively control pricing and carefully monitor the quality of input materials. In turn, private label goods manufacturers benefit from stable orders and reduced branding and logistics expenses.

At the end of 2020, private labels accounted for 36.7% of all Detsky Mir sales. Private label goods accounted for 88.3% of Group sales in the Fashion category, 19.2% and 3.9% in the Products in the Toys category, and Products for Newborns category.

At the end of 2020, private labels accounted for 36.7% of all Detsky Mir sales

88.3%

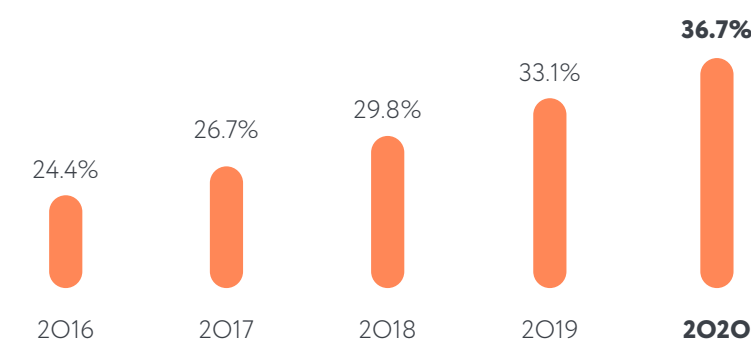
Share of private labels in Fashion

19.2%

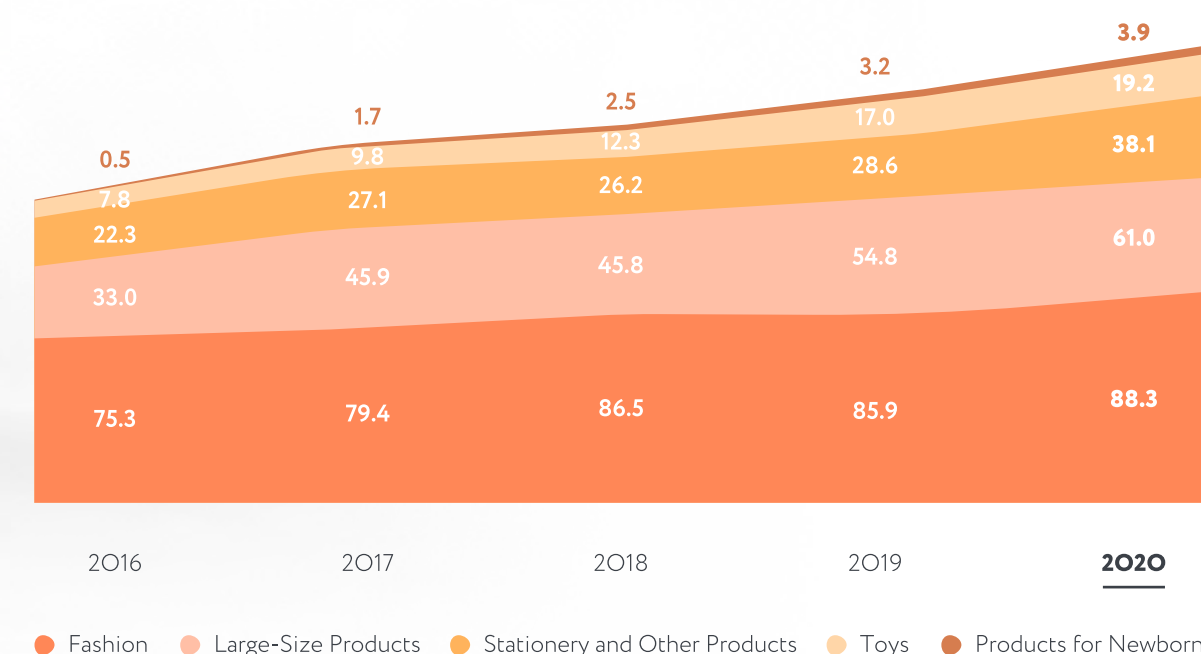
Share of private labels in Toys

3.9%

Share of private labels in Products for Newborns



Private label share of sales by category, %



DETSKY MIR GROUP'S PRIVATE LABELS IN FMCG



KEY PRIVATE LABELS IN FASHION



THE MY GOROSHINKA (MY LITTLE PEA) ENVIRONMENTALLY CONSCIOUS CAPSULE COLLECTION

Fall/Winter 2021

In 2020, our Fashion business began applying the Better Cotton Initiative's responsible cotton processing standards to our own line of Baby Go and Futurino brands. Sales are scheduled to begin at the end of July 2021.

In the reporting year, Detsky Mir also developed a capsule eco-collection called My Goroshinka. This collection, made from 100% organic cotton, is aimed at babies and will debut for the Fall/Winter 2021 season (see the [Responsible Product Sourcing section](#)).

Clothing is made from 100% organic eco-cotton, which is safe for infants and does not cause irritation or allergic reactions. It is ideal for newborns and infants with sensitive skin.

The porous structure is highly permeable to air and helps the child's skin to breathe. The fabric is very soft and pleasant to the touch, while at the same time being particularly durable and resilient, withstanding daily wear and ensuring lasting comfort for the child.

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

In 2020, private labels' share of sales increased by 9.5 p.p. year-on-year for the Books, Stationery and Multimedia category, reaching 24.3%. The largest growth occurred in the Stationery category, where private labels' share reached 50% by the end of 2020, an increase of 18.1 p.p. over 2019.

For example, the Company's Erhaft private label, which has no serious competitor in the market, achieved substantial sales volumes in the School Supplies subcategory, selling more than 150,000 SKUs.

In the reporting year, the private labels assortment grew with the addition of another exclusive promotional set called Artist's Workshop. The set consists of 176 SKUs, sold at a promotional price of RUB 699. Over the New Year's sales period, more than 70,000 SKUs were sold.

The Company also continued its 2019 success in the Radio-Controlled Toys category. Detsky Mir's share in this category increased by 5 p.p. and now accounts for more than 50% of the market.

The share of the Company's own Baby Go brand in the Diapers category increased from 6.2% in 2019 to 7% in 2020. The Company plans to continue developing Baby Go by further improving performance in open diapers, as well as by introducing larger packaging and new sizes into the product line.

In early 2020, Detsky Mir launched its own new brand of diapers, Manu, in Russia, Kazakhstan, and Belarus. Manu's products offer premium Japanese quality in the medium price segment, making them competitive with other global brands.

The Manu product line consists of 10 SKUs and five basic sizes ranging from Newborn to XL. In Q2 2021, both open diapers and underpants will go on sale.

In 2021, the Chinese company Insoftb will take over the manufacturing of Manu products. This change will provide better commercial conditions, while maintaining the high quality of products, which will significantly increase the volume and margin of sales.

In 2020, the Company strengthened its leadership in the School Fashion category. Despite the pandemic, sales were up 8% following a successful 2019.

A record 9 m SKUs were sold in the School Fashion category (Russian Detsky Mir stores only). The main sales were once again concentrated in Detsky Mir's high-margin private labels Chessford (produced in Russia, Bangladesh, Uzbekistan, and Armenia) and Futurino School (produced in China).

In the medium term, Detsky Mir plans to expand its product range by developing a marketplace, increasing the number of unique products, developing private labels, and increasing the share of goods in the Low-Medium price segment. In addition, the Company aims to reduce purchase and retail prices and improve the financial terms of payment in Detsky Mir's favor.

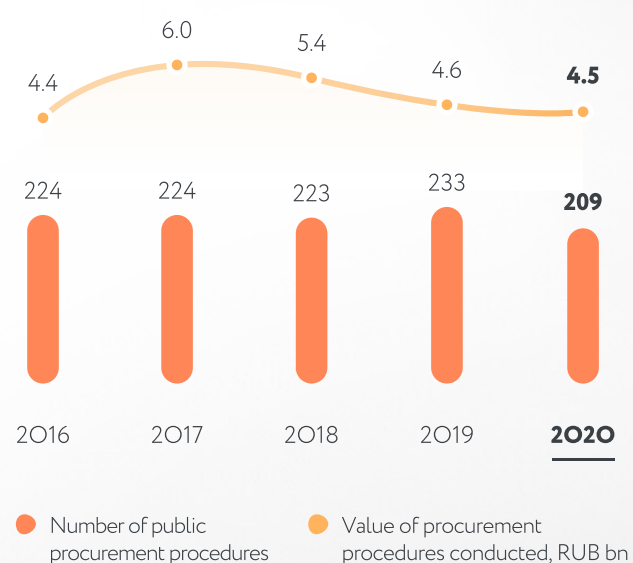


OPERATIONAL PROCUREMENT

Purchasing goods and services for our own needs is a priority business area. It covers categories such as advertising and marketing services, transport services, construction and installation work at new facilities, equipment for stores and distribution centers, IT services, and others. For the Company, both the quality of the purchased goods and services and reasonable prices are important.

In 2020, we made every effort to ensure that the needs of the business were met on time and at the lowest possible cost, despite the coronavirus restrictions and significant exchange rate fluctuations. Procurement procedures were optimized by signing long-term contracts, consolidating demand, and via other methods.

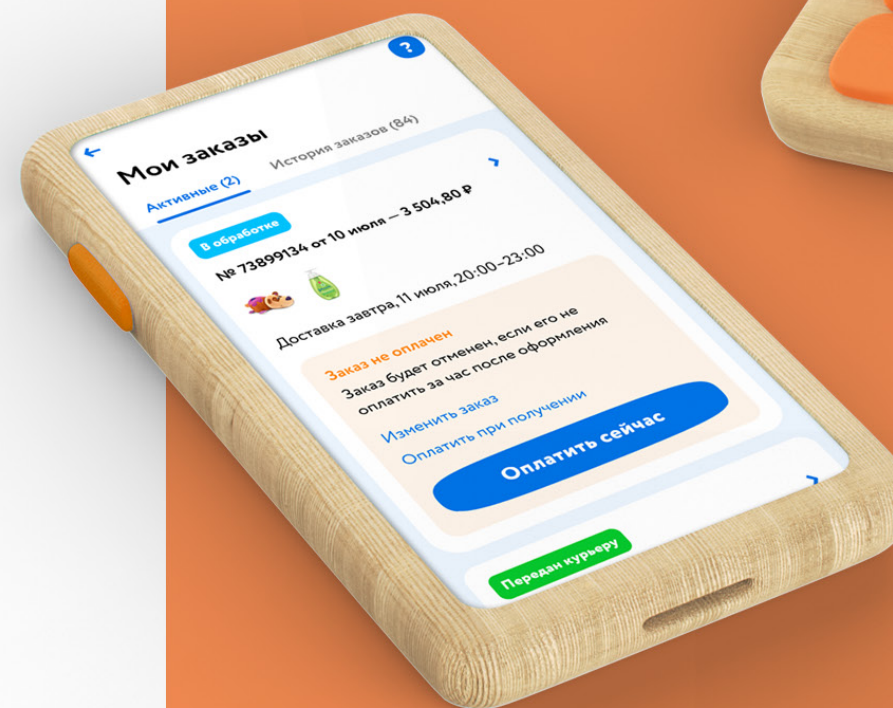
Public procurement procedures



We consider procedural transparency to be a priority for the Company's procurement policy. By using the two largest electronic platforms to conduct procurement procedures, we have been able to increase competition among procurement participants, which has minimized price increases (seen mainly due to currency risks). In some areas, prices were even lower than previously.

Depending on the specific nature of pricing in various market segments, we differentiate our approach to procurement procedures. In some cases, long-term contracts are signed, while in other cases, prices are revised monthly or quarterly. Detsky Mir considers market trends and looks at various options for cooperation and price fixing, and always delivers on its commitments to counterparties.

In 2021, the Company plans to further enhance the level of competition and transparency of its procurement procedures, finding a balance between the economic and efficient spending of funds and growing business needs.



PET SUPPLIES

At the end of 2018, the Company launched a pilot to enter a new market: pet supplies. As a result, four stores were opened under the new Zoozavr brand. In 2019, the Company decided to continue developing this area, and six additional stores were opened.

The Zoozavr chain offers products from leading manufacturers in all major categories: pet food (including medicinal), veterinary drugs, cosmetics, hygiene products, grooming products, and much more.

In the reporting year, the Company decided to fully develop this area, expanding the chain to 20 stores, primarily in the Moscow and Central regions.

500 NEW STORES

in the medium term

Alongside the retail chain, the online pet supplies store zoozavr.detsky-mir.ru was launched. Orders can be picked up at any Detsky Mir store or be received through the courier delivery service.

In 2020, the online channel's share of total sales for the segment reached approximately 56%. At the same time, online orders delivered directly from distribution centers accounted for at least 30% of all online sales.

During the lockdown period, all Zoozavr stores continued to operate as usual, resulting in a high sales growth rate year-on-year. This once again confirms that the pet supplies market is highly resistant to external social and economic shocks.

Zoozavr is an opportunity to consolidate a large, fragmented, and growing market (see the [Our Markets](#) section) through synergies with the Company's core businesses.

At least 70 Zoozavr stores will open in 2021, and our medium-term aim is to increase the number of outlets to 500. At the same time, the online share of total revenue from pet supplies should not fall below 30%.

SYNERGY WITH CORE BUSINESS

- Single target customer audience
- Unified loyalty program
- Ability to produce pet supplies from several manufacturers of children's products
- Use of existing sales channels: pickup from stores and partner pickup points, website, and the detmir mobile app
- Development of online product range through the Company's own marketplace
- Use of existing logistics: distribution centers and transport facilities
- Extensive financial and management resources relative to other players
- High operational efficiency of business processes

ZOOZAVR STORE FORMAT PROFILE

- Total space: **100–150 m²**
Selling space: **80–100 m²**
- Store locations: **mostly outdoor venues** or in shopping centers next to food retail stores
- Wide product range: **6,500 SKUs** (retail) and more than **10,000 SKUs** (online)
- Planned **launch of private label goods** in 2022 (up to 30% of a store's revenue)
- Effective online coverage of all of Russia through Detsky Mir stores
- Omnichannel pricing policy and price leadership strategy

3003ABP 

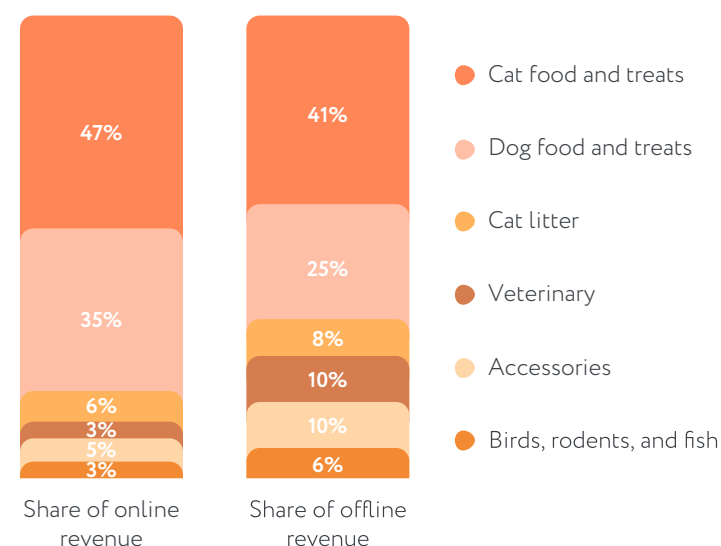


ZOOZAVR STORE SALES STRUCTURE



Zoozavr sales by product group

The Zoozavr store product line consists of 6,500 SKUs across all pet supply categories. Pet food is a key category providing two-thirds of all sales. At the same time, Fashion is the category with the highest margin. The Veterinary Medicine category is also a strategically important area, especially when it comes to competition with online players.



ZOOZAVR STORE FORMAT ECONOMICS

Taking into account the existing product structure and the planned share of private label sales* (at least 30% by 2023), the target gross profitability for the Zoozavr chain is approximately 38%.

As a result, the baseline expectation is that a store's EBITDA margin will be in the range of 13%–15% after reaching full capacity. EBITDA breakeven is achieved within the first year of the store opening.

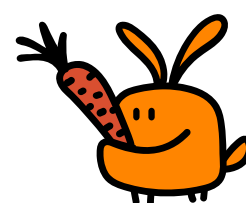
Within the financial model, a Zoozavr store has a 30% internal rate of return (IRR) based on projected cash flow for seven years excluding terminal value, with the store's ramp-up period to full capacity calculated as 36 months. Capital investments to open one store amount to RUB 3–4 m.

* Private labels are set to be launched in this segment in Q1 2022.

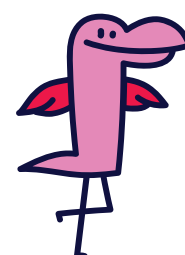
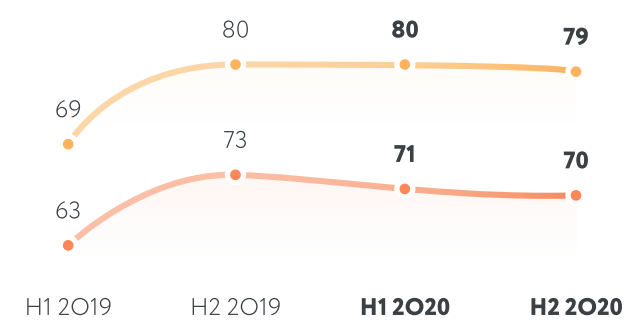
ACTIVE MARKETING SUPPORT

Holders of Detsky Mir bonus cards can take advantage of the Zoozavr loyalty program, which allows them to receive 2% bonuses on purchases and compensates them for up to 100% of the cost of goods. Loyalty cards make up around 80% of Zoozavr sales.

The Company actively uses promotions across all pet supplies sales channels. At the moment, while the chain is actively expanding, promotions bring in 40% of sales (target value is 30%).



- Share of loyalty customers in sales, %
- Share of loyalty customers in number of orders, %



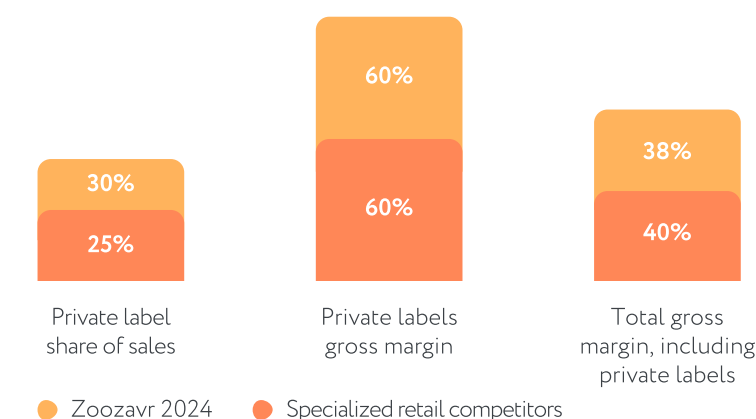
PRIVATE LABEL DEVELOPMENT



At the end of 2020, the Company developed a road map to launch private labels in the pet supplies segment.

- Seven private labels, or 600 SKUs
- Categories: cat and dog food and treats, fillers, toys, clothes, and other accessories
- Countries of origin: Russia, China, Italy, and Japan
- Synergy with private labels in the children's segment (logistics and production facilities)
- Sales launch in Q1 2022

The Company also plans to switch to direct contracts with pet supply manufacturers. For example, at the beginning of 2021, a direct contract was signed with Royal Canin, the world's largest pet food manufacturer.



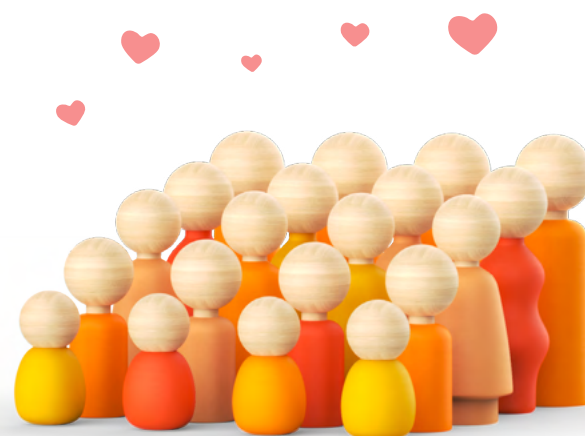
CUSTOMER EXPERIENCE

IMPROVING THE CUSTOMER EXPERIENCE

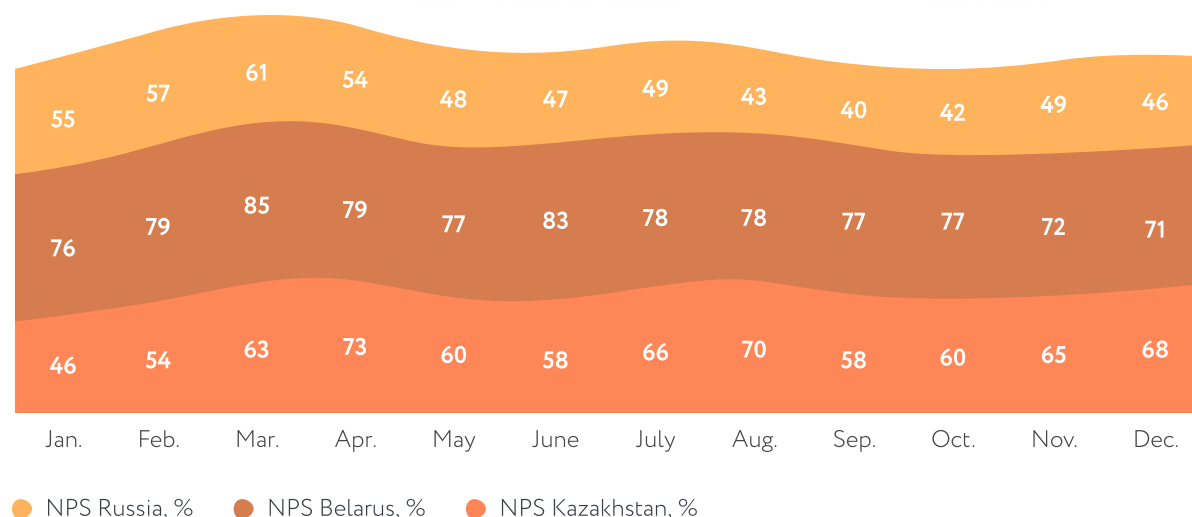
Creating a positive customer experience lies at the heart of Detsky Mir's strategy. The Company has a full customer feedback cycle including collection of data at key points of contact, analysis, and development and execution of action plans as required.

In 2020, a daily customer experience assessment was introduced. The day after making a purchase, customers receive an email inviting them to take a survey. By the end of the reporting year, the Company had received approximately 1 m responses.

Customer satisfaction is monitored by measuring quantitative indicators:



NPS in 2020*



Net Promoter Score (NPS)

Measures loyalty to a company through a customer's willingness to recommend it to friends and acquaintances. The index is included in the leadership team's incentive plan.

Customer Satisfaction Index (CSI)

Allows a company to evaluate the experience of a customer's last purchase. The indicator is included in the incentive plan for retail store personnel.

Customer feedback is becoming a catalyst for changes in business processes, website and mobile app interfaces, and retail store design.

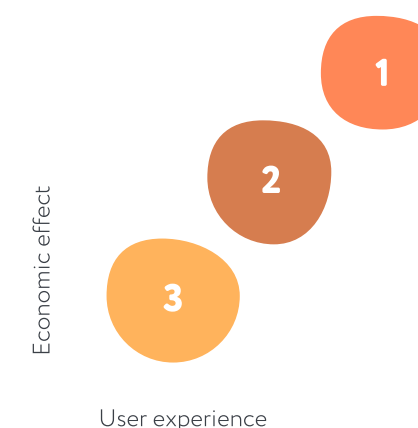
New personal accounts were introduced in 2020 to provide greater convenience for customers. In particular, the Favorite Store filter and an option to extend the order holding period were added.

Positive changes inspired by customer feedback were also implemented in retail stores, with projects to expand the checkout area and change the location of cash registers implemented. As the world struggled with the COVID pandemic, providing a safe shopping experience in stores was also treated as a priority in the reporting year.

NEW PLANNING AND PRIORITIZATION

In May 2020, a major project was undertaken in collaboration with Ernst & Young to assess the current customer experience. As a result, an omni-committee was formed to include representatives of all business processes, a new process for planning and prioritizing tasks was developed, and a road map for improving the customer experience was developed.

- We research customer demand
- We focus on improving NPS and UX quality
- We give priority to improving the customer experience
- We appoint leaders from various divisions
- We centralize feedback from customers



We have a single repository of projects and KPIs for all of the Company's divisions

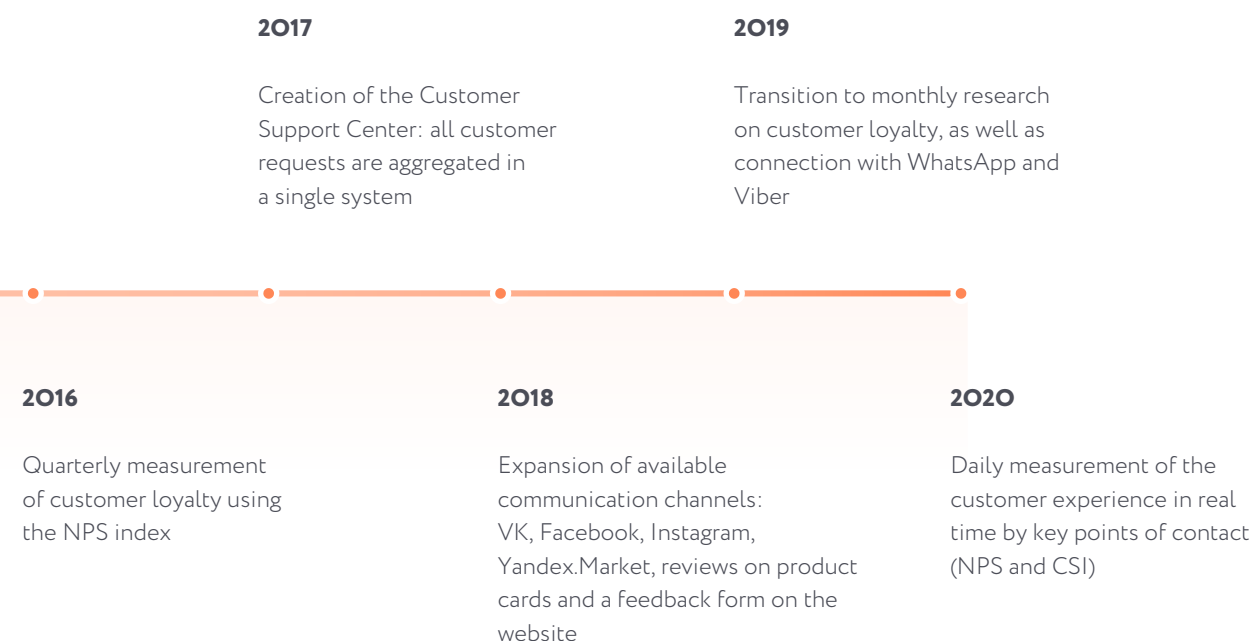
* Data for 2019 is not shown, as it is not comparable with data for 2020 given significant changes in the NPS measurement methodology.

The customer voice is heard throughout the Company. Every month, results are studied by senior management, relevant departments, and counterparties.

This approach allows the rapid implementation of changes to improve the customer experience. All of this has a significant positive impact on customer loyalty, which in turn has a positive effect on Detsky Mir's performance.



Continuous improvement of the customer experience via the Customer Support Center



RESPONSE TIME

All calls and inquiries from customers go to the Customer Support Center as the single point of contact. A unified tracking system makes it possible to maintain a high response rate, comparable with market leaders:

1 MINUTE	web chat
15 MINUTES	VK, Facebook, WhatsApp, Viber, Instagram
2 HOURS	e-mail, feedback form on the website



REDUCING ORDER PROCESSING EXPENSES AT THE CUSTOMER SUPPORT CENTER

The increase in the level of automation at the Customer Support Center, the development of a new interface for the Hybris Cockpit operator's workplace, and the improvement of business processes in the reporting year made it possible to reduce the cost of processing a single call at the Customer Support Center by 2.5x compared with 2019, down to RUB 2.7.



VOICEBOT

27% of incoming calls regarding order status are processed automatically using a voice assistant.

It takes an average of 30 seconds from the moment the call is received until the customer is notified of the order status. The introduction of the new technology has made it possible to increase the efficiency and speed of processing incoming calls, reduce the load on the Customer Support Center, and optimize expenses.



WEB CHAT (24/7/365)

In 2020, a web-based chat facility was launched that allows customers to get advice without interrupting their purchases on the site. The Detsky Mir team is ready to help customers 24/7, with an average response time of less than one minute.

LOYALTY PROGRAM



26.8m

CUSTOMERS

The number of loyalty program members has been growing in Russia. By the end of 2020, 26.8 m customers had loyalty cards (+3.8 m people in comparison with to 2019). Program participants accounted for 74.4% of total tickets and 83.5% of total sales. Card holders' average ticket is nearly 75% higher than non-loyalty card customers.



640k

CUSTOMERS

The loyalty program at Detsky Mir stores in Kazakhstan is also rapidly gaining traction, with 640,000 members registered as of the end of 2020 (up by 135,000 year-on-year). Loyalty cardholders accounted for 76.5% of total sales and 68.4% of total tickets. Cardholders' average ticket is nearly 50% higher than that of non-loyalty card customers.



146k

CUSTOMERS

In 2020, we continued rolling out the Detmir chain in Belarus. By the end of 2020, loyalty cards had been issued to 146,000 customers (an increase of 78,000 year-on-year). Program participants accounted for 78.6% of total tickets and 84.4% of total sales. Cardholders' average ticket is 47% higher than that of non-loyalty card customers.

A unified bonus program is in place at Zoozavr pet supply stores. The system works in the same way as at Detsky Mir, with 2% bonuses accrued on purchases. Customers can use bonus points to pay for up to 100% of a purchase. By the end of 2020, loyalty cards had been issued to 106,000 members (+65,000 year-on-year). Program participants accounted

for 67% of total tickets and 76.7% of total sales. Cardholders' average ticket is 63% higher than that of non-loyalty card customers.

In 2021, the Company plans to introduce family bonus cards. Loyalty program members will be able to accumulate bonuses on a single-family bonus account, which will

increase their engagement in the bonus program and increase the level of customer service.



GIFT CARDS

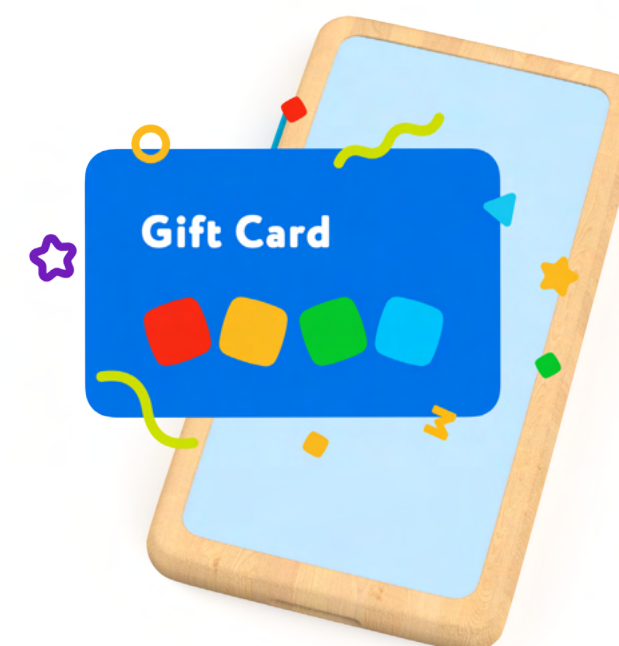
Detsky Mir Group is expanding its projects aimed at improving its customer service level. Gift cards and electronic gift certificates remain an important sales driver in the business-to-customer (B2C) and business-to-business (B2B) segments.

As of the end of 2020, the Detsky Mir's revenue from the sale of gift cards and electronic gift certificates in the B2C and B2B segments had increased by 8% year-on-year to RUB 2.8 bn. B2B sales had increased by 40% year-on-year, demonstrating the product's popularity, including among Detsky Mir's corporate customers.

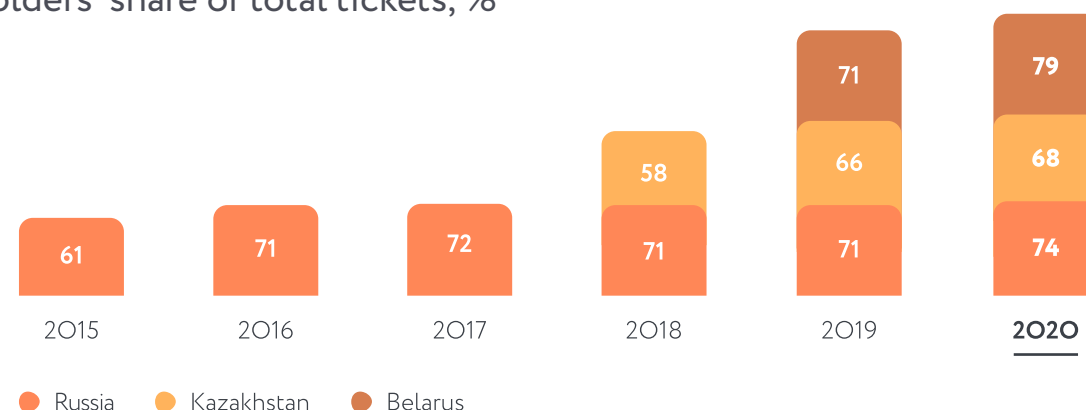
Stable growth in Detsky Mir gift card sales was demonstrated in Kazakhstan and Belarus, where sales volumes increased by 31% and 344%, respectively.

Electronic gift certificates can be purchased in the detmir.ru online store and on partner sites for use in Detsky Mir retail stores. In 2020, the share of electronic gift certificates (out of total gift card sales and certificates) increased by almost 1.5x to 20%.

In 2021, we plan to continue developing the B2C and B2B segments for gift certificates, as well as launch a new service to use gift cards and electronic gift certificates as payment for goods on the detmir.ru website.



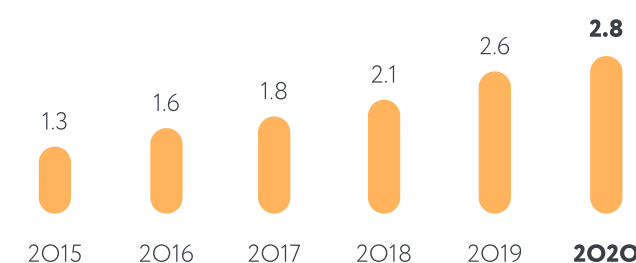
Cardholders' share of total tickets, %



Cardholders' share of total sales, %



Gift card and electronic gift certificate sales, RUB bn



CRM SYSTEM

In 2020, the Company launched a number of projects with the help of the Mindbox CRM system. Mindbox integrates all customer data into a single profile and supports data deduplication, cleaning, analytics, and segmentation by behavior and purchases.

By deploying this system, the Company has aggregated all of its customer data in one place. Using this data, we were able to set up automatic communication with customers.

Mailings have become personalized, with subscribers receiving offers depending on their interest in certain categories of goods.

SYNCHRONIZATION OF THE NEW MOBILE APP

The Company has synchronized a new mobile app with the CRM system and has begun to transfer information to a single customer database. This has made it possible to set up automatic trigger chains to activate or win a customer back inside the mobile app.

We also synchronized encrypted customer data with advertising accounts on Yandex.Audience, Google, Facebook, MyTarget, VK.com, etc. This has allowed the Company to interact with different audiences on external advertising platforms and personalize advertising to attract, retain, and win back customers.

The value of direct online orders increased 2.5x year-on-year in 2020.

AUTOMATING NPS DATA RETRIEVAL

After making a purchase in a retail or online store, each customer automatically receives a survey by e-mail asking them to rate the level of service. This data is aggregated for further analysis and to find solutions to potential issues.

CASCADING ORDER NOTIFICATION SYSTEM

Each user first receives an e-mail notification and then a push notification. If the push notification is not delivered for any reason, an SMS message is sent. This change can reduce the SMS notifications budget for the online store by up to 80%.

2021 PLANS FOR CRM SYSTEM DEVELOPMENT

In 2021, based on CRM data, product recommendations will be implemented on the site using machine learning (look-alike algorithms). Each user will be assigned to a specific cohort based on their behavior on the website and in the mobile app, as well as their purchases in the online store and retail stores.

The Company will use several types of recommendations:

- Personal selection of products—these products are most likely to be of interest to users now
- Similar products — shown on the product page in the online store. Products from the same cohort and that have similar characteristics to those ordered by customers (i.e., similar purchasing behavior) will be selected automatically

FAIR ADVERTISING

Detsky Mir's Legal Department vets all advertising prior to publication. Transparency, integrity, and regulatory compliance are key principles in its advertising materials.

In line with the Russian government's announcement of a lockdown regime and the introduction of rules to combat the spread of COVID-19 and minimize traffic in retail stores, Detsky Mir refrained from running TV ads from 5 to 22 April 2020. While most retail chain stores continued to operate during lockdown, we did not consider it appropriate to encourage customers to visit stores through additional advertisement of products or ongoing promotions.



LOGISTICS

LOGISTICS INFRASTRUCTURE

Robust logistics infrastructure is one of Detsky Mir's key advantages, and makes it possible to ensure fast delivery of online orders, availability, and a wide selection of goods in all regions of the country.

The Company currently owns the federal PNK Bekasovo 1 and Bekasovo 2 distribution centers, which have a total area of 132,500 m².

Our strategic goal is to provide next-day delivery for at least 80% of all online orders by building an efficient regional logistics network (see the [Strengthening Leadership in the Children's Segment](#) section).

In July 2020, the Company opened the first regional distribution center on the territory of a Class A+ industrial park—PNK Park Rostov-on-Don (South Distribution Center), which was developed by PNK Group.

The new 35,000 m² distribution center complex has an advantageous location in close proximity to the M-4 Don highway, 7 km from Rostov-on-Don and 20 km from Platov Airport. Detsky Mir has leased 6,000 m² of distribution center space for seven years with the possibility of further expansion. Total capex in the project is approximately RUB 100 m.

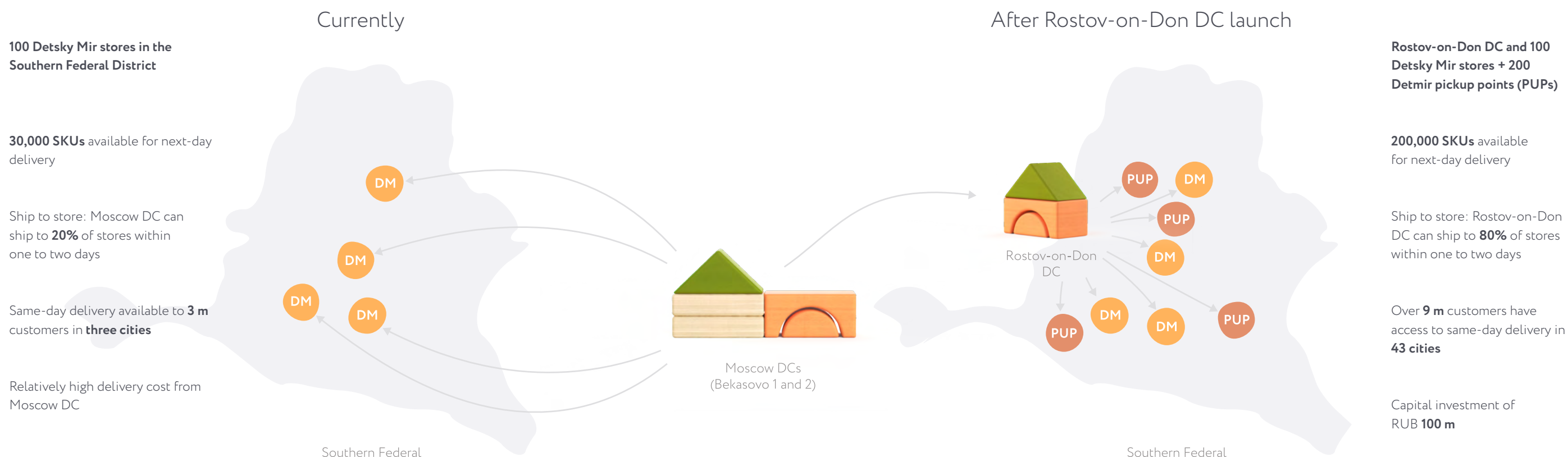
The complex fully complies with modern requirements for such terminals. The new regional distribution center, designed to process up to 200,000 SKUs, provides fast and uninterrupted delivery of online orders in the Southern Federal District.

195,000

Online orders were shipped in H2 2020 from the South Distribution Center

Maria Davydova,
CEO of Detsky Mir:

“The opening of the new distribution center is strategically important for us because it will enable us to provide next-day delivery to customers across the entire federal district. I am confident that the facility will meet our expectations, and we will continue to open similar logistics centers throughout Russia.”



At the end of the reporting year, the Company signed agreements to open a second regional distribution center with an area of 8,000 m² in Kazan using the Russian Post fulfillment service, and a third distribution center with an area of 63,200 m² near Yekaterinburg. From 2022 to 2024, Detsky Mir plans to commission two more regional distribution centers and one federal distribution center (see the [Strengthening Leadership in the Children's Segment](#) section).

DISTRIBUTION NETWORK AS OF 31 DECEMBER 2020

2 federal distribution centers

33% of inventory

Moscow Region

Concentration of all goods (capacity of up to 2.4 m SKUs) in a total space of more than 132,500 m²

Distribution of goods to stores and regional centers, as well as to partner pickup points and directly to online customers

5,700 partner pickup points

Russian cities

Online order fulfillment

1 regional distribution center

1% of inventory

Rostov-on-Don

Storage of the most popular assortment (capacity of up to 200,000 SKUs)

Next-day delivery of goods to stores, as well as to partner pickup points and directly to online buyers within a radius of 500 km

868 stores

Detsky Mir, Detmir Pickup, and Zoozavr

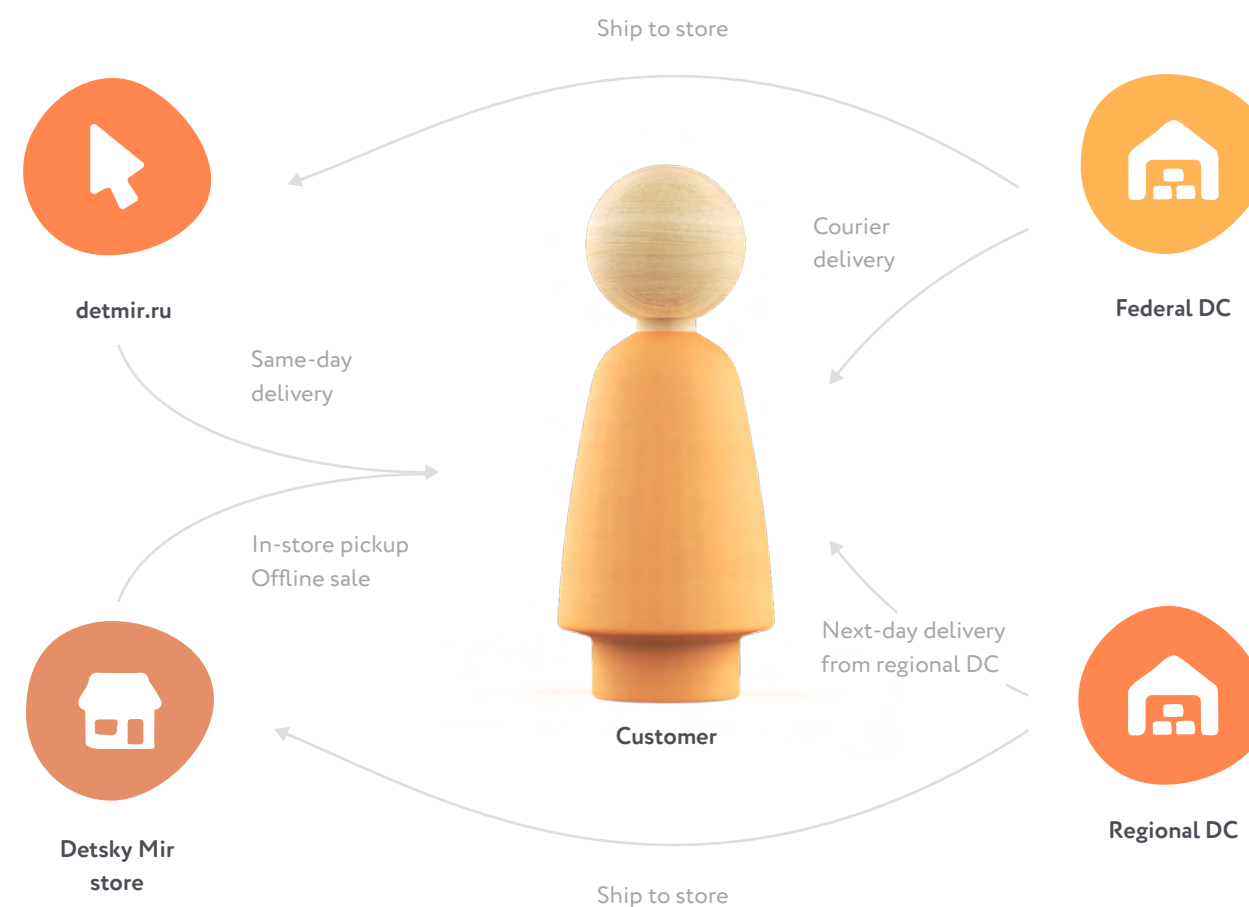
66% of inventory

331 cities in Russia, Belarus, and Kazakhstan

Storage of product assortment (20,000–30,000 SKUs)

Distribution of online orders to buyers

PROXIMITY TO CUSTOMERS IS THE FOUNDATION OF OUR LOGISTICS ARCHITECTURE



Stores are an important element of the Group's logistics infrastructure. Their space is used as mini-distribution centers for assembly and pickup of online orders. They are used for express home delivery, which was of particular importance

during the lockdown. The Group's current logistics system provides a solid basis for its online business and further scaling due to simultaneous replenishment of both retail outlet and online store inventory.



IMPROVING OPERATIONAL EFFICIENCY

In 2020, the Company continued focusing on the operational efficiency of its logistics. Changes implemented included transitioning distribution center employees to a unit-based form of remuneration, revision of both existing and new business processes related to the growth of online sales and development of the marketplace, and streamlining the work of distribution center employees by developing new user interfaces for data collection terminals.

Staff productivity increased by 32.1% year-on-year.

CENTRALIZING SUPPLIES

Uninterrupted availability of goods on store shelves is ensured through effective control and management of inventory levels and product distribution processes. In this regard, one of our main tasks is to maintain the level of supply centralization (share of goods passing through our own distribution center).

In 2020, the level of centralization of the Detsky Mir chain was 80%, while for the Detsky Mir online store it was 100%. By comparison, prior to the launch of the Bekasovo distribution center and the transition to the SAP platform in 2014, the level of centralization was 26%.

In the medium term, the Company aims to maintain a high level of centralization, which will increase sales, eliminate stockouts (situations where there is no product on the shelf) and create a high-quality logistics platform to further scale up the business.

The Company also reduces distribution center expenses for assembling online orders from year to year. Thanks to increased productivity and automation of business processes, distribution center expenses per online store order decreased from RUB 255 in 2018 to RUB 164 in 2020 (-35.6%).



MANAGING GOODS SUPPLY AND INVENTORY

In 2020, the total volume of incoming deliveries amounted to more than 37,000 transport units. About a third of the total volume of supplies through the distribution center were accounted for by the Company's imports from Southeast Asia and Europe; the remainder were goods from Russian suppliers.

The Company's undisputed priority is the constant development and optimization of inventory and transportation management systems.



SUPPLY

SOUTHEAST ASIA

Most deliveries from Southeast Asia arrive by sea on FOB/FCA (free on board / free carrier) terms through the Baltic ports of unloading (St. Petersburg, Ust-Luga).

Customs clearance is conducted primarily electronically (through the Federal Customs Service's Electronic Declaration Centers), as well as at customs posts in the Moscow region.

The choice of carriers (forwarders) for delivery of goods from Southeast Asia and Europe is conducted through annual public requests for proposals with subsequent monthly quotation of tariffs.

EUROPE

Deliveries from Europe arrive by road mainly on FCA/EXW (free carrier / ex works) terms.

RUSSIA

Goods from Russian suppliers are delivered to Detsky Mir's distribution centers by suppliers at their expense. At the end of 2020, approximately 70 transport companies were also responsible for delivering goods from distribution centers to stores.

COURIER DELIVERY

Courier delivery of online orders to customers' homes is also handled by Group partners (more than 10 partners at the end of 2020). With the development of express delivery, the Company is also using its own courier service in various districts across Moscow.

Orders are generated in the SAP ERP system based on PUSH (initial delivery of a new/seasonal assortment) and PULL (subsequent auto-order) principles and are sent to the distribution center in the SAP EWM system, where the goods are collected and prepared for shipment.

Flight routing is handled automatically using a proprietary cargo management system based on the SAP Transportation Management System (TMS) ERP. The system takes into account shipment and delivery schedules, store opening hours, as well as other requirements and restrictions. Deliveries from the distribution center to stores are mainly done by road, and multimodal deliveries are also used.

LOGISTICS DURING COVID-19

Long-standing trust-based partnerships with transport companies have allowed us to maintain uninterrupted supplies to the chain's stores with minimal changes in tariffs against the backdrop of increased demand for online orders.

The disruption of the production cycle in China in early 2020 led us to reorient transport flows to an accelerated rail service in order to reduce transit time and deliver batches on time. At the same time, the difference in the cost of transportation was offset by suppliers. As a result, the Company provided the required level of children's goods in a timely manner.

The distribution centers also quickly adapted to new requirements aimed at combatting the spread of the virus. All personnel received training, and outsourcing companies provided maximum support, with packaging and shipment of goods taking place as usual.

During the first months of the pandemic, Detsky Mir assisted medical institutions in Moscow and the Moscow Region by delivering personal protective equipment. More than 200,000 medical suits were delivered from China.

Maria Davydova,
CEO of Detsky Mir:

“We have set ourselves the ambitious target of growing the share of online sales to 45% in the medium term by developing direct delivery and in-store fulfillment of online orders. We have set our sights on offering next-day delivery on at least 80% of all online orders by building out a robust regional logistics network.”



INFORMATION TECHNOLOGY

Investment in business digitalization is one of the main drivers of the Group's development. The Information Technology (IT) Department supports the continuous development and automation of the Company's operations. The IT Department is involved in almost all business unit projects.

In 2020, the IT Department continued to expand its in-house development staff, reducing time to market for the Company's digital products and reducing reliance on external development teams.

KEY DETSKY MIR IT PROJECTS IN 2020



MARKETPLACE

In 2020, the first stage of the marketplace project was launched for the Fashion category. The Information Technology Department supported the development of the required processes based on SAP software and provided the possibility of storing remaindered goods from new suppliers at the Bekasovo 1 distribution center and commission-based product sales. A basic interface for the dashboard for new suppliers was developed, which supports expansion of the entire assortment.



E-COMMERCE

In 2020, cooperation with the Company's E-Commerce Department continued to drive strong growth in online sales. The online store's first regional distribution center was launched in the Southern Federal District. Automation of express delivery to customers within several hours was secured both by contractors and by our own couriers. The website's shopping cart was completely redesigned. And our own mobile development teams accelerated mobile app development on the iOS and Android platforms.



MAIN DATA CENTER EQUIPMENT UPGRADE

In early 2020, the IT Department completed the upgrade of the Main Data Center's equipment, creating opportunities to further scale up the business 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.



MARKETPLACE

In 2021–2023, the marketplace project will continue, with the aim of increasing automation of interaction with suppliers and customers, as well as maintaining assortment growth to 2.4 m SKUs. In 2021, we will implement a number of projects to provide direct integration between partner.detsky.mir.market and SAP software in terms of maintaining data on suppliers, products and product certificates, deliveries, and product orders. Interaction with respect to promotional campaigns will be automated. Comparison of prices with competitors will also be automated, providing a guarantee that customers will get the best price.



E-COMMERCE

In 2021–2023, the Company plans to expand the network of regional distribution centers for the online store. In 2021, the first 3PL format distribution center will be launched in Kazan in cooperation with Russian Post. The IT Department will oversee integration with an external 3PL operator and the development of tools to monitor service level compliance (SLA) for both receipt and shipment of Detsky Mir products. In 2021, the IT Department will also support e-commerce expansion in Kazakhstan (launching courier shipments to customers from stores and a mobile app for the online store) and Belarus (launching a website and accepting orders from customers using the in-store pickup scheme).



LOGISTICS PROJECTS

In 2021–2022, the IT Department will support the launch of a proprietary center in the Urals. This will include installation of distribution center IT systems, as well as required developments based on SAP ERP and SAP EWM software, to support the necessary automation of logistics processes. A project to optimize the transport management system (TMS) will be also be launched in 2021.

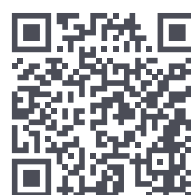


MAIN DATA CENTER CRITICAL EQUIPMENT RESERVE CAPACITY

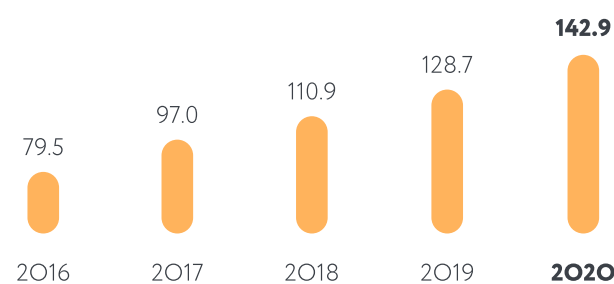
At the end of 2021, the Company plans to activate a number of critical reserve capacities at the Main Data Center, ensuring increased fault tolerance capabilities for the business. These capacities will be ordered based on the private cloud model with the availability of a dedicated IT infrastructure for the customer that is similar to the Main Data Center, with an option for operational expansion.

FINANCIAL OVERVIEW

Amid a challenging domestic and global macroeconomic environment in Russia and globally, further complicated by the coronavirus pandemic, Detsky Mir strengthened its leading position in the children's goods market in Russia and Kazakhstan while continuing to actively develop its business in Belarus. In 2020, the Group's revenue increased by 11.0% year-on-year to RUB 142.9 bn. Like-for-like (LFL) sales in Russia and Kazakhstan grew 3.9% owing to efficient pricing and product expansion. At the same time, Q4 results showed that we managed to accelerate the rate of business growth to 14.3% and establish a trajectory of steady LFL growth in number of purchases made in stores (traffic).



Group revenue, RUB bn

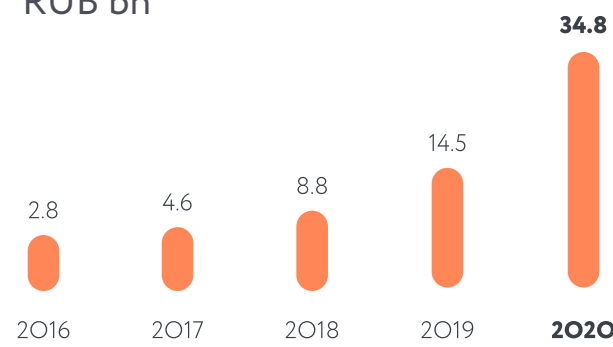


In 2020, Detsky Mir demonstrated explosive growth in online sales: revenue from the online segment grew 2.4x year-on-year to RUB 34.8 bn. The share of online sales in total revenue for the Detsky Mir chain in Russia increased 2.2x year-on-year to 25.2%. In Q4 2020, the share of online sales was nearly 30%.

Click and collect still accounts for the majority of all digital sales (82.2%). At the same time, the Company continues to actively develop direct delivery methods for online orders.

The following categories led online sales: Stationery, Books, and Multimedia (+261%), Food (+219%), Fashion (+184%), and Toys (+131%). The highest level of purchasing activity was seen in Moscow, St. Petersburg, Nizhny Novgorod, Yekaterinburg, and Perm. For more details, see the [Omni-Channel Platform section](#).

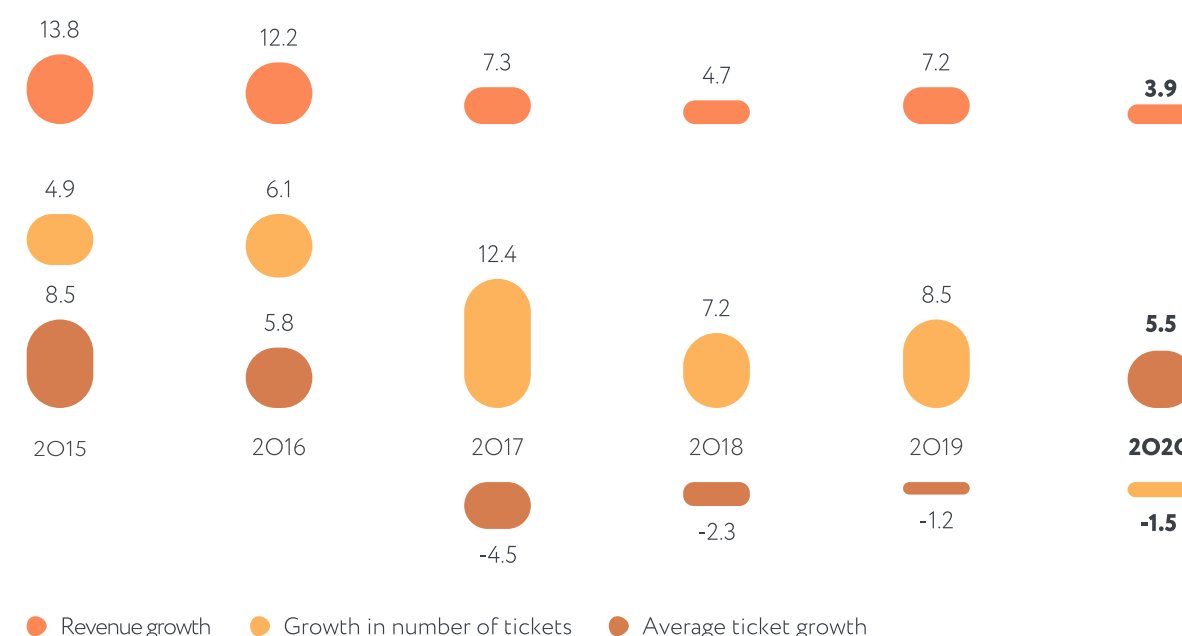
Group online revenue, RUB bn*



* Here and hereinafter, the segment includes online orders on the detmir.ru website, including pickup from Detsky Mir retail stores in Russia.

Revenue growth in the reporting year was also driven by the opening of 93 stores, strong LFL sales growth for the Detsky Mir in Russia and Kazakhstan, and increased efficiency at stores that opened in 2019.

LFL sales growth in Detsky Mir stores in Russia and Kazakhstan*



Detsky Mir achieved its annual target for expansion of the retail network: most openings—59 stores—took place in Q4 2020. During the reporting year, the Company opened a total of 71 Detsky Mir stores, as well as 12 Detmir Pickup stores and 10 Zoozavr stores.

At the end of the reporting year, the Detsky Mir Group's retail chain included 868 stores: 832 Detsky Mir stores in 331 cities across Russia, Kazakhstan, and Belarus; 16 Detmir Pickup stores; and 20 Zoozavr pet

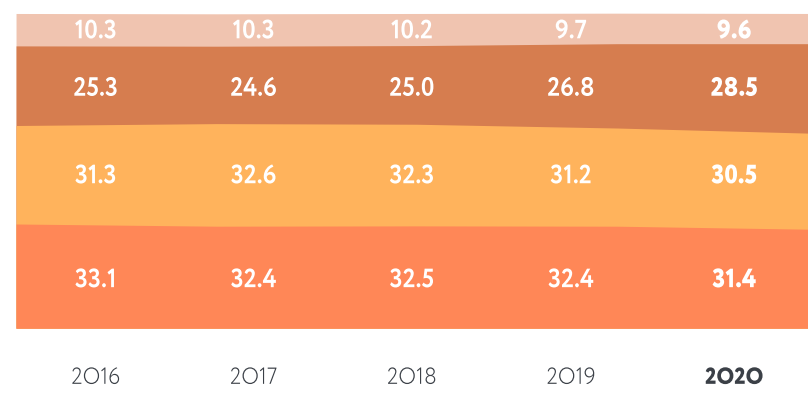
supply stores. The total selling space of the Group's stores stood at 897,000 m² (+6.4% year-on-year).

Despite the enforced temporary closure of most Detsky Mir stores in Kazakhstan due to the spread of COVID-19, the Company quickly arranged for pickup service of online orders at retail outlets, which helped to maintain revenue and ensure positive financial performance. The Detsky Mir chain's revenue in Kazakhstan increased by 1.6% year-on-year to RUB 3.8 bn.

In Belarus, all stores continued normal operations, which allowed the Company to triple revenue year-on-year to RUB 981 m. This was primarily due to a low base and new openings (+5 stores year-on-year).

* Growth of LFL sales in rubles; growth of LFL ticket numbers and the average ticket size are calculated based on the performance of Detsky Mir stores in operation for at least 12 full calendar months preceding the reporting date.

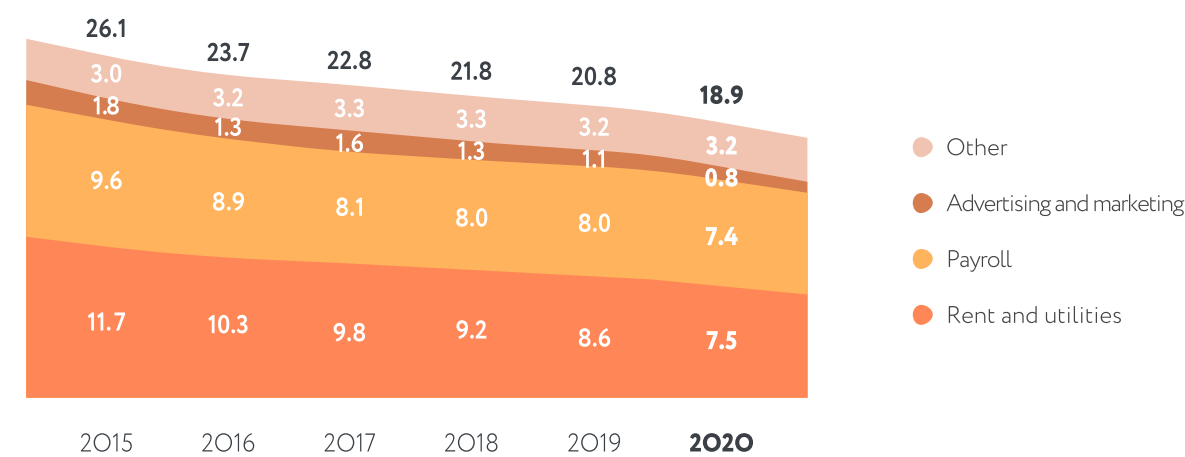
Detsky Mir revenue by product category, %



● Toys ● Products for Newborns ● Fashion ● Stationery and Other Products

Toys remain the main category, accounting for 31.4% of total Detsky Mir sales in Russia in 2020. Fashion is the fastest-growing, increasing its share of total sales by 1.7 p.p. year-on-year. A significant share is also held by Products for Newborns (30.5%).

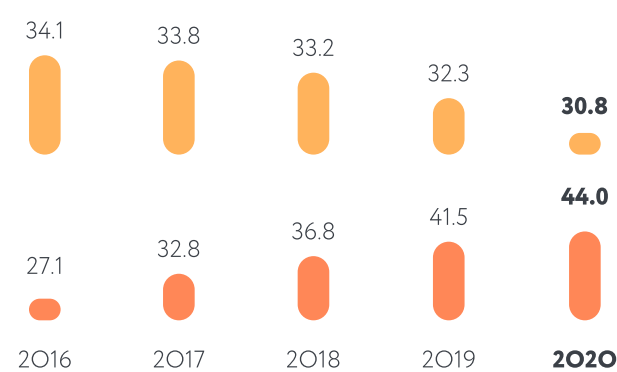
Share of SG&A in total revenue, %*



In 2020, Detsky Mir achieved significant growth in operating profit and set a new profitability record. The high rate of revenue growth, coupled with improved operating efficiency, allowed the Company to increase adjusted EBITDA* by 15.2% year-on-year to RUB 17.0 bn. Adjusted EBITDA margin increased by 0.5 p.p. year-on-year to 11.9%. EBITDA amounted to RUB 17.3 bn (+16.2% year-on-year).

Net interest expenses as a percentage of revenue decreased by 0.3 p.p. year-on-year due to a decrease in the cost of debt obligations and low growth in the volume of debt. The weighted average cost of the Company's borrowings at the end of the reporting year decreased by 1.3 p.p. year-on-year to 6.7% per annum. In April 2020, the Company successfully placed a bond issue of RUB 3 bn with a coupon rate of 7.0% per annum at nominal value.

Detsky Mir Group gross profit



● Gross profit, RUB bn ● Gross margin, %

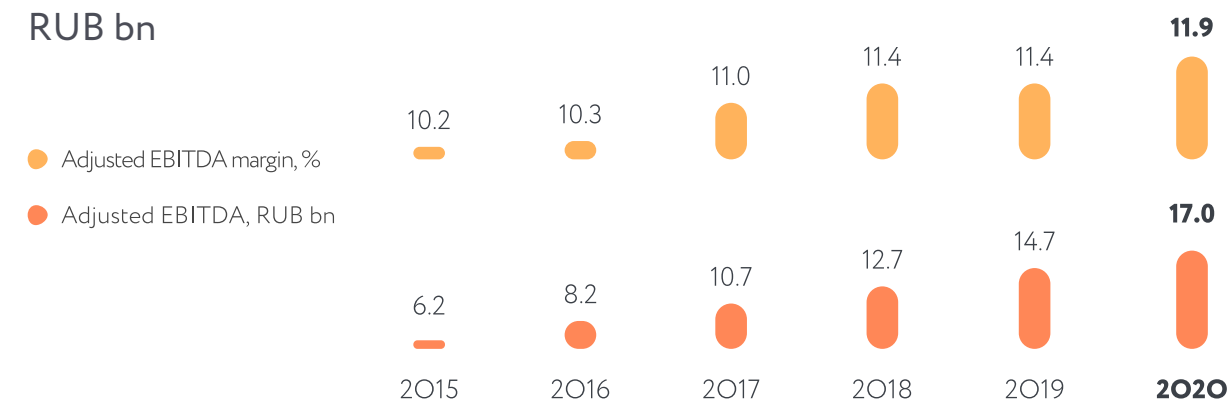
The Company continued investing in prices to attract new customers in 2020. As a result, gross margin decreased by 1.5 p.p. year-on-year to 30.8%. At the same time, the development of our private labels and the transition to direct contracts have given us the ability to offer customers in-demand products at the best market prices while maintaining high margins. The share of private labels and direct imports out of total sales increased to 44.5% (+2.9 p.p. year-on-year).

The Company aims to continuously improve operational efficiency by controlling its operating expenses. At the end of 2020, leasing expenses decreased as a percentage of revenue by 1.1 p.p. year-on-year. Payroll expenses as a percentage of

revenue decreased by 0.6 p.p. year-on-year. Replacing paper leaflets and newspapers with electronic mailings made it possible to optimize marketing expenses as a percentage of revenue by 0.3 p.p. year-on-year.

Adjusted selling, general, and administrative expenses less depreciation and amortization and LTI program payments as a percentage of revenue in 2020 decreased by 1.9 p.p. year-on-year to 18.9%.

Adjusted EBITDA, RUB bn



* SG&A does not include depreciation and amortization expenses for fixed assets and intangible assets or bonus payments, as well as bonus payments to management under the long-term incentive (LTI) program.

An FX loss of RUB 2.1 bn, which significantly affected net profit in 2020, was primarily a non-cash expense due to revaluation of FX-denominated payables. Cash negative FX differences amounted to RUB 634 m.

Adjusted net profit for the reporting year increased by 4.2% year-on-year to RUB 4.6 bn. The adjusted net profit margin was 5.8% (-0.4 p.p. year-on-year).

In 2020, operating cash flow before changes in working capital (adjusted EBITDA) grew by 15.2% year-on-year to RUB 17.0 bn. Investments in working capital amounted to

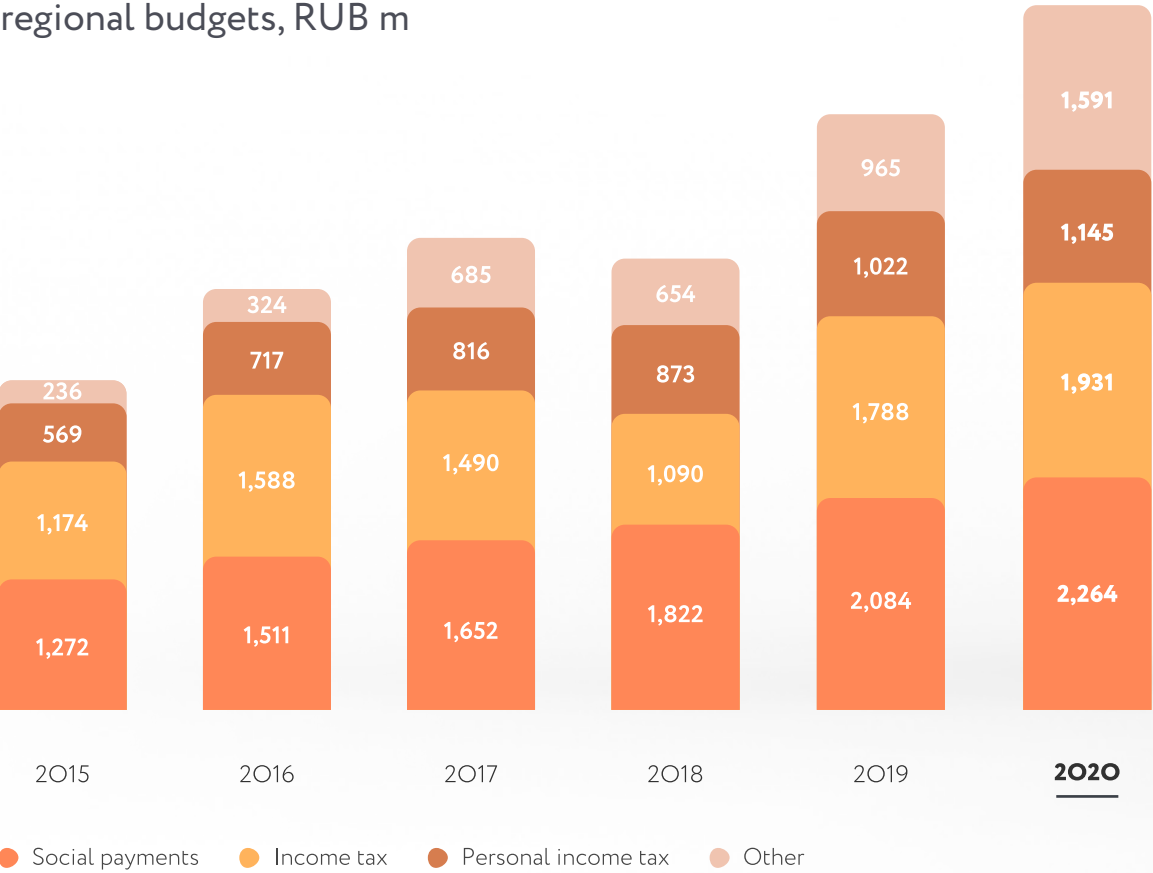
RUB 4.3 bn against RUB 283 m in cash income at the end of 2019. The change in working capital was primarily influenced by worsening inventory turnover during the COVID-19 pandemic in the second quarter, as well as worsening accounts payable due to an increase in the share of product sales with a shorter payment grace period (private labels and direct imports).

Net interest expenses and income tax in the reporting year increased by 4.6% to RUB 3.9 bn. In the reporting year, the Company received other operating cash income amounting to RUB 1.6 bn. Cash outflows in 2019 totalled RUB 348 m. The primary

reason for the change in other operating cash flows was changes in non-cash expense items (provisions for impairment of goods and property, plant and equipment, LTI program accruals, etc.).

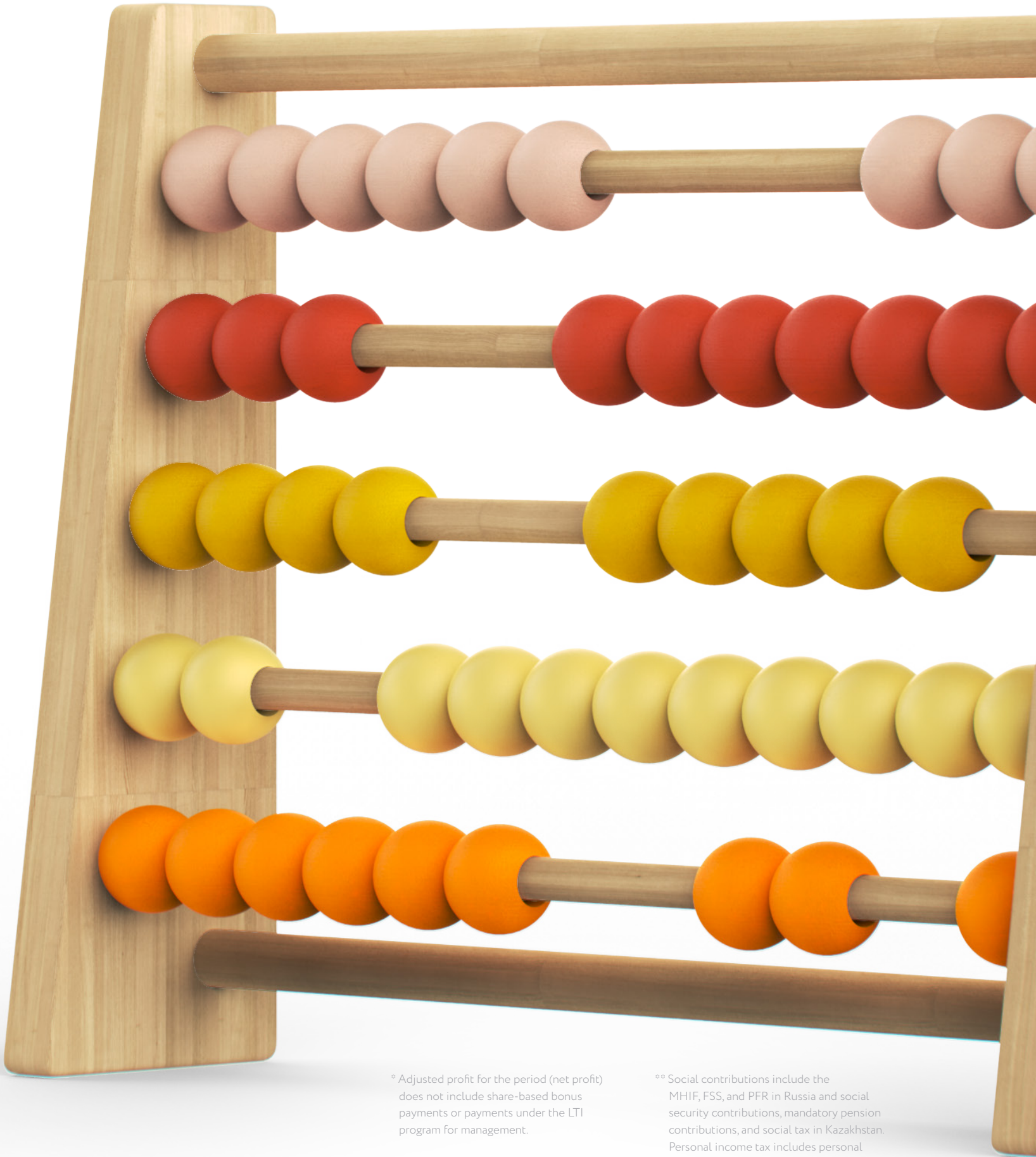
As a result, cash from operating activities in 2020 decreased by 11.1% year-on-year to RUB 10.4 bn.

Tax payments to the national and regional budgets, RUB m



° Adjusted profit for the period (net profit) does not include share-based bonus payments or payments under the LTI program for management.

°° Social contributions include the MHIF, FSS, and PFR in Russia and social security contributions, mandatory pension contributions, and social tax in Kazakhstan. Personal income tax includes personal income tax in Russia and individual income tax in Kazakhstan.



Consolidated cash flow statement highlights

	IFRS (IAS) 17		
	2020	2019	Change, y-o-y
Adjusted EBITDA	16,964	14,725	+15.2%
• Additional change in working capital	(4,298)	283	-
• Interest and income tax	(3,891)	(3,719)	+4.6%
• Other operating cash flows	1,576	348	+352.6%
Cash received from operating activities	10,351	11,638	-11.1%
Cash used in investing activities	(2,358)	(3,467)	-32.0%
Cash used in financing activities	(7,302)	(9,322)	-21.7%
Net increase/(decrease) in cash and cash equivalents	692	(1,152)	-
Effect of changes in exchange rates	(634)	(415)	+52.9%

Cash used in investment activities and for the purchase of fixed assets and intangible assets decreased by 32.0% year-on-year to RUB 2.4 bn in 2020. The decrease in capital investments was due to a slower pace of new store openings, as well as the lack of one-time investments made in the same period of the prior year.

At the end of 2020, the Company allocated RUB 457 m for an advance payment to construct a third regional distribution center in the Urals. The amount of capital

investment in expanding the retail network amounted to RUB 833 m. Investments in the development of IT infrastructure amounted to RUB 801 m.

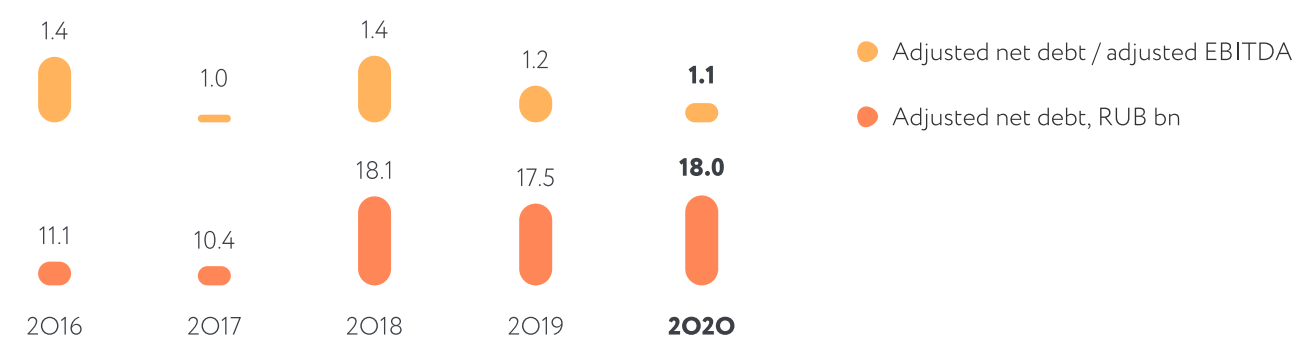
Cash used in financing activities during the reporting period decreased by 21.7% to RUB 7.3 bn. This decrease was due to the need to finance investments in working capital.

As of 31 December 2020, the Company's total debt amounted to RUB 19.8 bn, including 38.3%

short-term and 61.7% long-term debt. Net debt increased by 2.7% year-on-year to RUB 18.0 bn. The Company's debt obligations are fully denominated in rubles. As of 31 December 2020, the Company had undrawn lines with leading Russian and international banks totaling RUB 34.3 bn. The net debt to adjusted EBITDA ratio decreased to 1.1x.

In 2020, the total amount of dividends distributed was RUB 7.8 bn, which corresponds to a dividend yield of approximately 9%.

Adjusted debt and financial leverage*



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

SUSTAINABILITY

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OUR APPROACH TO SUSTAINABILITY



OUR MISSION

Our mission is to create an omnichannel retail chain that creates optimal conditions for society to make safe, high-quality, long-term investments in the younger generation. Since its foundation, Detsky Mir has been guided by the principle that has become the Company's motto: "A happy childhood for all!"



OUR APPROACH TO ESG

For more than 70 years, we have worked to ensure that families with children have access to a wide assortment of quality children's products. In line with principles of sustainability (ESG) and responsible business conduct, Detsky Mir focuses in particular on corporate governance and environmental issues, social responsibility, and charitable initiatives.

The Company's approach to doing business responsibly is becoming more systematic and structured. Understanding the strategic importance of these aspects throughout the Company allows us to deliver consistently high growth rates from year to year and strengthen our leadership in the children's goods market.

The Management Board and Board of Directors regularly review issues relating to responsible business conduct and sustainability. Sustainability is overseen by the Board of Directors, while sustainability initiatives are led by the Working Group on Sustainability, which comprises experts in the field and is chaired by the CFO.



2020 KEY ACHIEVEMENTS

Created a **Working Group on Sustainability**—a single coordination council for the Company's sustainability activities

Updated the **Charter of the Committee on Strategy and Sustainability** at Board of Directors level

Furthered **ESG analysis** and developed a road map to further integrate ESG into the Company's business model and strategy

Launched a **training program on responsible personal and corporate data handling** for all Company employees

Prepared a **debut report on greenhouse** gas emissions (calculation of figures for scopes 1, 2, and 3)

Ran **environmental campaigns at Detsky Mir offices and stores** including collections to recycle clothing and footwear, used household appliances and batteries, as well as waste paper

Increased energy efficiency at our distribution centers and in stores

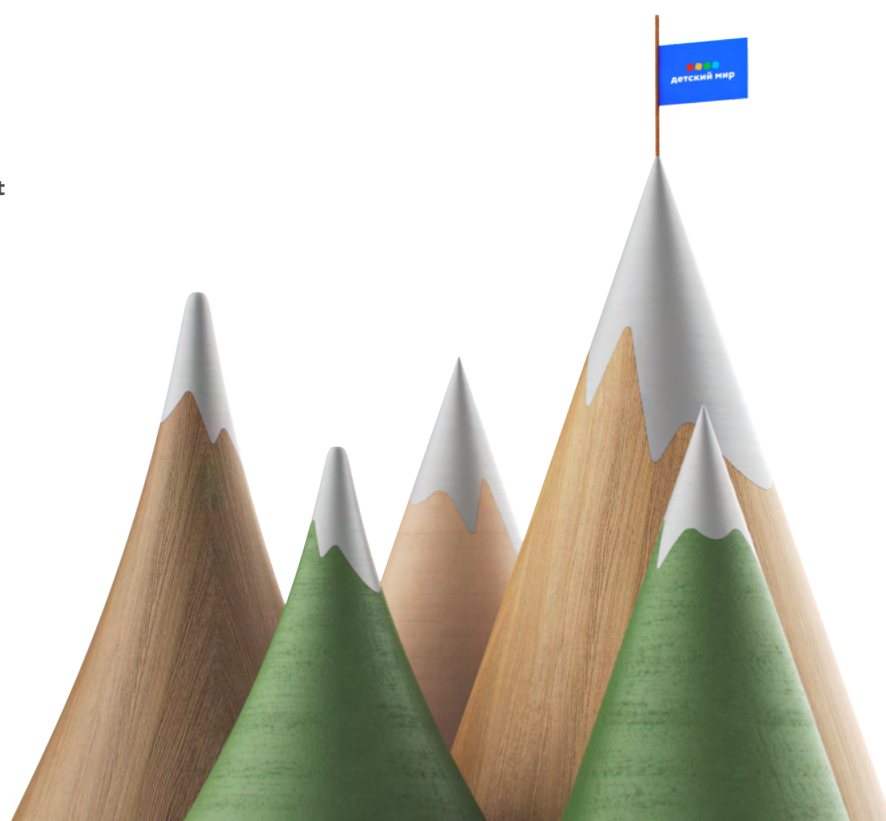
Established environmental requirements concerning transport and fuel for logistics companies

Updated sustainability goals to align with the **United Nations Global Compact** and contribute to the achievement of its agenda

Developed and integrated the following into business processes:

- **Supplier Code of Conduct** (100% of suppliers signed the declaration)
- **Policy on Chemicals Management** (100% of suppliers met an internally established list of restricted chemicals)*

* Approved in H1 2021



2021 TARGETS

Develop the **Sustainability Strategy to 2030** and have it approved by the Board of Directors

Conduct a **debut supplier audit** on suppliers' compliance with sustainability principles

Participate in **international associations and initiatives** including BCI (Better Cotton Initiative) and ZDHC (Zero Discharge of Hazardous Chemicals)

Integrate **Sustainability Strategy KPIs** into the management incentive program

Develop long-term partnerships and joint **initiatives in the fields of the environment and responsible waste management**

Use resources economically: calculation of greenhouse gas emissions and analysis of reduction potential, implementation of energy efficiency, waste disposal, and recycling programs

Improve the Company's score in ESG ratings (from its current MSCI rating of)

Conduct an **in-depth analysis of IT system vulnerabilities**



STAKEHOLDER ENGAGEMENT

Our achievements would have been impossible without dialogue with key stakeholders, which is a core focus for Detsky Mir. Key stakeholders include customers, employees, investors, suppliers, industry organizations, and local communities.

Constant and open dialogue with all key stakeholders gives us 360-degree visibility of our business and allows us to fully reflect all risks and opportunities in our strategy and daily operational decisions, while maintaining our long-term sustainable growth trajectory for the benefit of all stakeholders.

Stakeholder group

Our goals

How we interact

Suppliers

- Ensuring a timely and stable supply of high-quality products
- Expanding cooperation with local manufacturers in the regions of operation
- Maintaining trusting and respectful relationships with business partners
- Ensuring consumer health and safety
- Improving operational efficiency, reducing waste and product losses
- Delivering goods to consumers as efficiently as possible

- Joint projects for product line planning and merchandising
- Industry conferences
- Supplier exhibitions

Employees

- Supporting for professional growth and social well-being
- Developing a corporate culture aimed at achieving strategic goals
- Holding dialogue with trade unions
- Increasing employee motivation, assisting in the acquisition of professional skills
- Maintaining a strong reputation among existing and potential employees

- Professional knowledge assessment
- Intranet
- Web-tutor learning portal
- Engagement rate research
- Hotline

Customers

- Satisfying customer needs and providing a friendly shopping experience
- Increasing loyalty and increasing customer spend through targeted offers
- Receiving feedback and increasing efficiency based on collected data
- Developing business in response to changing demand

- Satisfaction studies
- Focus groups with consumers
- Feedback system
- Distribution of information about promotions and special offers by SMS and e-mail

Industry
organizations

- Sharing experience with experts and understanding market development prospects

- Industry conferences
- Roundtables

Local
communities

- Understanding and meeting the needs of local communities and responding to social and environmental issues
- Caring for the health and well-being of the communities where the Company operates
- Building constructive relationships with local governments
- Monitoring regulatory changes that may affect the Company's business

- Strengthening the Company's leadership in the Russian children's goods market by supporting charity and social programs
- Corporate volunteering programs

Shareholders
and investors

- Maintaining investment community awareness of Detsky Mir's operations, strategy, financial and operational indicators, and important events
- Continuously improving corporate governance systems
- Increasing the Company's value over the long term
- Demonstrating commitment to the principles of openness

- Continuous updating of the Company's strategy in accordance with market trends
- Compliance with the highest standards of transparency and information disclosure
- Roadshows
- Meetings with investors at conferences
- Conference calls
- Group meetings with analysts and investors

SUSTAINABILITY STRATEGY

Detsky Mir is the largest children's goods retailer across the former Soviet Union. Our business has a varied and significant impact.

As a company built on social responsibility, Detsky Mir runs a number of charity and environmental projects each year, and also encourages volunteering among employees. The Company's mission is not only to offer a wide assortment of products for children but also to improve quality of life for children and entire families, and to take care of the environment for future generations.

In 2020, Detsky Mir conducted its debut ESG analysis and developed a road map to further integrate ESG into the Company's business model and strategy.

Based on extensive data from all stakeholders—employees, customers, investors, members of industry communities, as well as government agencies—the main strategic areas of focus in terms of the Company's sustainability were identified, based on Detsky Mir's corporate values as well as the eight UN Sustainable Development Goals to which Detsky Mir can make the greatest contribution.

As Detsky Mir becomes a major online player, we have identified an additional area of monitoring and continuous quality improvement: cybersecurity and personal data protection.

At the end of 2020, we began formulating the Company's strategic goals and relevant metrics in the area of sustainability to 2030. We expect to share these with all stakeholders in the second half of 2021.

Maria Davydova,
CEO of Detsky Mir:

“

We pay particular attention to fulfilling our obligations to our customers, investors, and employees, as well as to environmental well-being and caring for children's quality of life. For our employees, we look to create a robust working environment that will support their development and give everyone equal opportunities. For employees who are involved in business processes, our goal is to support responsible business principles through compliance with strict ethical standards for partners and suppliers. By continuously improving business processes, introducing new technological solutions, taking responsibility for the environment, and caring for children's quality of life, we are making a significant contribution to a better future.”



9 UN GLOBAL SUSTAINABLE DEVELOPMENT GOALS

Responsible
product sourcing



Environmental
protection



Social and charity
projects



Our employees



RESPONSIBLE PRODUCT SOURCING

Building a responsible supply chain ensures safety and high-quality children's products, which is our top sustainability priority. For over 70 years, we have been a reliable partner for numerous generations of families.

Today we manage a supply chain with more than 1,000 suppliers worldwide. Seventy-four percent of the products offered at Detsky Mir are produced by foreign companies, largely in China, India, Vietnam, and Bangladesh.

STRATEGIC DEVELOPMENT AREAS FOR RESPONSIBLE PRODUCT SOURCING:

- **Processing the goods we purchase responsibly**
- **Purchasing environmentally friendly and safe children's products**
- **Developing local production of children's goods**

SUPPLIER ADHERENCE TO SUSTAINABILITY PRINCIPLES

Providing quality products to our customers means paying attention to the safety and social and environmental impact of our products and the materials that are used to manufacture them.



Compliance with both the Company's [Supplier Code](#) and local laws is a prerequisite for working with Detsky Mir.

For us, a responsible supply chain means partnering with suppliers who:

- Provide decent, safe and fair working conditions for their workers, and don't allow the use of child labor
- Reduce the impact of their activities on the environment
- Demonstrate a strong commitment to business ethics



In 2020, all Detsky Mir suppliers signed the Company's [Supplier Declaration](#), confirming their compliance with all key labor, environmental, ethical, and social standards set out in the Company's [Supplier Code](#).

In 2021, the Company plans to launch an audit process to vet suppliers' compliance with sustainability principles. Social, environmental, and ethics audits will primarily be undertaken at the sites where the Company's private labels are manufactured. By the end of 2021, the Company will establish a long-term target for the share of private label suppliers to undergo such an audit.

PRODUCT SAFETY AND QUALITY

Detsky Mir monitors the quality and safety of goods at all stages of their life cycle: from the moment a supplier is selected to the point at which it is reviewed by our customers. The Company's policies and systems comply with all Russian, Kazakh, and Belarusian regulatory requirements, and also take into account best international experience in the retail sector.

An efficient and well-governed safety and quality control process makes it possible for Detsky Mir to prevent defective products from reaching stores: they are detected at the very beginning of certification in the process of conducting laboratory tests.

In partnership with the world's largest manufacturers of children's products, Detsky Mir also monitors the presence of a test report and ISO certificate, confirming that the products comply with the regulatory requirements of the manufacturer's country, as well as the legislation of the countries of the Customs Union.

Detsky Mir manages the certification process for its private labels. Certificates of conformity for each Detsky Mir product can be checked on the website of the Russian Federal Service for Accreditation ([RusAccreditation](#)).

In the context of the growth rates of Detsky Mir's business (see the [Strategic Report](#) section), the Company has been able to keep the number of customer complaints about the quality of goods to a minimum.

If a consumer discovers a defect after purchasing a product and submits a claim, the Company checks the documentation for the product in detail and takes all measures to ensure that products of inadequate quality no longer appear on shelves in the chain's stores.

Additional product tests are performed as required. If a manufacturing defect is detected as a result of laboratory tests, the damaged product is replaced with a new one, or payment is returned to the buyer.

RESPONSIBLE USE OF CHEMICALS



Detsky Mir supports the responsible use of chemicals in the production of the goods it sells in accordance with the laws of Russia, Kazakhstan, and Belarus.

In addition to regulatory compliance, the Company has developed a [chemicals policy](#) to systematically assess risks and identify priorities in this area.

In accordance with this policy, Company suppliers are obliged to adhere to the confirmed list of prohibited chemicals when manufacturing products purchased by the Company.

Prior to shipment, suppliers should check a substantial portion of each consignment for chemicals to ensure that any concentration levels remain below safe limits.

Each of our product specification documents includes chemical requirements, and additional testing is performed depending on the level of risk. As of the end of 2020, 100% of the Company's suppliers had received product certificates and were not using any prohibited chemicals.

In the event of noncompliance with our policies and rules, we require that violations be eliminated immediately. Detsky Mir also provides training to help manufacturers improve their chemical management processes, as well as analyze risks and assess the importance of taking proper precautions.

The Company also supports the Zero Discharge of Hazardous Chemicals (ZDHC) initiative by encouraging suppliers and manufacturers of its clothing and footwear to participate. In 2021, Detsky Mir plans to become a participant in the ZDHC initiative.

This initiative aims to use safer chemicals in production and eliminate prohibited chemicals based on the [ZDHC Manufacturing Restricted Substance List](#). Participants in the initiative support the Roadmap to Zero Programme by developing a plan to phase out chemicals.

At the end of 2020, the shares of the Company's purchases in the Clothing and Footwear categories from participating suppliers in the ZDHC initiative stood at 69% and 37%, respectively.

PURCHASE OF GOODS MADE FROM ENVIRONMENTALLY FRIENDLY OR RECYCLED MATERIALS

The use of organic cotton represents another opportunity to offer customers high-quality, sustainable products. At the end of 2020, the Company decided to focus on the procurement of goods in the Fashion category made from responsible materials, and specifically cotton.

This cotton typically includes organic and recycled cotton, as well as cotton from the Better Cotton Initiative. Organic cotton is grown without the use of chemicals, pesticides, or fertilizers; material obtained from this cotton is processed without using aggressive bleaches or dyes.

In 2020, the Company developed and encapsulated an eco-collection for babies called My Goroshinka for the Fall/Winter 2021 season. The clothes are made of 100% eco-friendly organic cotton, which is absolutely safe for children and does not cause irritation or allergic reaction. The Blue Seven collection of organic cotton clothing was launched during the reporting period for children aged 0–6.

We also developed a line of our own Baby Go and Futurino brands based on Better Cotton Initiative standards; sales are scheduled to start at the end of July 2021.

By the end of 2021, it is expected that the share of purchased cotton products made from organic processes and obtained under the Better Cotton Initiative will be about 2% of the total amount of purchased cotton products.

In 2020, the Company undertook a number of initiatives regarding the use of recycled raw materials for the production of private label goods. Five models of running shoes made from recycled materials were launched in 2020, and all 14,200 pairs were sold during the year.

In 2020, the Company launched a pilot trade-in project in the Fashion category (accepting clothing and footwear for recycling and giving consumers a discount voucher for the new Fashion collection).

In the reporting year, Detsky Mir also released a trial batch of environmentally friendly hangers made of recycled plastic and straw; by the end of 2021, the share of hangers made of recycled plastic is planned to increase to 40%.

The following projects are planned for implementation in 2021:

- Launching a line of water-based polyurethane and recycled plastic textile sneakers (as part of the Run brand)
- Expanding the line of water-based polyurethane and recycled plastic textile sneakers (as part of the Run and Jomoto brands)
- Launching a line of textile sneakers with organic cotton uppers
- Using recycled plastic textiles as lining in school sports shoes (more than 300,000 pairs)
- Using environmentally friendly packaging (hangers made of recycled plastic, individual boxes made of recycled paper with minimal use of dyes and glue)
- Developing a policy to minimize nonrecyclable packaging for consumer goods

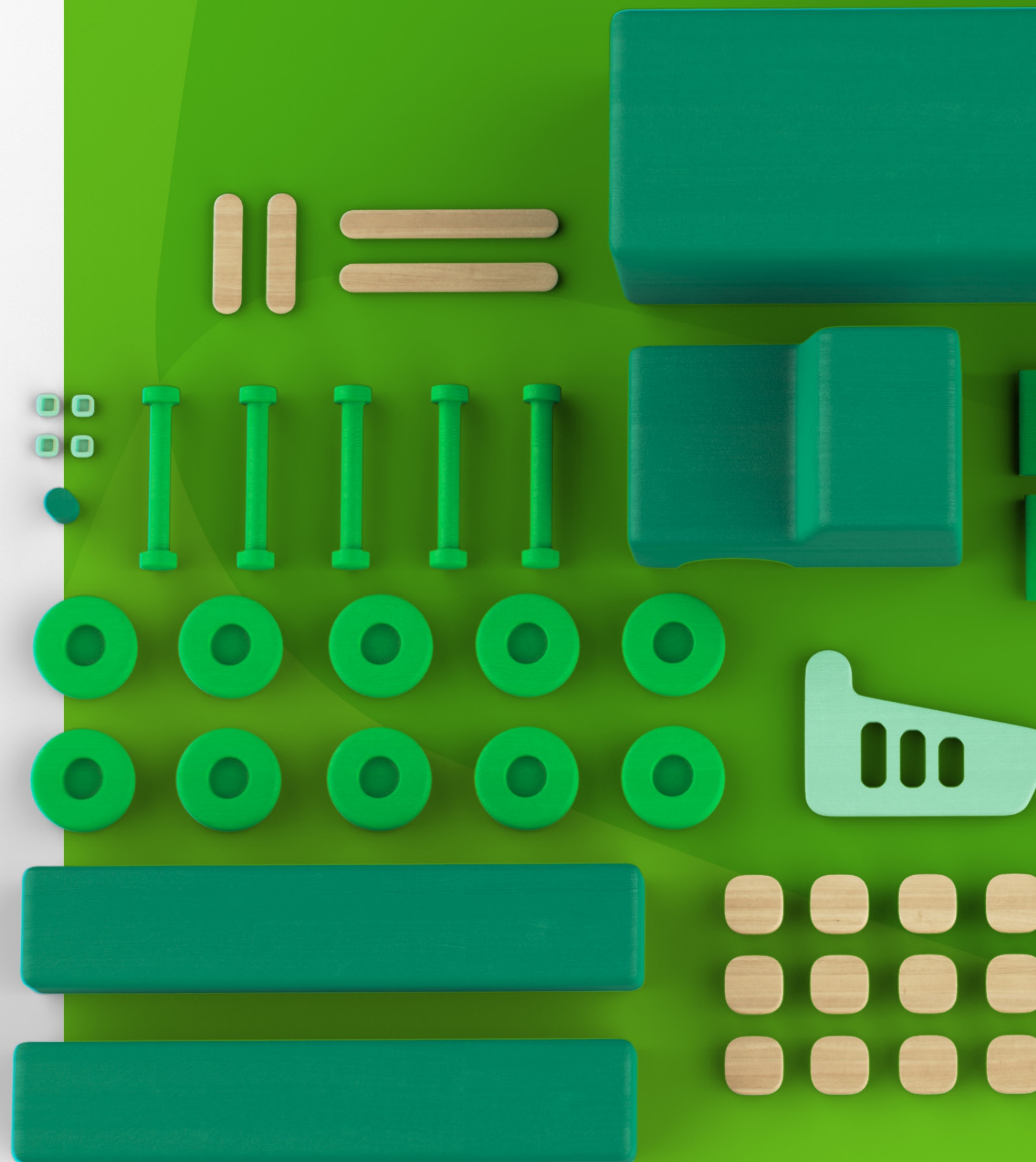
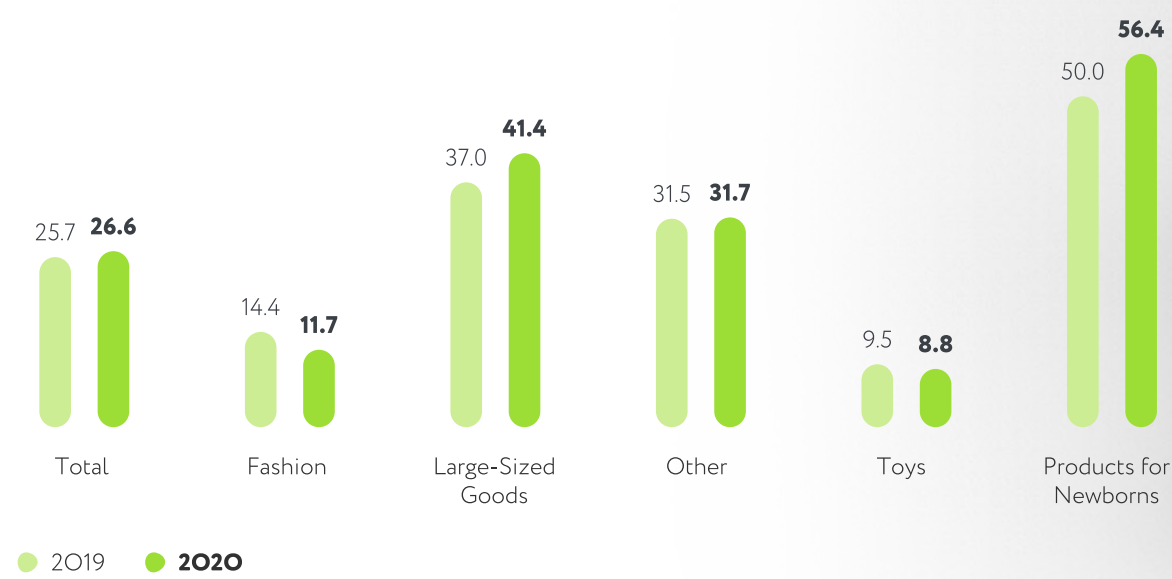
DEVELOPING LOCAL MANUFACTURING OF CHILDREN'S PRODUCTS

In 2020, the Company continued its program to support local manufacturers of children's products, i.e., goods produced in Russia, Kazakhstan, and Belarus.

As of the end of the reporting year, children's goods manufactured in countries where the Company operates as a share of total sales increased by 1 p.p. year-on-year to 26.7%. The largest share of goods manufactured in Russia, Kazakhstan, and Belarus was recorded in the

Products for Newborns (nutrition, diapers, and cosmetics) and Large-Sized Goods categories, at 56.4% and 41.4%, respectively. The share of locally manufactured goods in total sales of categories like Fashion and Toys is approximately 10%. These goods are mainly produced in Southeast Asia due to a lack of manufacturing capacity in the countries where the Company operates.

Share of sales of locally manufactured children's goods, %



OUR EMPLOYEES

HR MANAGEMENT

Since it was founded, Detsky Mir has devoted special attention to HR management. The Company aims to form a professional team in which each member strives to perform at the highest level. All Detsky Mir employees are united by the goal of making a significant contribution to the growth of the Company and bringing benefit to its customers.

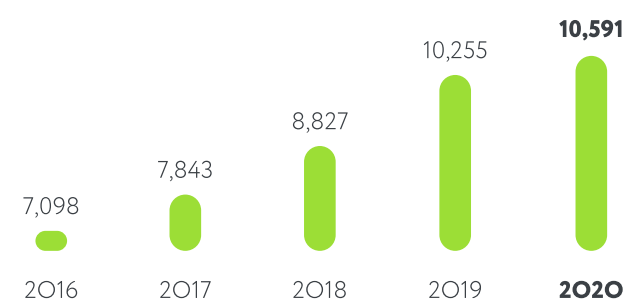
STRATEGIC DEVELOPMENT AREAS IN HR

- Providing equal opportunities for all employees
- Ensuring safe working conditions
- Expanding employee training and development programs

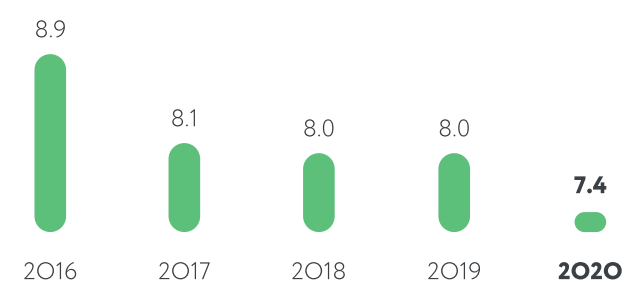
The number of employees required to ensure the stable and smooth operation of a single Detsky Mir store decreased from 26 in 2013 to 16 in 2020.

Achieving this increased labor productivity was made possible thanks to the automation of business processes, the introduction of state-of-the-art software, and a reduction in time spent on operations, as well as on payroll costs for these operations.

Payroll costs, RUB m*



Share of payroll costs in revenue, %**



* Payroll costs include payroll, insurance premiums, training and staffing, healthcare, outsourcing, and other expenses. The total amount of overall expenses is adjusted for bonus payments to management under the long-term incentive (LTI) plan.

** The total amount of overall expenses is adjusted for bonus payments to management under our LTI plan.

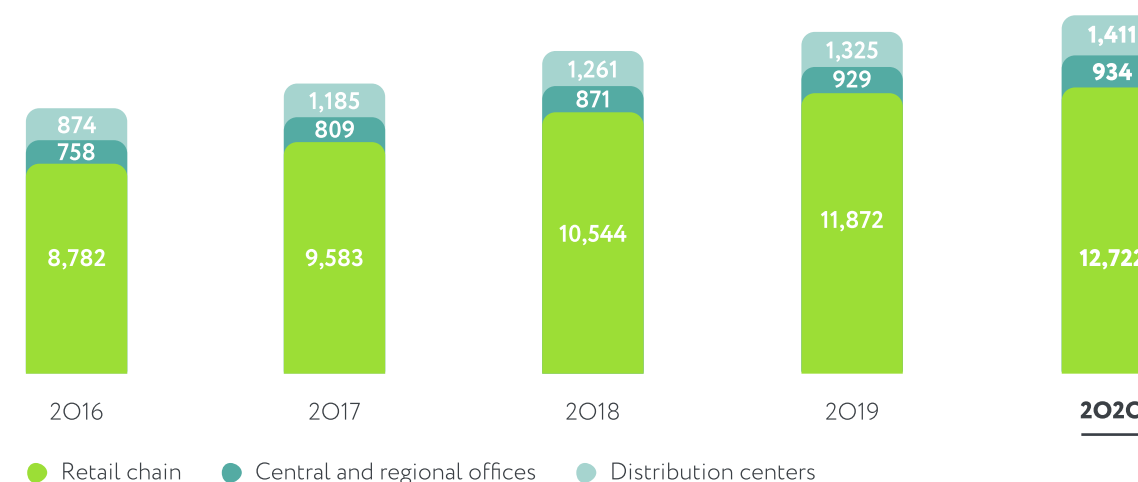
HEADCOUNT



The average headcount of the Detsky Mir team in 2020 reached more than 15,000 people. Each year, our retail chain continues to expand in Russia, Kazakhstan, and Belarus, providing more and more people with work.

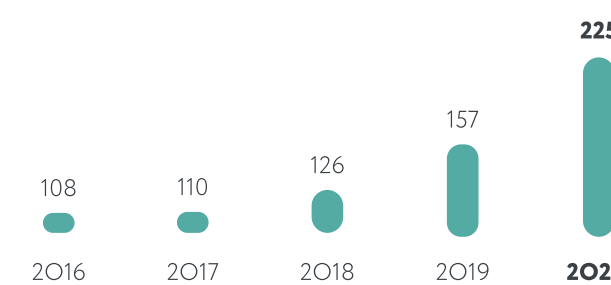
The average headcount increased by 6.7% year-on-year during the reporting period. As the number of retail stores has grown, the number of management personnel has increased slightly—this trend is typical for both Detsky Mir's central and regional offices.

Average headcount



In 2020, the IT Department saw the largest headcount growth due to the accelerated development of the online business. Staff numbers in this area grew by 43.3% year-on-year to 225 people in 2020. IT development and increased staffing of IT specialists will be a focus of future development.

Total number of IT Department employees

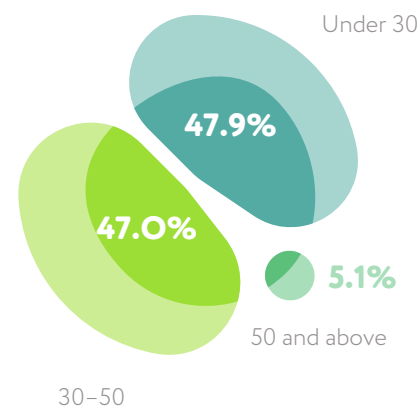
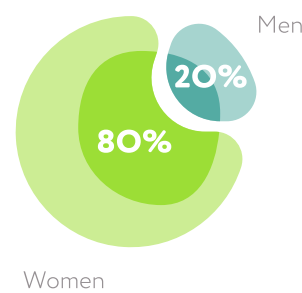


Data for the reporting period show that the average age of Detsky Mir employees is 30. At the same time, approximately 95% of employees have not reached the age of 50, which is in line with industry standards in the countries where the Company operates. More than 80% of employees are women, and for managerial positions the figure is 79%. Analytical data are provided by payroll, taking into account employees on maternity leave and parental leave.

Overall employee turnover in 2020 decreased by 12.4 p.p. compared with 2019 due to improved working conditions in stores, streamlined business processes, and changes in employee compensation and incentive systems. These changes had a positive effect on the quality of service in our stores.

The turnover rate in the Leadership category has historically been at a lower level relative to store employee turnover, at around 40%. This category includes the CEO, CEO-1, department heads, regional office directors, regional managers, as well as store directors and their assistants.

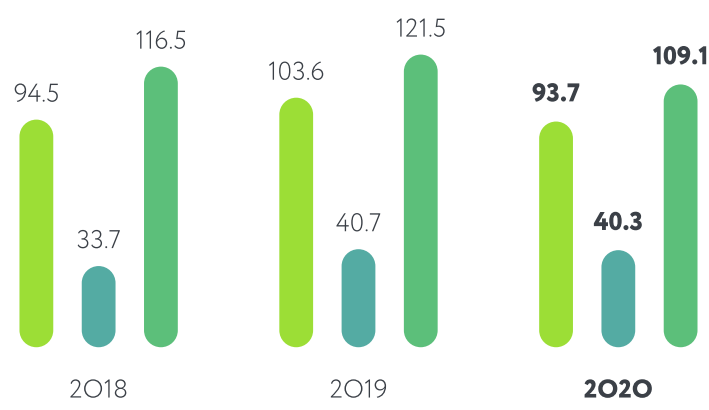
Employee distribution by age and gender in 2020



AT LEAST
97%
staffing level

The high turnover rate of store employees ("Specialists") is due to the nature of the industry. It should be noted that our level of staffing (the ratio of the actual number of employees to the established number of employees) has not fallen below 97% in the last five years.

Annual staff turnover, %

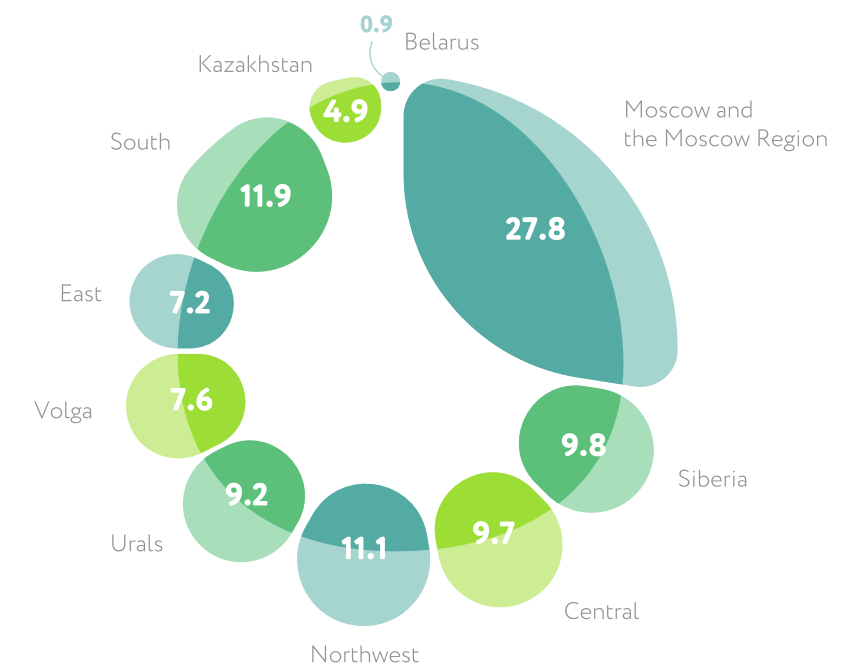


- All staff
- Leaders
- Specialists

The following measures are being taken to reduce turnover:

- Implementing adaptation plans and staff training
- Monitoring wages in regions of operation, with comparable dynamics of changes in the level of wages being maintained
- Goals to reduce turnover set by a number of managers, with plans to further expand the number of managers aiming to reduce it
- Holding contests to find top employees
- Supplements to wages and salaries for seniority are accrued for a number of employees
- Providing opportunities for further career development at Detsky Mir

Employee distribution by regional offices and countries in 2020, %

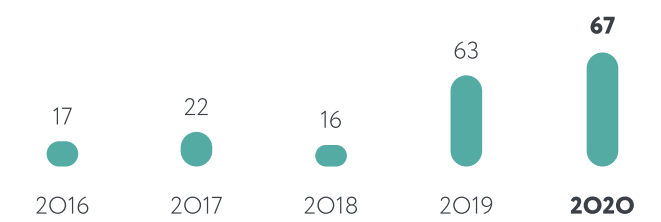


In 2016–2020, the Detsky Mir Group created more than 10,000 new jobs in Russia (+1,300 jobs in 2020).

Detsky Mir does not undertake any activities related to the organization of harmful and/or dangerous working conditions. Working conditions 2.0 have been established for Company employees.

We are happy to welcome employees who have disabilities, and to put in place working arrangements that accommodate any impaired functions and limitations.

Number of employees with disabilities



INCENTIVES AND REMUNERATION

Ensuring a high level of motivation and decent pay for employees is the most important aspect of our HR policy.

We have various remuneration systems (time-based, time-bonus, time-job), which are used in divisions, depending on the nature of their operations. All employees receive an official salary in accordance with their employment contract, as well as additional payments for performing the duties of different positions, overtime, and/or night

work, weekends, and holidays. The remuneration system considers not only individual efficiency but also the entire Company's financial performance for the year.

Our remuneration system aims to engage employees in achieving Detsky Mir's goals. An important part of motivating our people 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 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).

We systematically benchmark our employee remuneration against the labor market and revise the remuneration system and income targets on a regular basis.

ANNUAL REMUNERATION OF MANAGEMENT

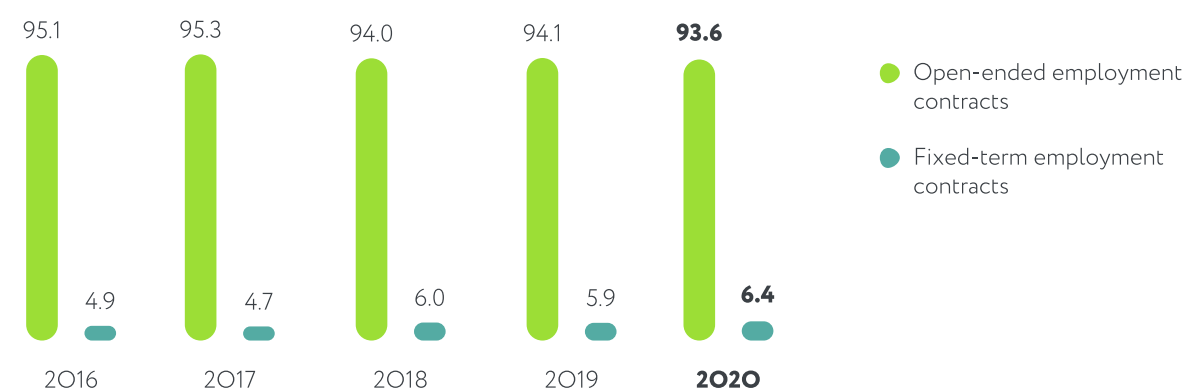
	CEO	CEO-2	CEO-3
Fixed	50%	50%–80%	70%–85%
Variable			
• Total	50%	20%–50%	15%–30%
• including financial KPIs*	25%	4%–15%	3%–9%
• including functional KPIs**	25%	16%–35%	10.5%–24%

Central office employees are eligible for a quarterly or annual bonus depending on personal performance against financial and functional KPIs.

Retail employees are eligible for a monthly performance bonus set as a percentage of their store's actual sales. The size of the performance bonus payable to each store's administrative and managerial staff 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.

Share of employees with fixed-term and open-ended contracts, %



Share of employees employed on a full-time and part-time basis, %

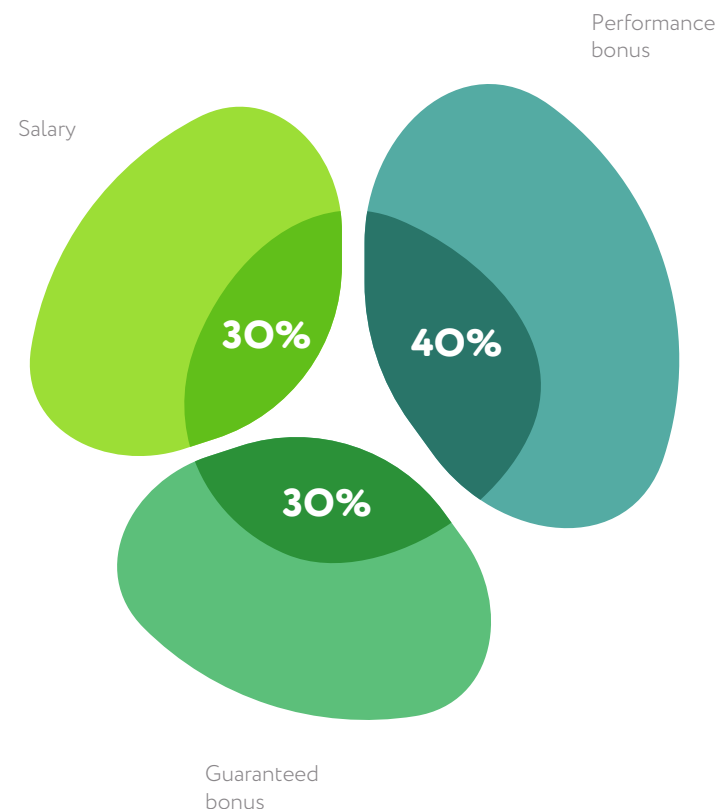


* Financial KPIs: EBITDA, net profit, revenue.

** Functional KPIs: role-specific operational KPIs.

Remuneration of retail staff at Detsky Mir

In 2020, work continued on developing the bonus system with the aim of incentivizing store employees to increase labor productivity, boosting customer satisfaction, and achieving other goals. KPIs were changed for a number of positions, and motivational competitions were held.



To increase the availability of goods and services, small stores under the Detmir PUP brand were launched, with a separate incentive system for employees tailored to the specific nature of their work.

In connection with the development of our pet supplies business line, an updated structure and employee incentive system was implemented at Zoozavr stores.

We review remuneration levels across the Group annually based on the market average and individual performance of each employee.

We have two long-term incentive plans for key employees (of which there are 21 in total, including the CEO), both of which aim to increase Detsky Mir's market capitalization.

(For more details, see the [Remuneration Report](#) section for more details.)

SOCIAL GUARANTEES

Our sophisticated corporate benefits system remains a key motivator. Alongside free corporate training, we provide our employees with a number of benefits:

- Discounts in our retail stores and corporate discounts offered by our partners from the very first day of employment at Detsky Mir
- Free rides home by Company transport or to convenient public transit nodes for those working at stores that close at 11 p.m. and are located far from public transport stops

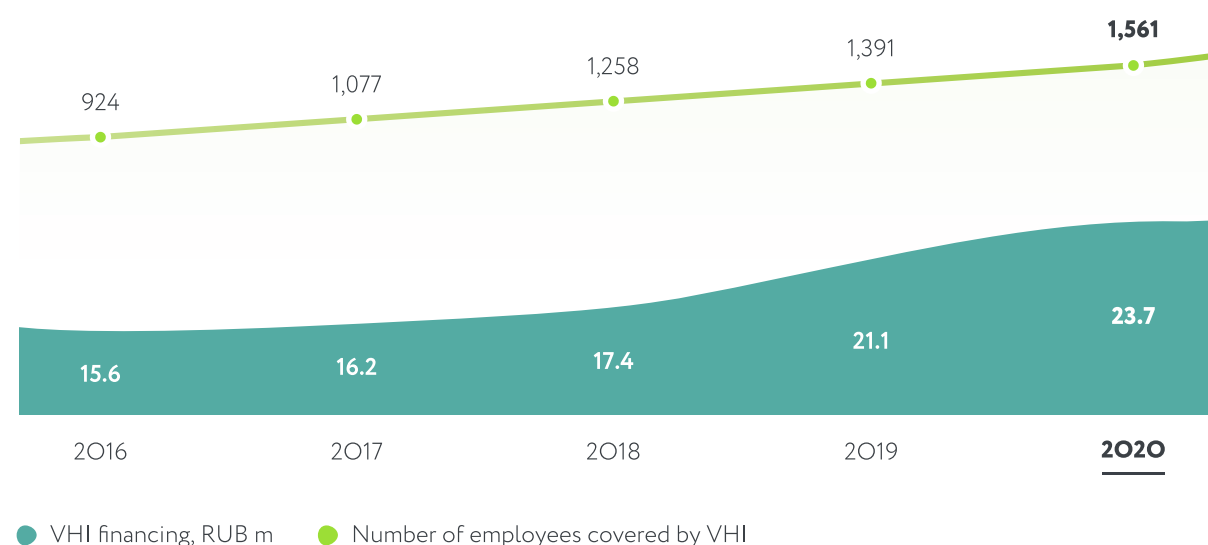
- Corporate shuttles to work as well as free meals at the logistics center for distribution center employees
- Events for employees' children
- Access to corporate mobile services for business purposes
- Opportunities to undertake full-time classroom training or distance education courses
- Awards for top-performing office employees, territorial managers, and store teams

- Motivational contests among territorial managers, store directors, and a number of positions at distribution centers
- Opportunities for remote work arrangements for office employees
- Membership in our voluntary health insurance (VHI) program following six months of service at Detsky Mir for all employees of the central and regional offices, store directors, and distribution center managers

Employees are also provided with various benefits and guarantees under the Labor Codes of Russia, Kazakhstan, and Belarus, which significantly improves the well-being of our employees.

- Annual paid vacation
- Additional paid vacation
- Educational leave
- Maternity and parental leave
- Benefits and guarantees for working mothers with three or more children, as well as for single mothers
- Benefits and guarantees for employees with disabled children
- Benefits and guarantees for employees with disabilities
- Guarantees when undergoing medical examinations, etc.

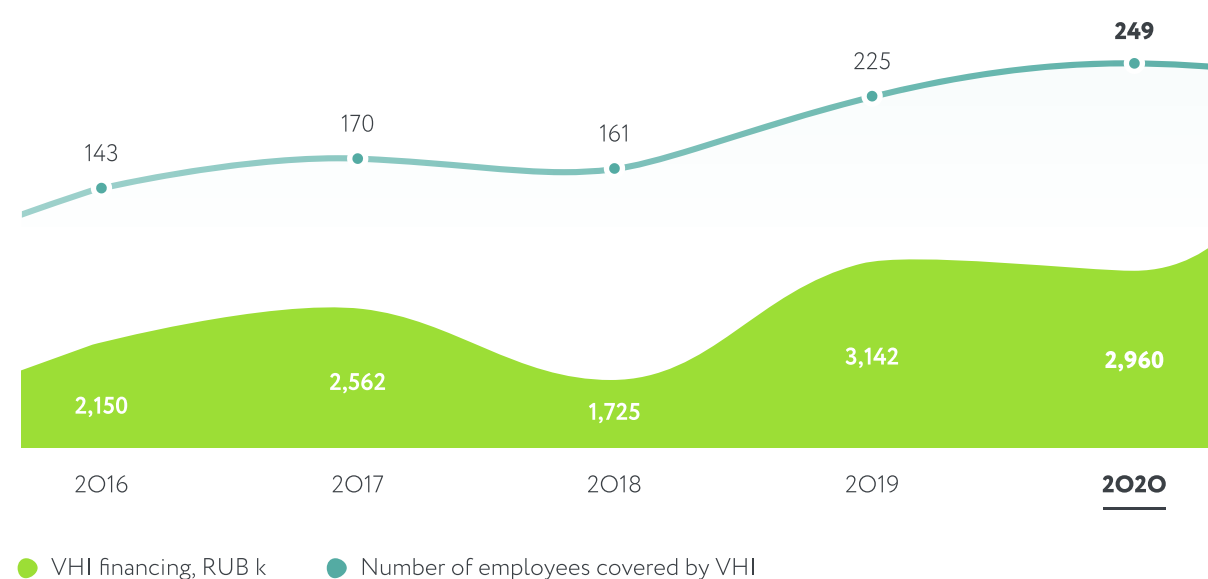
Voluntary health insurance



Our efficient cost management system has allowed the Company to keep VHI costs per employee at the average level of previous years while maintaining the volume of medical services included in the VHI program.

Our policy also provides financial assistance to employees experiencing difficulties, including those who have suffered complications arising from COVID-19.

Financial assistance for employees



CORPORATE CULTURE

We make great efforts to ensure that employees of the central office, retail stores, and distribution centers feel like a single team working toward common goals.

To support team spirit among our employees, we regularly hold sports, volunteering, and charitable events, as well as corporate cleanup days and the Labor Landing initiative. We also celebrate national, corporate, and personal holidays within our teams.

We promote a healthy lifestyle among our employees, including through sports events, and offer professional training opportunities to employees participating in industry and cross-sectoral sports events. We also lease training rooms for them and provide players with team uniforms. Our 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), we hold our Labor Landing initiative, where all employees of the central office—from the CEO to line managers—work for one day at a Detsky Mir retail store as a sales assistant or a distribution center operator.

The initiative gives 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 propose solutions, 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.

Our New Year corporate event for central office employees and heads of regional offices includes an awards ceremony for employees who have an outstanding contribution to the success of our business.⁹

The co-financing program at Detsky Mir enables each employee to donate a portion of his or her salary to our Charitable Foundation. The proceeds are used to help underprivileged children of employees experiencing difficulties (see the [Social and Charitable Activities](#) section for more details).

RESULTS OF COMPETITIONS FOR THE BEST EMPLOYERS

In the **Forbes** 50 Best Employers in Russia 2020 rating, we took 29th place overall and ranked first among Russian retailers, ahead of the Russian offices of major international companies. We also received high marks in the Community category for our social and charitable work.

Every year, the Detsky Mir Charitable Foundation, which is part of Detsky Mir Group, provides assistance to 550,000 orphans, children with disabilities and children from large families. Last year alone, the amount of aid exceeded RUB 800 m.

Based on a study conducted by the Superjob.ru portal among employers, Detsky Mir was granted the status of Attractive Employer 2020. The study notes not only robust recruitment activities and a great response from job seekers but also decent remuneration. The Attractive Employer badge, which has been awarded to Detsky Mir for several years, guarantees decent working conditions for applicants.

In 2021, we plan to take part in the following employer competitions:

- **Forbes** 50 Best Employers in Russia 2021
- **HeadHunter** Rating of Employers
- **SuperJob** Attractive Employer

⁹ This event was not held in 2020 due to the COVID-19 pandemic.

TRAINING AND DEVELOPMENT

The Company's strategic goals can be achieved through the personal contribution of each employee. Our investment in human capital is driving ongoing improvements in the Group's financial performance.

One of our achievements in the training and development of our people is our system of continuous professional development, which relies heavily on distance learning.

We pay special attention to building core skills and upskilling for our retail employees, which is key to improving service and driving sales growth.

We organize regular, free-of-charge upskilling courses for each category of our 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 a structural unit of the Group, provides training and professional development for retail store employees and territory managers. Central office employees are trained on different topics by external service providers. Training is provided in line with individual development plans or upon the request of heads of functional units and guarantees a high level of additional professional education.

At the end of 2020, the following training programs were launched: Anti-Corruption Requirements and Procedures and Information Security.

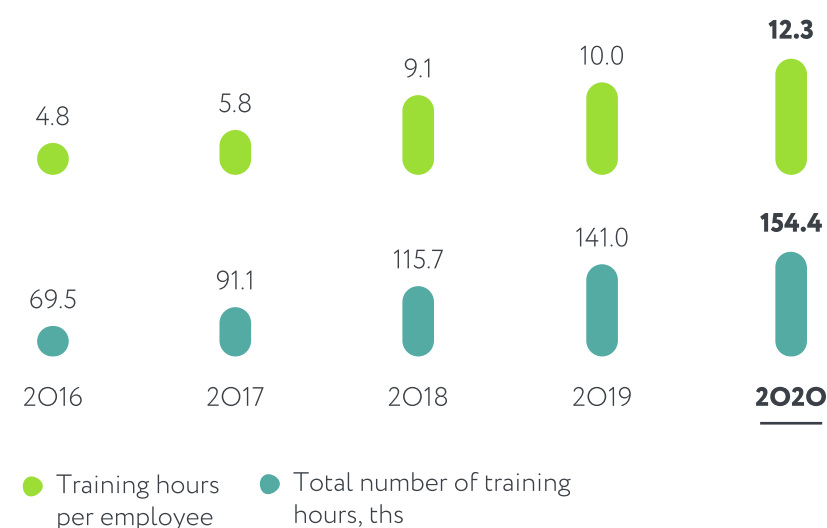
With the exception of line personnel in retail stores and distribution centers—salespeople, movers, pickers, etc.—all full-time employees, including new hires, will take part in these programs.

Our continuous training of employees and regular assessment of their professional knowledge is in line with our employee categorization concept (in effect since 2014). The proportion of employees who have received training (percentage trained) is a significant performance metric for stores, regional offices, and the Company as a whole.

Types of training provided for central office staff:

- Short-term training (one-day or two-day courses)
- Short-term refresher courses on specific subjects such as finance, law, IT, and HR management
- Professional certifications (for employees of the IT and Internal Control Departments)

Number of employee training hours



EMPLOYEE PERFORMANCE ASSESSMENTS

We see individual performance as an important tool for promoting our corporate culture and enhancing our business processes.

Expert employees are prioritized for inclusion in Detsky Mir's talent pool and further consideration as candidates to fill vacant managerial positions in retail.

Central office employees

Undergo an annual performance assessment against their approved KPIs.

Retail employees

We assess the professional knowledge of our retail employees twice a year. Based on the assessment results, an employee is assigned one of two categories.



SPECIALIST

has passed the professional knowledge assessment



EXPERT

has reached target KPIs and achieved outstanding results in the professional knowledge assessment

Number of promotions in 2020

Promotions	Russia	Kazakhstan	Belarus
From sales assistant / cashier to deputy store manager	382	49	7
From online sales manager to deputy store manager	265	16	-
From deputy store manager to store manager	158	15	3
From store manager to territory manager	18	1	0
From sales manager to senior sales manager	274	15	3

EMPLOYEE ENGAGEMENT ASSESSMENT

We assess employee engagement on a regular basis for all divisions: Offices, Distribution Centers, and Retail. The most recent assessment was undertaken in 2018 in collaboration with AXES. This assessment showed an employee engagement index of 66%, which exceeded the average in Russia in 2017 by 3 p.p.. The previous survey was conducted in 2017, and showed an employee engagement index of 52%.

No study was done in 2019, as the Company was implementing a new method to obtain relevant feedback from customers, namely net promoter score (NPS), a consumer loyalty index. After these methods were implemented, it was decided to use them internally to study employee engagement, among other things.

In 2020, no assessment was conducted due to the coronavirus pandemic. In 2021, we plan to conduct another employee engagement assessment using the newly implemented NPS methods.

NPS

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is a key area of focus for Detsky Mir Group. Comfortable and safe working conditions are a key factor affecting the recruitment and retention of skilled employees. Our occupational health and safety system at Detsky Mir is fully in line with applicable legislation in Russia, Kazakhstan, and Belarus.

Managers and specialists responsible for occupational health and safety are appointed by the CEO after completing a 40-hour training program. The training is mainly provided in-house at Detsky Mir's licensed Training Center.

In line with labor legislation requirements, all our employees are given an occupational health and safety briefing when they are first hired and then on an ongoing basis. Distribution center operators receive additional

training in electrical safety. Occupational health and safety briefings are held for contractors as well as for Detsky Mir employees.

RUB 36 m

total occupational health and safety costs in 2020

EMPLOYEES RESPONSIBLE FOR OCCUPATIONAL HEALTH AND SAFETY



Central Office

Heads of structural units and departments



Retail

Store directors and their deputies



Distribution Centers

Shift leaders

Distribution center heads and their deputies

The duties of those responsible for occupational safety include, among other things, performing audits to identify potential breaches.

Compliance with occupational health and safety requirements at our retail stores is monitored through comprehensive audits for compliance with the Group's standards, which include a section on occupational health. Retail chain audits are supervised by territory 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 conducted later.

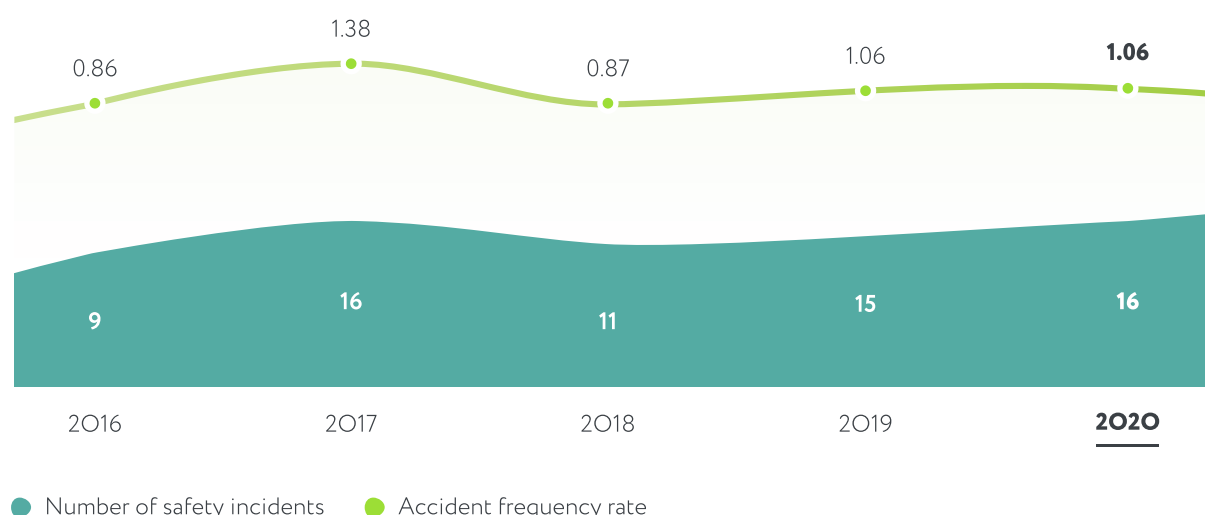
Even though the nature of our activities is not associated with any hazardous technology, we make efforts to minimize the potential risk of employee injury or occupational illness.

Key measures and initiatives minimizing injury rates at offices, retail stores, and distribution centers:

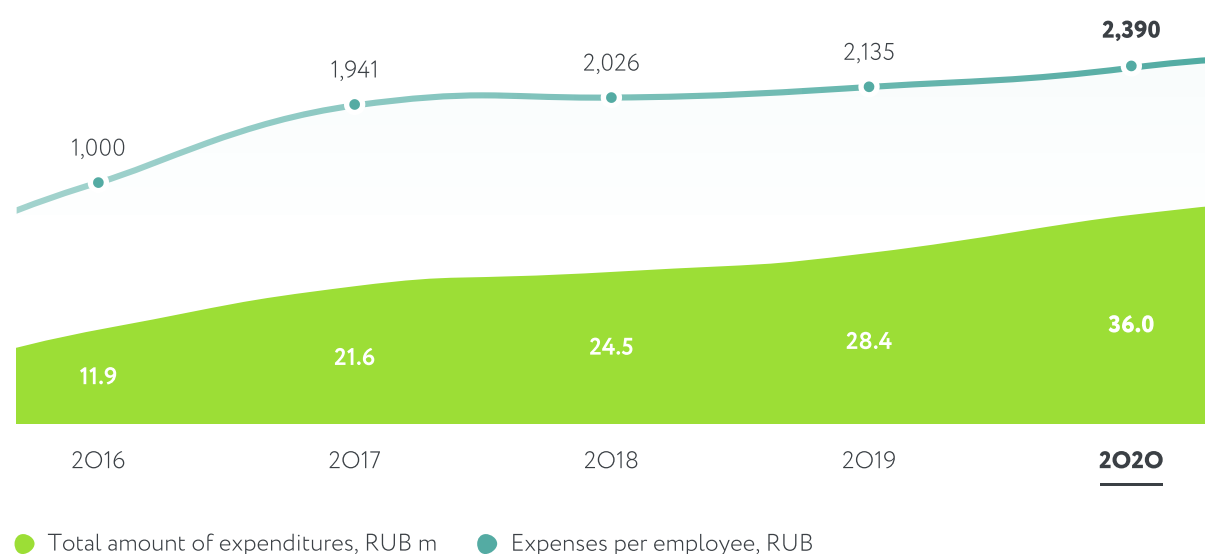
- Assessing working conditions at workplaces
- Training workers in occupational health and safety (training sessions, briefings, internships in occupational health and safety, testing knowledge of occupational health and safety requirements)
- Monitoring employees' health (medical examinations)
- Providing employees with personal protective equipment, washing and/or sterilizing agents
- Monitoring compliance with occupational health and safety requirements
- Implementing professional risk management
- Improving occupational health and safety management systems

During the year, these measures helped us prevent occupational sickness and maintain the injury rate across Detsky Mir Group at a low level.

Injuries at Detsky Mir Group



Investments in occupational health and safety



To prevent the spread of COVID-19, we implemented measures in line with regulations in Russia, Kazakhstan, and Belarus, as well as additional measures to ensure the safety of employees and customers.

In particular, personal protective equipment (masks and gloves), disinfectants, hand sanitizers, and antibacterial recirculators for air disinfection were purchased.

CYBERSECURITY AND PERSONAL DATA PROTECTION

INFORMATION SECURITY

In an era of advanced digital technologies, protecting the personal information of employees, partners, and customers is of crucial importance. Our activities in this area are based on our Personal Data Processing Policy and the Personal Data Security Requirements, which set out the personal information that we collect on our customers and employees, as well as the purposes of this collection and the scope and conditions for any data transfer to third parties.

We have established physical, electronic, contractual, and managerial security measures that are designed to protect the security and confidentiality of customer and employee personal information.

The Company uses the following information security systems:

- Firewalls to filter and block unwanted traffic
- Remote user access using two-factor authentication
- VPNs for secure data transfer over public networks
- Traffic monitoring system
- Antivirus protection of workstations and servers
- PKI Certification Center
- Spam protection
- Network access identification and control
- Monitoring systems for IT infrastructure
- Installation and control of security updates
- Protection against DDoS attacks
- Web Application Firewall (WAF) protection system

PROCESSING AND PROTECTION OF PERSONAL DATA

The Company is guided by the following rules and procedures when hiring employees. All new employees sign consent forms regarding the processing, storage, and distribution of personal data. Employees must familiarize themselves with the regulation on personal data and commercial secrets and other Company bylaws, and sign a statement to say they have done so.

Employees' personal data is stored and processed in 1C: Salary and Human Resources. Personal files of employees are kept in fireproof iron filing cabinets in a separate room that is under lock and key. Access is available to HR staff who are responsible for processing and storing personal data.

As part of its search for candidates, the Company uses superjob.ru, hh.ru, worki.ru, and avito.ru. For all listed contractors, work is structured as follows: by registering on the site, candidates agree to post data in a form that is accessible to employers and agree to having their personal data processed.

Detsky Mir also operates with customers' personal data. Such data is collected when completing a questionnaire as part of the bonus program, as well as when registering on the detmir.ru website or in the Detmir mobile app. Data is stored by certified contractors providing the required level of protection.

Due to the specific nature of its business, the Company also has access to the personal data of minors. The collection, storage and any use of the personal data of children occurs exclusively with the consent of their legal representatives.

By registering in the Detsky Mir store bonus program and by taking part in competitions, the legal representatives of minors give full consent to the processing of their own personal data and the personal data of minors contained in the Company's questionnaire, and the transfer of data from Detsky Mir to third parties for processing purposes. Consent is valid until written revocation is received; this can be sent to: 3 Nizhnelikhoborskiy Proezd, Bld. 6, Moscow, 127238, Russia.

TRAINING EMPLOYEES ON RESPONSIBLE USE OF PERSONAL AND CORPORATE DATA

At the end of 2020, we developed a training program for employees aimed at teaching responsible use of personal and corporate data.

The purpose of the program is to familiarize employees with the Personal Data Processing Policy

and the Personal Data Security Requirements, as well as to ensure a responsible attitude toward personal information.

A corresponding online course has been created, which employees will be required to take annually to

confirm that they have sufficient knowledge in this area. All Company employees will undergo this training by the end of 2021.

PREPARING TO IMPLEMENT AN INFORMATION SECURITY MANAGEMENT SYSTEM

In 2021, we plan to take the first step toward implementing an information security management system. Detsky Mir plans to analyze IT system vulnerabilities by performing external penetration testing, analysis of wireless network security, and analysis of the Company's web and mobile apps (penetration test).

The Company will consider the question of implementing an information security management system in accordance with the requirements of the ISO/IEC 27001 standard in early 2022.



PERSONAL DATA MANAGEMENT

People can manage the personal data (information) they provide to the Company at their own discretion. The bonus program assumes that only the participant has the right to make changes to the personal data specified during registration.

To change one's personal data, a participant must complete an application form on the detmir.ru website. Participants are only granted access to change personal data with the card number or phone number

linked to the card. Access is possible after confirming the telephone number through a code sent by SMS. If a program participant cannot confirm the phone number through the code, he or she must contact the Unified Help Desk (8-800-250-00-00) to change the phone number.

Bonus program participants can revoke their consent to the processing of their personal data at any time and ask that previously provided data be destroyed by

sending a revocation of consent to the processing of personal data to the following address: 3 Nizhnelikhoborskiy Proezd, Bld. 6, Moscow, 127238, Russia.

In 2020, the Company was not held administratively liable for any violations with respect to personal data.

ENVIRONMENTAL RESPONSIBILITY

Detsky Mir Group prioritizes environmental protection, responsible use of natural resources, and recycling of packaging. The Company believes that the environment of tomorrow for us and future generations—our children—depend on the careful treatment of our environment today.

We pay particular attention to environmental well-being and implement a range of projects aimed at reducing our environmental footprint and introducing sustainability best practices into our business processes. This approach has enabled us to significantly reduce not only the amount of energy consumed but also the emissions produced.

STRATEGIC DEVELOPMENT AREAS IN ENVIRONMENTAL PROTECTION



Reducing greenhouse gas emissions



Using recyclable packaging of individual goods



Increasing volumes of collected recyclable materials and recycled waste

ENVIRONMENTAL SAFETY POLICY

The Company has begun developing its own environmental safety policy that will govern our impact on the environment and use of natural resources.

FUNDAMENTAL PRINCIPLES OF OUR ENVIRONMENTAL POLICY

- Compliance with the environmental legislation of Russia, Kazakhstan, and Belarus
- Implementing special environmental projects (campaigns)
- Continuous improvement of the environmental management system
- Raising employees' environmental awareness through training programs
- Responsible use of natural resources
- Minimizing environmental impact
- Analysis and disclosure of environmental information

KEY ENVIRONMENTAL PROTECTION ACHIEVEMENTS IN 2020

- Prepared debut report on greenhouse gas emissions (calculation of scopes 1, 2, and 3)
- Improved transport efficiency
- Held environmental campaigns in the office and retail stores: collections to recycle clothing and footwear, used household appliances and batteries, and wastepaper
- Improved energy efficiency at distribution centers and stores
- Set environmental requirements for logistics companies' transport and fuel use

REDUCING GREENHOUSE GAS EMISSIONS

As a retail operator that manages logistics and transport infrastructure and works with a large number of industrial manufacturers, Detsky Mir understands its responsibility to protect the environment and combat climate change.

Detsky Mir works with suppliers and customers to reduce its environmental impact. It also competently manages its own business processes in order to consume resources responsibly and gradually reduce greenhouse gas emissions. We believe that our progressive approach will eventually make us a carbon-neutral company.

The Company maintains a record of direct greenhouse gas emissions (scope 1) that are associated with fuel and gas consumption for its own electricity generation.

Detsky Mir also collects data to calculate indirect emissions (scope 2), which are associated with the consumption of purchased heat and electricity. Distribution centers, retail stores, and office buildings are the primary sites used by the Company to calculate figures for scopes 1 and 2.

The Company is completely transitioning all business processes related to goods transport and production to third-party companies that provide these services, so these

are not included in the calculation of the figures above. Nevertheless, we remain mindful of our carbon footprint when choosing contractors and establishing relationships with them.

In 2020, we took the first steps to calculate other indirect greenhouse gas emissions (scope 3). These include all emissions that occur in the production chain and are not related to emissions from scopes 1 and 2. The calculation presented in the report is based on data on the volume of fuel consumed by transport companies that provide logistics services to Detsky Mir.

Detsky Mir pays considerable attention to reducing greenhouse gas emissions from the use of fuel and electricity at distribution centers and chain stores. To do this, we use:

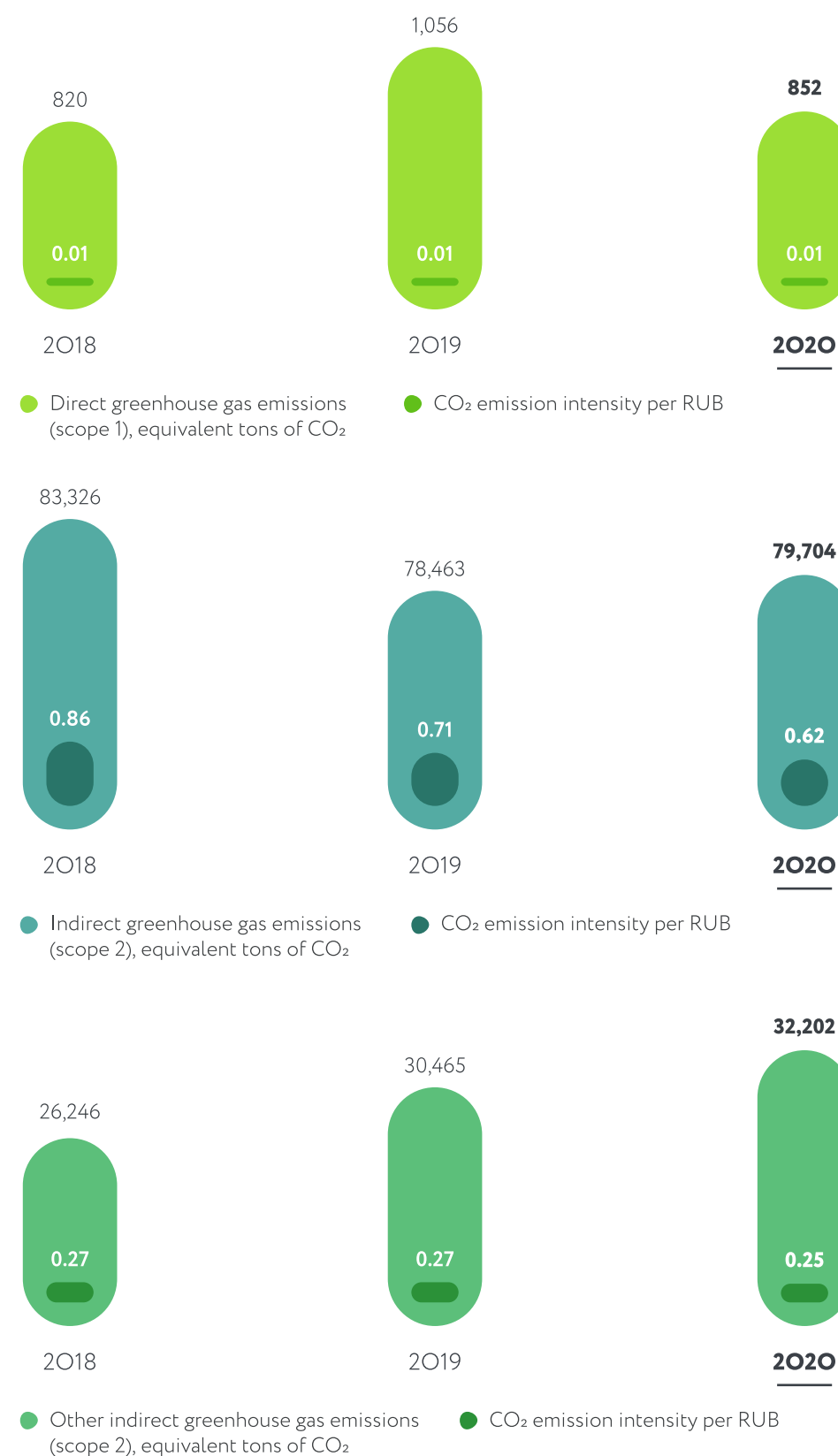
- LED lights;
- Motion sensors to turn off lights and save energy;
- Bimetallic heating radiators;
- Double-glazed windows to improve energy efficiency;
- Panoramic windows to reduce artificial lighting use during daytime hours;
- Weather-dependent modes for boiler rooms to automatically regulate heat levels;
- Signs that read "Turn off lights when leaving the room" to inform employees.

Optimizing logistics is a key step in or effort to reduce CO₂ emissions. For example, Detsky Mir uses an automatic routing system to reduce mileage, which allows the number of vehicles used to be optimized and reduces delivery time. We also began construction of a new distribution center in the Urals to efficiently distribute logistics flows and reduce shipment distances.

Rational use of hydrocarbon-based fuels is important to reduce CO₂ emissions. Detsky Mir uses the following types of fuel: gasoline, diesel fuel, and natural gas.

Gasoline and diesel fuel are used to operate Company vehicles. Diesel fuel is used to operate generators in the event of a power outage. Natural gas is used to generate energy at distribution centers.

Detsky Mir Group greenhouse gas emissions (scopes 1, 2, and 3)



RESPONSIBLE RESOURCE CONSUMPTION

Regular introduction of modern technologies and solutions aimed at reducing resource consumption is important for Detsky Mir. These solutions not only reduce operating costs but also reduce our impact on the environment.

The Detsky Mir store retail concept involves using modern energy-saving solutions that not only improve selling spaces by making them more comfortable for visitors and staff but also significantly saves energy.

In 2020, we managed to keep electricity consumption at around the same level as the previous year. At the same time, the specific indicator decreased from 1.03 in 2019 to 0.90 in 2020.



Detsky Mir Group's electricity consumption

	2018		2019		2020	
	RUB m	Mwh	RUB m	Mwh	RUB m	Mwh
Electricity	708.6	121,330	713.2	114,373	762.9	116,474
Share in revenue, % / (specific indicator per RUB)	0.7%	1.25	0.6%	1.03	0.6%	0.90

Since 2014, the Company has been equipping stores with LED lighting systems. At the end of 2020, all stores in the chain and Company office buildings had switched to LED lighting systems.

All Company distribution centers (Bekasovo 1 and Bekasovo 2) and the regional distribution center in Rostov-on-Don are equipped with energy-efficient equipment and a lighting system that uses motion sensors. These sites have been assigned the highest energy-efficiency rating of A++.

Third nationwide distribution center in Yekaterinburg with high energy efficiency

In early 2022, PNK Group will commission a new A++ energy-efficiency distribution center complex for Detsky Mir that uses advanced technologies. In particular, an energy-efficient continuous heating circuit will cover the complex from basement panels to the roof, which will increase the building's energy efficiency. PNK Group builds facilities that meet FM Global international fire safety standards.

Because the Company's activities are inextricably linked with the use of real estate sites—logistics infrastructure facilities, selling space, etc.—Detsky Mir uses thermal energy and gas to heat them. We take measures to use thermal energy and gas efficiently and use a state-of-the-art automated system to maintain records of the consumption of these energy sources. This system collects and analyses data remotely from metering devices and allows for consumption volumes to be controlled. To reduce the volume of heat energy consumption, the Company reduces losses by quickly correcting device malfunctions.

↓ 8.2%

In 2020, Detsky Mir reduced its heat consumption by 8.2% year-on-year. At the same time, the specific indicator decreased from 0.2 in 2019 to 0.1 in 2020.



Detsky Mir Group's heating energy consumption

	2018		2019		2020	
	RUB m	GJ	RUB m	GJ	RUB m	GJ
Heat	158.6	19,248	175.6	20,955	161.3	19,243
Share in revenue, % / (specific indicator per RUB)	0.2%	0.2	0.2%	0.2	0.1%	0.1

The Company uses natural gas for its own heat generation at distribution centers. Natural gas consumption in 2020 was virtually unchanged compared with 2019 and amounted to 730,000 m³.

In 2020, the Company's fuel consumption volume (mainly diesel fuel) increased by 5.7% year-on-year to 11,702,000 L. At the same time, the specific indicator decreased from 0.10 in 2019 to 0.09 in 2020.



Detsky Mir Group's natural gas use

	2018		2019		2020	
	RUB m	ths m ³	RUB m	ths m ³	RUB m	ths m ³
Natural gas supply	4.2	568	4.6	713	4.7	730
Share in revenue, % / (specific indicator per RUB)	0.004%	0.01	0.004%	0.01	0.004%	0.01



Detsky Mir Group's fuel consumption (gasoline and diesel fuel)*

	2018		2019		2020	
	RUB m	ths l	RUB m	ths l	RUB m	ths l
Fuel	425.5	9,539	509.3	11,071	553.5	11,702
Share in revenue, % / (specific indicator per RUB)	0.4%	0.10	0.5%	0.10	0.4%	0.09

Guided by environmental principles, the Company has developed standards with respect to requirements for carriers of its goods, which must be adhered to by all transport service providers when doing business with Detsky Mir. Compliance with these standards comes in addition to compliance with all applicable laws and regulations.

Compliance with these requirements and local laws is a prerequisite for working with Detsky Mir. For us, a responsible supply chain means partnering with suppliers who:

- Monitor the quality of the fuel used in their operations;
- Minimize the use of hazardous (toxic) substances;
- Safely operate their fleet;
- Respect the environment;

- Monitor the safety of the waste generated by their operations;
- Comply with technical rules and regulations.

In 2021, Detsky Mir plans to have all carriers sign the Requirements for Transport Service Providers, confirming that they meet all key requirements in this area.

Water consumption at the Company's facilities (office, retail stores, and distribution centers) is minimal. Detsky Mir aims to optimize

water consumption through the use of state-of-the-art technological solutions and metering devices. The water utility and wells (at distribution centers) are the main sources of water intake. The entire volume of water received from the water utility is used and returned back to the sewage system.



Detsky Mir Group's water consumption

	2018	2019	2020
	m ³	m ³	m ³
Water consumption	63,455	73,697	83,843



Paper consumption by the central office



Automation of the Company's business processes has led not only to an increase in operating efficiency but also to a reduction in the consumption of resources such as office paper. For example, the introduction of an electronic invoice format made it possible to abandon paper invoices.

*Requirements for transport service providers can be found on the [website](#).

* Including the volume of fuel consumption by external transport companies that provide logistics services.

ECOLOGICAL CONSUMER PACKAGING AND REUSABLE BAGS

The Detsky Mir Group was the first operator in the children's goods segment in Russia to offer customers environmentally friendly and reusable bags.

Today, the chain's retail stores and the Detsky Mir online store offer customers reusable soft bags and bags made of environmentally friendly material that does not harm the environment during decomposition and is easy to dispose of. Launching the sale of eco-bags was the next logical step in a series of environmental initiatives.

The Bringing Joy to Children eco-bag is made of environmentally friendly nonwoven material—unlaminated spunbond—which is easily recyclable and decomposes completely in three years without harming the environment. The bag has a voluminous bottom, without side inserts. Its carrying capacity is 10 kg, and its material density is 70 g/m².

In 2020, total sales of cloth bags and eco-bags amounted to 464,644 units (compared with 164,142 in 2019). Eco-packaging was most popular in 2020 in the Moscow and Northwest regions.



COLLECTION AND PROCESSING OF RECYCLABLE MATERIALS

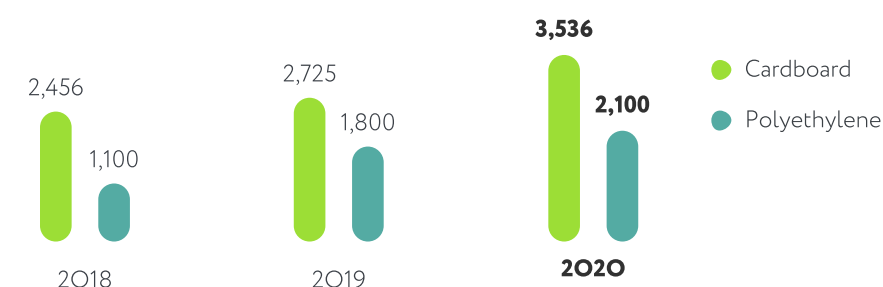
Cardboard, polyethylene film, and pallets account for a substantial part of the waste generated at our distribution centers and stores. These waste items are well suited to recycling. For example, cardboard is used to make chipboard, which is considered the most promising recycled packaging material globally.

Since 2014, the Company has been collecting wastepaper and polyethylene packaging films at its distribution centers; they are sorted separately and transferred to a

specialized organization for further recycling. In 2020, about 3,536 t of cardboard were collected at the Company's distribution centers.

Collection of waste for recycling, t

We have set ourselves the task of reducing our own environmental impact, so the introduction of packaging recycling projects was a logical step on this path.

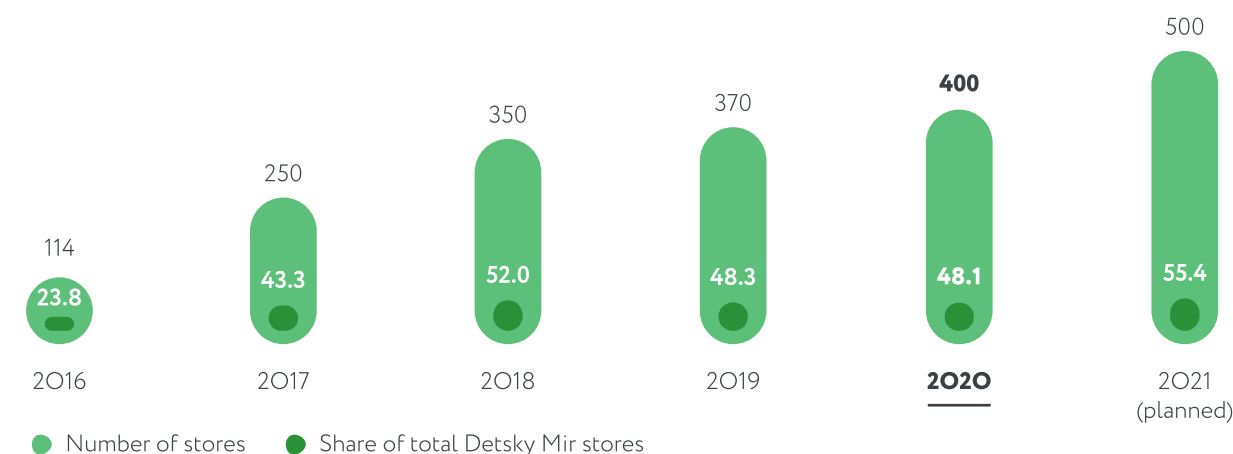


In 2015, the Company introduced pilot projects for the collection of waste for recycling at retail facilities. At the end of 2020, 400 retail stores were taking part in the project. In the future, Detsky Mir is planning to increase this number to 500.

At the end of 2020, 2,100 t of cardboard and film were recycled in retail stores. This allowed the Company to reduce the amount of waste transferred to the contracting organization, which, in turn, reduced operating expenses.

In 2021, we plan to increase the collection of recyclable materials to 4,200 t at distribution centers and 2,500 t at retail stores, which will help save up to RUB 50 m.

Number of stores collecting recyclable materials



GREEN WORLD PROJECT



The Green World Project is one of the Company's eco-projects. It works to increase the number of employees involved in eco-initiatives and therefore limit the Company's environmental impact.

The project's goal is to contribute to collective environmental efforts and not to shy away from the problems associated with the responsible use of natural resources. In 2020, a number of eco-initiatives were implemented at the Company's headquarters as part of the project, which are aimed at promoting the careful consumption of resources.

GREEN WORLD PROGRAM AREAS OF FOCUS

Collection of batteries and used accumulators

As part of the project to collect batteries and accumulators together with GP, special boxes to collect used batteries have been installed in the central office in all areas with multifunction printers. In 2020, 10 boxes weighing more than 200 kg were completely filled, packed, and sent for processing to A Zet LLC. To draw employees' attention to this initiative, on 28 August 2020, a campaign was run called Turn in Batteries—Get an Apple! As part of the campaign, 20 kg of used power supplies were collected. In 2021, there are plans to continue the project to collect batteries and used accumulators in the office.

Collection of wastepaper for recycling

Wastepaper collection boxes have been installed on all floors of the central office in the areas with multifunction printers. Throughout the year, employees receive newsletters about the benefits and the need to collect wastepaper, as well as about the rules for collecting it. Throughout 2020, collected wastepaper was sent to a collection point, and the proceeds were transferred to the Save the Forest fund. In total, 5 t of wastepaper was sent for recycling. Staff from the central office and project volunteers joined together to plant 385 trees.

Collection of used household appliances

In 2020, central office employees continued an initiative to collect small used household appliances for recycling, organized jointly with the Sobirator project. The volume of nonworking household appliances and electrical appliances collected for recycling at the end of 2020 amounted to more than 70 kg.

Disposal of capsules from coffee machines

Containers to collect coffee machine capsules have been installed on all floors of the central office in the kitchenette area. Collection and delivery of capsules took place throughout the year. In 2020, 30 kg of capsules were sent in for recycling.

Collection of clothing and footwear for recycling

In 2020, Detsky Mir employees took part in an eco-campaign called New Life for Unneeded Clothes and Shoes With Benefits for You. The Campaigns were held from March 10 to April 10 and from August 1 to October 31 in 27 Detsky Mir stores in Moscow and the Moscow Region, as well as in the central office. As a result, more than 4 t of waste from textile and footwear production were collected and transferred for recycling.

Separate waste collection

Containers have been installed in mini-kitchen areas for the separate collection of consumer waste on all floors of the central office. This waste includes plastic, glass, and metal. In the office courtyard, there is a separate container for the Ecoline company, which takes out the collected waste for further recycling. In 2020, more than 500 kg of recyclable materials were collected and transferred for further processing.

Kind Caps

In 2020, the Kind Caps project continued at the Company's central office. During the year, more than 20 kg of caps were collected and sent for recycling. Thanks to the money raised from recycling caps, the Volunteers to Help Orphans Fund will be able to purchase technical means of rehabilitation for 17 children.



SOCIAL AND CHARITABLE ACTIVITIES



An important sustainability activity for Detsky Mir Group is helping families with children, children experiencing hardship, and homeless animals. By implementing social and charitable projects, the Company strives to improve families' access to socially important categories of goods, living conditions in children's social institutions, and the level of socialization and creative potential of children, as well as help homeless animals.

STRATEGIC AREAS OF DEVELOPMENT REGARDING CHARITABLE ASSISTANCE FOR CHILDREN AND HOMELESS ANIMALS

- Developing corporate philanthropy
- Developing social programs for children and homeless animals
- Developing corporate volunteering

The Company's total sales related to social projects amounted to RUB 2.4 bn in 2020.



SUPPORT FOR FAMILIES WITH CHILDREN

Each year, Detsky Mir Group carries out important social projects with support from the state. The Company's social activity is underpinned by minimal retail markups for socially important categories of goods, including products for newborns.

Support for the UNICEF Children's Rights and Business Principles Initiative

Principle	Our actions
1. Meet their responsibility to respect children's rights and commit to supporting the human rights of children	The Company supports the UN Convention on the Rights of the Child, ratified by the Russian Federation.
2. Contribute to the elimination of child labor, including in all business activities and business relationships	The Company does not tolerate the use of child labor in any activities.

Principle	Our actions
3. Provide decent work for young workers, parents, and caregivers	The Company's HR policy covers the most significant aspects of labor relations, such as workplace safety, decent pay, and social guarantees (including parental leave and flexible hours for young mothers).
4. Ensure the protection and safety of children in all business activities and facilities	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.
5. Ensure that products and services are safe and in line with supporting children's rights	The 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 life cycle.
6. Use marketing and advertising that respect and support children's rights	The Company manages its marketing communications responsibly, making sure they fully comply with all legal requirements and do not violate children's rights.
7. Respect and support children's rights in relation to the environment and to land acquisition and use	The Company seeks to reduce its impact on the environment as well as instill in children an understanding of nature's importance and the need to protect it.
8. Respect and support children's rights in security arrangements	The Company respects children's rights in all security procedures embedded across its activities.
9. Help protect children affected by emergencies	As part of its charitable activities, the Company provides support to children affected by emergencies.
10. Reinforce community and government efforts to protect and comply with children's rights	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.

Detsky Mir Group's charitable activities contribute to:

- Children's moral development and awareness of the significance and role of families in society;
- Protection of childhood, motherhood, and fatherhood;
- Wellness and health protection activities for children and the wider public;
- Promotion of sports and healthy lifestyles;
- Launch of new projects in education, science, culture, art, and education;
- Social support for low-income families with children and, reintegration of children and adults with special needs into society;
- Foster care and broader activities addressing the issue of children without parental care;
- Socialization of children leaving childcare institutions to support their financial independence, personal development, and career planning, including through career guidance events introducing children to in-demand professions.

Detsky Mir invites its employees to get involved in social and charitable projects, thereby increasing their engagement. Increasing corporate volunteering is one of the Company's objectives as set out in its Sustainability Strategy.

Detsky Mir Group's social activities are carried out through the Detsky Mir Charitable Foundation bf.detmir.ru, which was established in 2004 and operates in accordance with PJSC Detsky Mir's [Articles of Association and Charity Policy](#).

Funding sources for charitable activities include funds allocated from the Company's budget, as well as voluntary donations received by the Detsky Mir Charitable Foundation.

SOURCES OF DONATIONS

- Transfers to the Foundation's settlement account
- Co-financing
- Online donations on the Foundation's website
- Coinbox collections
- Donations made upon payment for purchases in the detmir.ru online store
- Donations made by the Company's partners

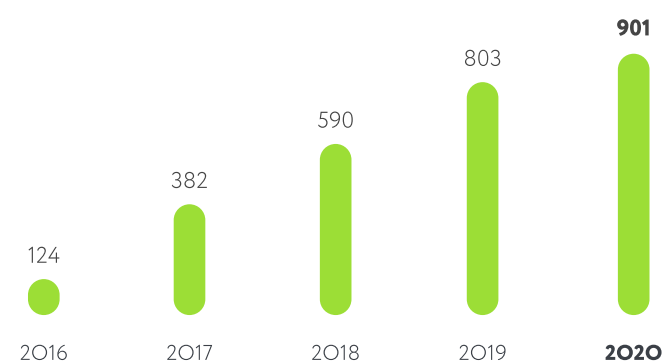
The total value of goods donated to charitable causes in 2020 amounted to RUB 795 m. In addition, the Detsky Mir Charitable Foundation received RUB 95 m in donations, some of which were made by Detsky Mir.

At the end of 2020, the total volume of Detsky Mir's own investments and outside investment raised to finance charity social programs aimed at helping children and homeless animals amounted to RUB 901 m.

Detsky Mir Group takes care of more than 650,000 disadvantaged children residing in 1,268 children's homes in Russia, Kazakhstan, and Belarus.



Total volume of the Company's and other investments aimed at providing charitable assistance to children and homeless animals, RUB m



PRIORITY AREAS OF CHARITABLE ACTIVITIES

- Providing assistance to childcare 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 celebrations, providing assistance to gifted children
- Providing career guidance and assistance in social and domestic adaptation for distressed children
- Promoting a healthy lifestyle and holding sports events

PARTICIPATE! AND COMFORT IN SHELTER CHARITY CAMPAIGNS

THE PARTICIPATE! CAMPAIGN

14 ^{years}

The Participate! charity campaign has been operating for more than 14 years. Together with customers, Detsky Mir collects goods for orphans and children left without parental care, children living in childcare institutions, children from low-income families, and children with special needs.

331 ^{cities}

Customers can donate goods by leaving them in designated boxes next to cash desks. Gifts can be toys, play sets, clothes, shoes, stationery, goods for outdoor activities, etc. In 2020, 331 cities across Russia, Kazakhstan, and Belarus took part in the campaign.

745 ^{RUB m}

Approximately 7.4 m gifts worth RUB 745 m were also collected.

CHARITY INSTEAD OF GIFTS CAMPAIGN

Since 2013, prior to the New Year’s season, employees have encouraged partners to make donations for disadvantaged children through the Detsky Mir Charitable Foundation rather than giving traditional corporate presents. In 2020, more than 20 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.

Participate! campaign highlights

	2016	2017	2018	2019	2020
Number of participating stores	428	572	702	756	868
Number of beneficiaries	550	650	774	962	1,268
Value of gifts collected through the campaign, RUB m	112	352	553	757	747

COMFORT IN SHELTER CAMPAIGN

In 2020, the Detsky Mir Charity Foundation launched a charity campaign called Comfort in Shelter, which is aimed at helping homeless animals. The campaign saw participation from 20 Zoozavr stores in Moscow, the Moscow Region, and Tambov. Each store has special containers to collect donations for homeless animals, which are then given to the Ray Foundation (Moscow and Moscow Region) and the Kind Heart volunteer organization (Tambov). More than 3 t of feed were collected, as well as more than 800 units of essential goods, including hygiene products, toys, and diapers, with a total value of RUB 2 m.

TOGETHER WE CAN DO MORE

Each year, the Detsky Mir Foundation transfers humanitarian supplies to residential and medical institutions in Russia’s regions. In 2020, shipments with a total value of over RUB 46 m were transferred to institutions and needy families in Moscow and the Kaliningrad, Kaluga, Nizhny Novgorod, Tula, Kursk, Tver, Yaroslavl, Vladimir, Moscow, Ryazan, and Samara Regions, as well as Stavropol Territory, Bashkortostan, and Udmurtia.

In April, a branch of the clinical hospital was opened on the Pyatnitskoye highway, the primary objective of which was to help in the treatment of COVID patients. As part of the project, the hospital is provided with medical equipment, disinfectants, specialized furniture, and protective suits for doctors. Investments amounted to RUB 35 m. Additionally, at the beginning of the pandemic, at least 1,000 tests for COVID-19 were purchased and delivered as quickly as possible to medical institutions in Krasnodar Territory and Altai totaling RUB 1 m.

High-tech medical care and comprehensive social support were provided to veterans of the Second World War and other wars, military and civil service veterans, labor veterans, and older citizens. Investments in the program amounted to RUB 20 m.



THE SUPPORT PROJECT

The Support project aims to help seriously ill children. Using funds from the Company, as well as funds and donations from philanthropists, the Detsky Mir Foundation buys implants, endoprostheses, and other smart constructions necessary for high-tech operations that are not covered by the state budget. Children can be relieved of their pain, forget about their own issues, and begin to live life to the fullest: walking, playing, running, and engaging in sports. In 2020, 31 operations were performed on 26 children, amounting in total to RUB 43.7 m.

OUR CHILDREN PROJECT

This 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. For 2020, the project provided assistance to 19 children totaling RUB 3.8 m. In 2020, 201 people participated in the Our Children project. The co-financing program raised RUB 2.4 m in donations from employees of Detsky Mir Group.

OPERATION TOYS PROJECT

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. Over seven years, 408 game rooms have been opened in 136 institutions in 76 localities across Russia and Belarus. In 2020, Detsky Mir opened two playrooms in Perm and Kaliningrad with the financial assistance of MTS Bank. Investments in the project in 2020 amounted to approximately RUB 1 m.

NEW YEAR'S TREE OF WISHES CAMPAIGN

Another of Detsky Mir's traditions is the New Year's Tree of Wishes campaign, which takes place in December at the Company's headquarters. Children write letters to Ded Moroz (Russian Santa Claus) about their dreams, and the staff of Detsky Mir help them come true. Seventy-three children from the Rybnovsky educational orphanage in the Ryazan Region received New Year's greetings.

VOLUNTEER SHELTER FOR STRAY DOGS

The Detsky Mir Charitable Foundation along with Detsky Mir Group partners and employees of the Company's central office donated approximately 300 kg of necessary goods to the Dubovaya Roshcha shelter for homeless dogs, which houses more than 750 animals. The charitable aid included dry and canned food, treats, bowls, collars and leashes, toys, mattresses, warm blankets and blankets for cages, and much more.

ART WITHOUT BORDERS PROGRAM

The program is aimed at unlocking the younger generation's creative potential and 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. In 2020, the Detsky Mir Charitable Foundation supported the film forums held by the Children's Kinomai Foundation in Smolensk, Kostroma, Nizhny Novgorod and Rostov-on-Don, and organized a trip for 80 children from large, low-income families in the Moscow Region to New Year's performances. In 2020, approximately RUB 3.4 m was allocated for projects under the Art Without Borders program.

FUTURE PARALYMPIANS PROGRAM

Since the second half of 2018, the Russian Equestrian Federation and Detsky Mir have been implementing the Future Paralympians target program. Equestrian sport for people with musculoskeletal disorders provides not only a chance for rehabilitation and compensation for physical functions but also an opportunity for further employment. Children aged 10–16 with musculoskeletal disorders take part in the Future Paralympians program. In 2020, RUB 0.8 m was allocated for the program.

VOLUNTEER PUPPET THEATER

At the end of 2014, the Detsky Mir volunteer puppet theater was created, with the Company's employees as the actors. The theater troupe performs at affiliated orphanages, charity fairs, and festivals. The puppet theater gives approximately 26 performances a year. Over six years, the performances of the volunteer theater have been seen by more than 7,000 young people. Rather than suspend its activities in 2020, the theater adapted performances to an online format. The total costs of the project amounted to approximately RUB 1.5 m in 2020.



CORPORATE GOVERNANCE

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BOARD OF DIRECTORS' REPORT

RESULTS FOR THE YEAR RELATED TO THE NEW STRATEGY AND TO QUALITATIVE CHANGES IN THE COMPANY'S SHAREHOLDER STRUCTURE

As the basis of Detsky Mir's corporate governance, the work of the Board of Directors determines the quality of the Company's strategic decisions and management processes, as well as its commitment to protecting the rights of shareholders. In 2020, the Board's engagement for the development of corporate governance at Detsky Mir increased significantly against the backdrop of an increase in the Company's free float and changes in the shareholder structure.

In 2020, the Company's Board of Directors held 16 meetings and considered 78 issues. To prepare Board decisions and recommendations on these decisions, 20 meetings of Board committees were held.

One key decision of the Board of Directors in 2020 was the approval of a new medium-term strategy through 2024.

The strategy sets ambitious goals for management, the most important of which are maintaining double-digit total sales growth and further improving business operating efficiency in order to support high dividend payments and maintain double-digit adjusted EBITDA margins in the medium term.

Important areas of focus for the Board of Directors in 2020 were supporting the CEO transition process with the appointment of Maria Davydova in March 2020,

as well as strengthening the top management team, including through the appointment of new Management Board members. The Board of Directors also continued monitoring the effectiveness of the long-term management incentive plan, which has been in effect since February 2020.

With the spread of COVID-19 in the first half of 2020, the Board of Directors treated decisions related to implementing a set of anti-crisis measures as a priority. These included ensuring the safety of the Company's employees and customers, maintaining required inventory, and optimizing operating costs.

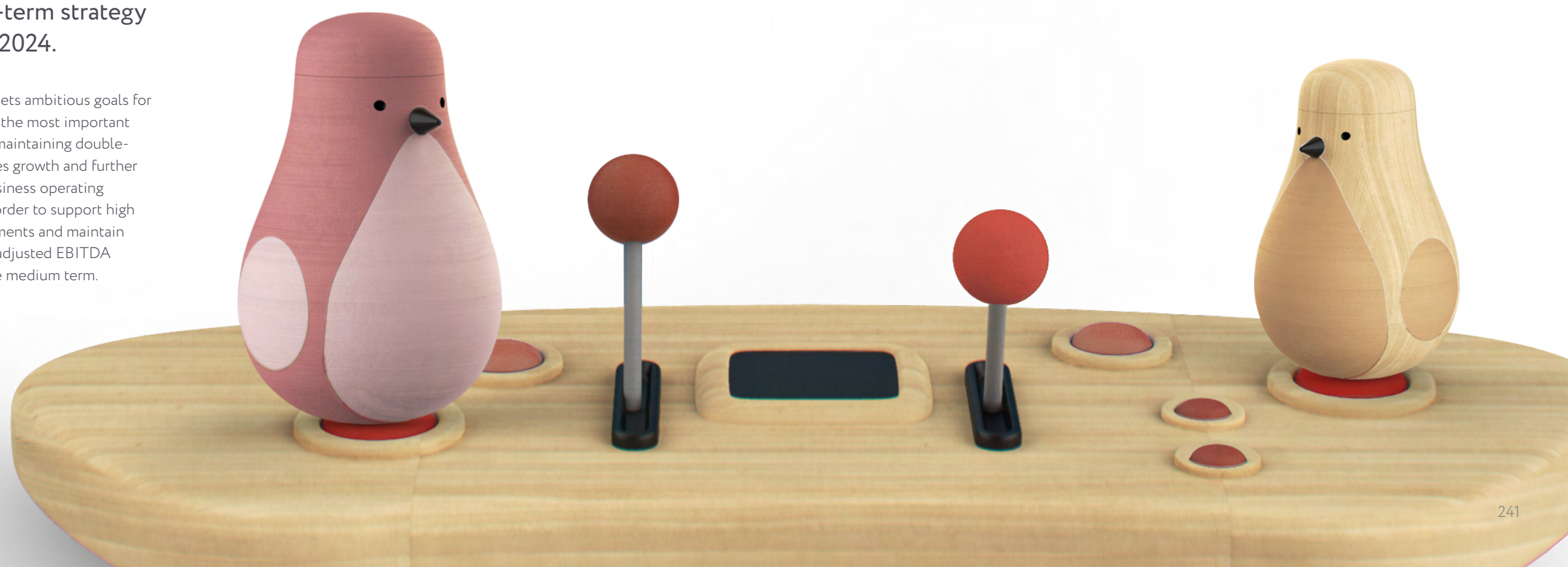
Another important area of focus for the Board of Directors was ensuring the continuity of the Board's composition in relation to changes in the Company's shareholder structure during the year. Following the recommendation of the Nomination

and Remuneration Committee, the Board of Directors approved four independent candidates for the new Board in December 2020. The proposed changes significantly altered the structure of the Board of Directors, which since 12 March 2021 has consisted primarily of independent directors.

Throughout its history as a public company, PJSC Detsky Mir has demonstrated an unwavering commitment to providing high shareholder returns. Translating the cash flow generated by the Company into shareholder income is an important goal of Detsky Mir and an integral part of the Company's management culture. In 2020, the Board of Directors confirmed its recommendation to allocate 100% of the Company's net profit under RAS to dividends, thereby maintaining a high level of shareholder return.

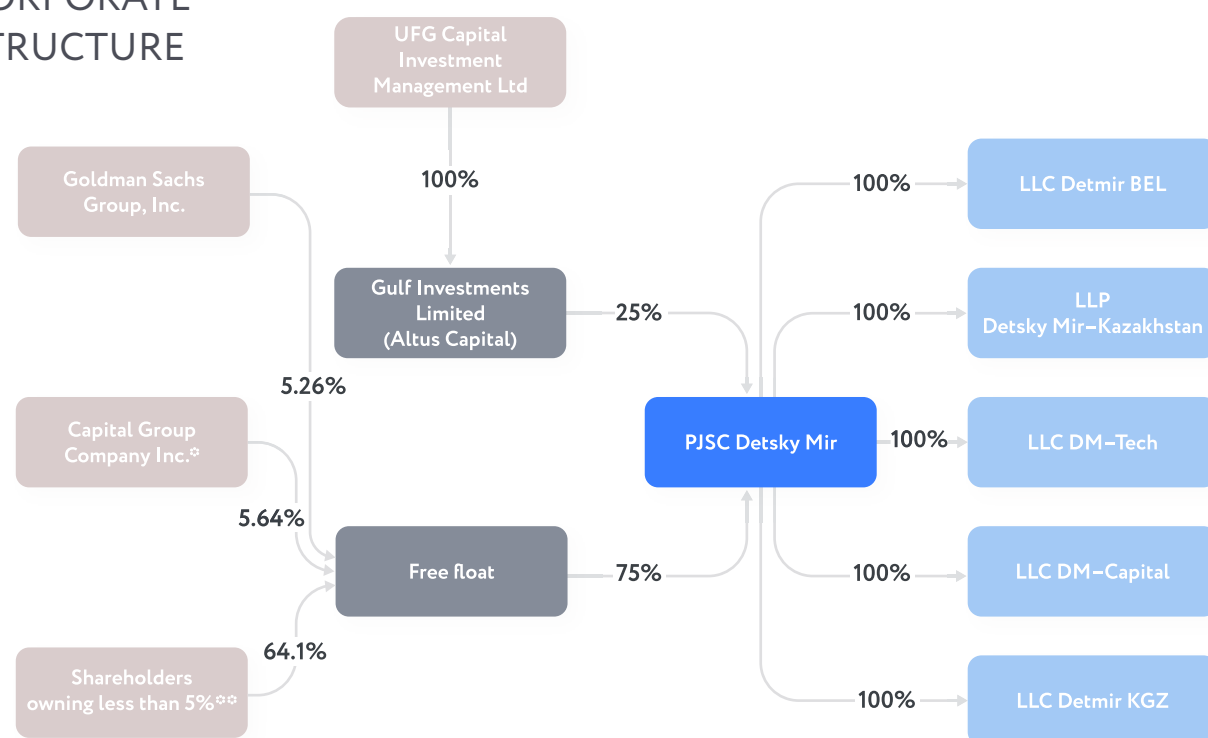
Another important area of the Board of Directors' work is promoting sustainability and creating value for a wide range of stakeholders. In 2020, new regulations related to the Strategy and Sustainability Committee were approved, significantly expanding the committee's powers. The Company also conducted its debut ESG analysis and developed a road map to further integrate sustainability into its business model and strategy.

In 2021, the Board of Directors plans to continue advocating for the Company to implement best corporate governance practices. The most important changes made in this area in 2020 were increasing the number of independent directors, as well as electing an independent director as Chairman of the Board.



CORPORATE GOVERNANCE FRAMEWORK

DETSKY MIR GROUP'S CORPORATE STRUCTURE



CORPORATE GOVERNANCE MODEL

Detsky Mir aims to build an effective corporate governance framework that enables the Company to operate transparently and efficiently. In matters of corporate governance, the Company is guided by Russian legislation, recommendations of the Bank of Russia, and global best practices.

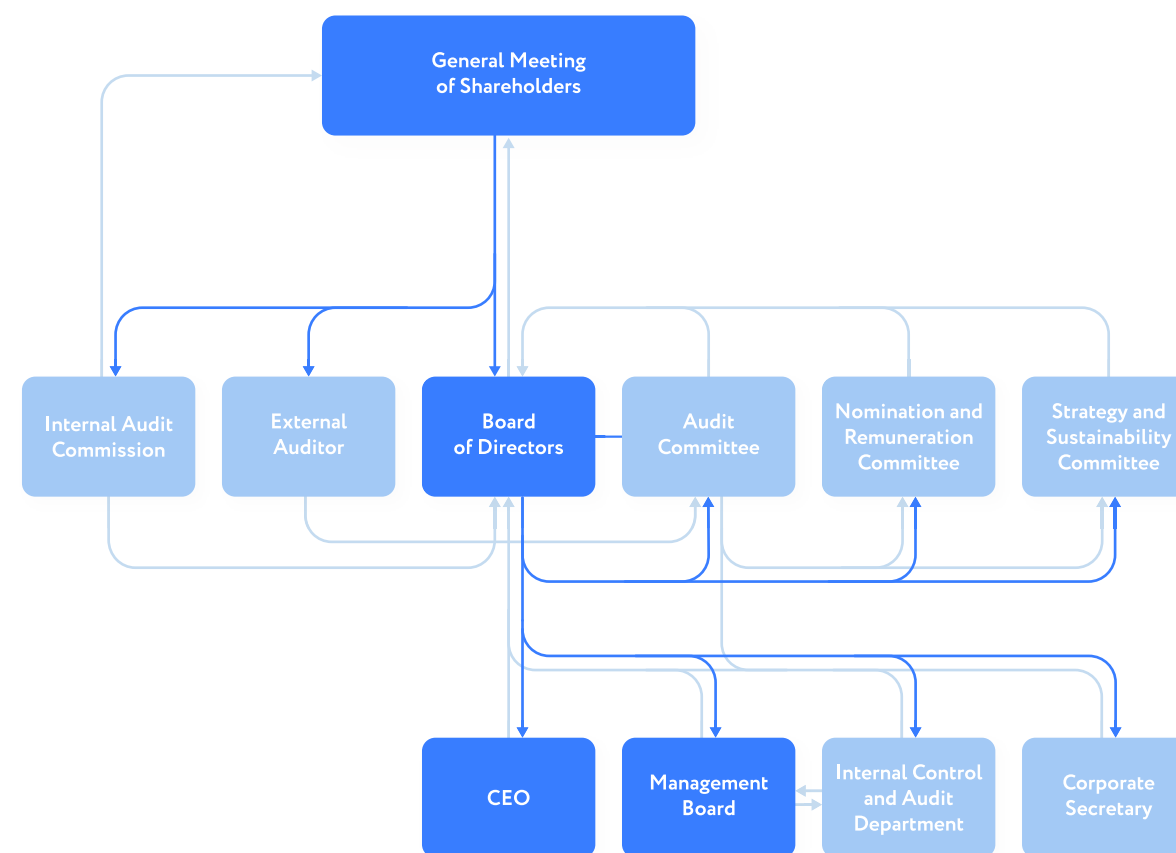
In 2021, the Board of Directors proposed increasing the number of independent members on the Board of Directors and amending the Company's Articles of Association to abolish the Internal Audit Commission. According to the Bank of Russia, when public companies create board committees for audit, risk management, and internal control,

as well as internal audit, it eliminates the legal need to create an audit committee. This approach eliminates duplication of functions in terms of control over the Company's financial and business activities.

BASIC CORPORATE GOVERNANCE PRINCIPLES

- Strategic the Management of the Company
- Effective control of Management Board by the Board of Directors
- Accountability of the Board of Directors to shareholders
- Effective protection of shareholders' rights
- Equal and fair treatment of all shareholders regardless of the size of their share in the share capital and national affiliation
- Timely and accurate disclosure of information on all material issues related to the Company, including the Company's financial position, operating performance, and management

STRUCTURE OF CORPORATE GOVERNANCE BODIES



- Providing reports and recommendations
- Appointed by election

* Deemed interest in sharing ** Including quasi-treasury shares and shares held by management and directors (0.7% of total shares)

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is Detsky Mir's highest governing body and operates in compliance with the Law on Joint Stock Companies, the Company's Articles of Association, internal documents approved by the General Meeting of Shareholders, and Russian legislation.

Shareholders exercise their right to manage the Company by proposing agenda items for the General Meeting of Shareholders, nominating candidates to corporate governance bodies, and by voting at the General Meeting of Shareholders. The remit of the General Meeting of Shareholders includes key management issues such as profit distributions, election of the Board of Directors and remuneration for Board members, approval of documents regulating the activities of management bodies (General Meeting of Shareholders, Board of Directors, Internal Audit Commission), amendments to the Articles of Association, reorganization and liquidation of the Company, and approval of the Company's auditor.

INFORMING SHAREHOLDERS ABOUT THE GENERAL MEETING OF SHAREHOLDERS

In accordance with the Company's Articles of Association, announcements convening the General Meeting of Shareholders and

information on decisions adopted by the General Meeting are posted on the Company's official website at ir.detsky-mir.ru. This information is also posted on the corporate disclosure portal run by Interfax at e-disclosure.ru.

Information regarding the convening and holding of the General Meeting of Shareholders, as well as regarding decisions adopted by the General Meeting, is disclosed on e-disclosure.ru.

For owners of shares whose rights are exercised by a nominee holder or foreign nominee holder, information regarding the convening of the General Meeting of Shareholders and on decisions made by the General Meeting is transmitted through the National Settlement Depository's corporate actions reporting system.

HOLDING THE GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders is held each year with in-person voting. Extraordinary General Meetings of Shareholders may also be held. The chosen form of an extraordinary General Meeting depends on the agenda.

Regardless of its form, voting at the meeting is carried out by ballots. In 2020, as a result of measures taken in response to the coronavirus

pandemic, all General Meetings of Shareholders of PJSC Detsky Mir were held with absentee voting.

ELECTRONIC SERVICES FOR SHAREHOLDERS

On 18 May 2018, the General Meeting of Shareholders approved a new version of Detsky Mir's Articles of Association, which enshrined the possibility of using information and communication technologies for remote participation in the General Meeting of Shareholders, discussing agenda items in absentia, and making decisions on issues put to a vote by completing an electronic ballot. The e-voting service at General Meetings of Shareholders is provided by the Company's registrar, JSC Reestr. The page for the service can be found at aoreestr.ru.

Detsky Mir's registrar is JSC Reestr (location: 20 Bolshoy Balkansky Lane, bldg. 1, Moscow 129090, Russian Federation, license to maintain a register of securities holders No. 045-13960-000001).

GENERAL MEETINGS OF SHAREHOLDERS IN 2020

30 June 2020

Annual General Meeting of Shareholders

Absentee voting

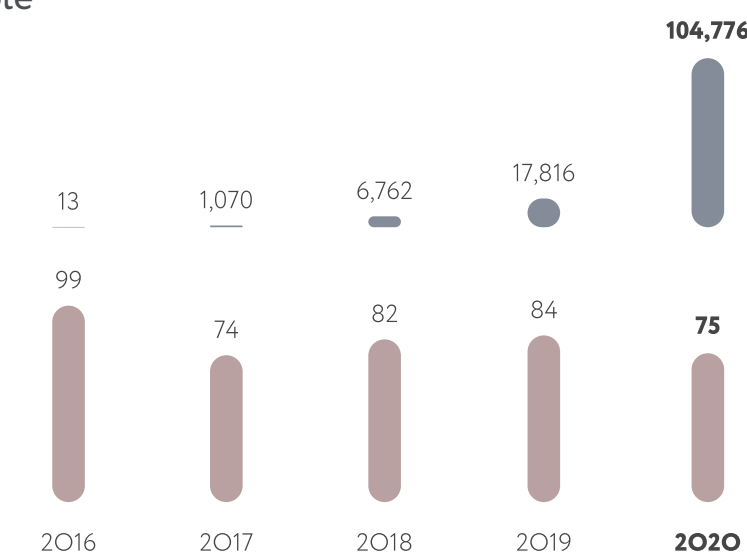
Meeting quorum	74.76%
Number of eligible shareholders	104,776
Shareholders voted	168
• by completing an electronic ballot on the registrar's website	26
• through the NSD's corporate actions reporting system	142

The AGM made decisions on:

1. Approval of Detsky Mir's 2019 annual report
2. Approval of Detsky Mir's annual financial statements for 2019, including the profit and loss statement
3. Distribution of profits and losses of PJSC Detsky Mir (including the payment of dividends) based on the 2019 financial year reporting results
4. Election of the Board of Directors
5. Election of the Internal Audit Commission
6. Approval of the Company's auditor
7. On joining the Association of Retail Companies (AKORT)

Number of shareholders eligible to vote at the AGM

AGM quorum, %



18 September 2020

Extraordinary General Meeting of Shareholders

Absentee voting

Meeting quorum	67.70%	The EGM made a decision on:
Number of eligible shareholders	107,899	1. Payment of dividends based on the Company's results for the first half of 2020
Shareholders voted	193	
• by completing an electronic ballot on the registrar's website	23	
• through the NSD's corporate actions reporting system	170	



17 December 2020

Extraordinary General Meeting of Shareholders

Absentee voting

Meeting quorum	57.20%	The EGM made a decision on:
Number of eligible shareholders	132,141	1. Payment of dividends based on the Company's results for the first nine months of 2020
Shareholders voted	236	
• by completing an electronic ballot on the registrar's website	27	The EGM did not make a decision on:
• through the NSD's corporate actions reporting system	209	1. Determining the number of members of the Board of Directors
		2. Approval of a new version of the Company's Articles of Association

BOARD OF DIRECTORS

The Board of Directors is responsible for the Company's strategic direction. It defines the core principles and approaches to risk management and the internal control system, oversees the activities of the Company's Management Board, and performs other key functions.

The Board of Directors performs the following primary functions

- Establishes the Company's key long-term targets and approves its strategy
- Oversees implementation of the Company's strategy
- Approves KPIs and assesses their execution
- Makes decisions regarding the appointment and dismissal of members of the Management Board
- Determines the Company's policy on remuneration for and/or reimbursement of expenses (compensation) of members of Management Board and other key executives
- Defines principles and approaches for risk management and the internal control system
- Oversees the timeliness and completeness of information disclosure by the Company and ensures that shareholders have unhindered access to Company documents
- Oversees corporate governance and supports decision-making with regard to material corporate events

The Board of Directors is accountable to shareholders. The activities of the Board of Directors are regulated by the Law on Joint Stock Companies, the Company's Articles of Association, internal documents, decisions of the General Meeting of Shareholders, and Russian legislation.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors is a professional governance body able to make objective independent judgments and decisions that align with the interests of the Company and its shareholders. Members of the Board of Directors are elected at the General Meeting of Shareholders by cumulative voting. To ensure transparency, shareholders are provided with information on candidates' age, education, and professional experience, as well as who proposed each candidate.



EXECUTIVE DIRECTOR

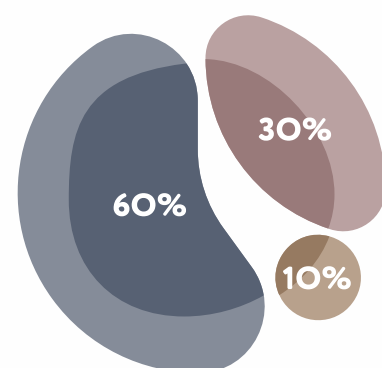
An executive director is one who holds a position on the Company's Management Board. Executive Directors represent management's perspective on the Board of Directors.

INDEPENDENT DIRECTORS HAVE

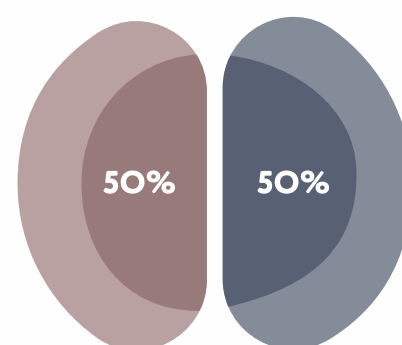
an appropriate level of professionalism, experience and independence to form their own positions, and are able to make objective and conscientious judgments while remaining independent of the influence of the Company's Management Board, groups of shareholders, or other interested parties. The criteria used to assess director independence is determined by Moscow Exchange's listing rules.

Composition of the Board of Directors

31.12.2020



31.03.2021

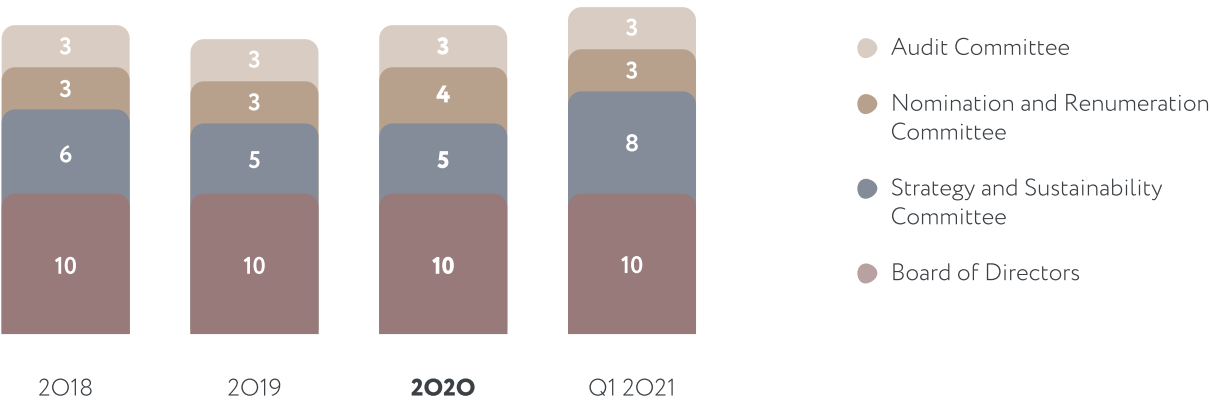


The Board of Directors includes individuals with a broad range and depth of knowledge and the experience necessary to make informed decisions. As of 31 December 2020, the Board of Directors included three independent directors, six nonexecutive directors, and one executive director.

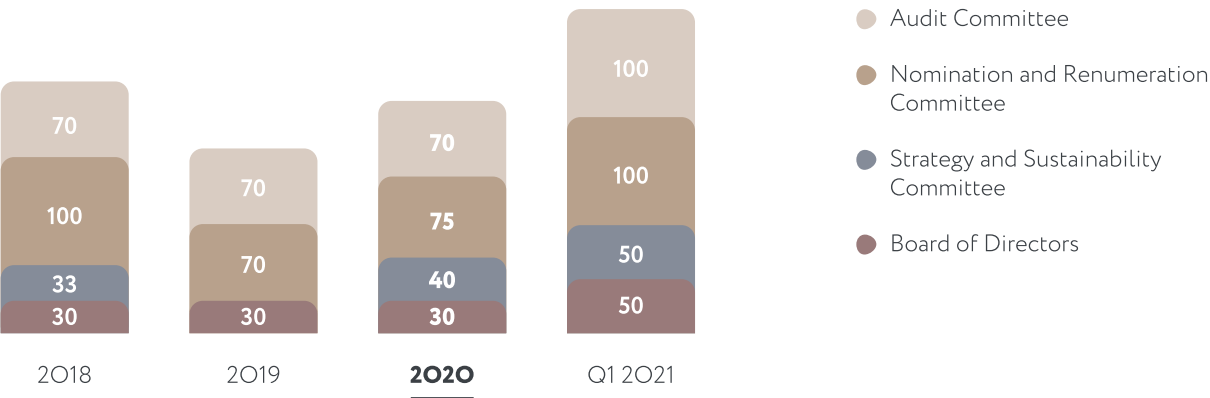
- Independent
- Nonexecutive
- Executive



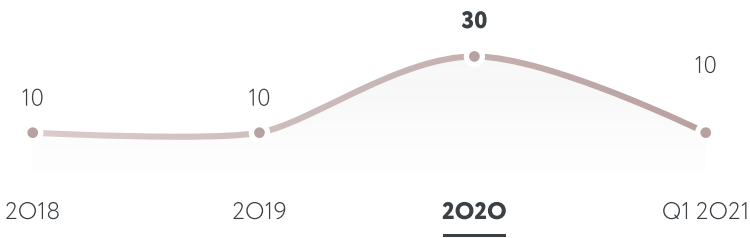
Number of members of the Board of Directors and Board committees



Independent directors' representation on the Board of Directors and Board committees, %



Female members on the Board of Directors, %



In 2020, the composition of the Board of Directors changed as follows

Composition at the beginning of the reporting year	Composition at the end of the reporting year	Composition on 31 March 2021
Alexey Katkov Chairman of the Board of Directors (nonexecutive)	Evgeniy Madorskiy Chairman of the Board of Directors (nonexecutive)	Maria Gordon Chairwoman of the Board of Directors (independent)
Vladimir Chirakhov (executive)	Maria Davydova (executive)	Andrey Anishchenko (independent)
Pavel Boyarinov (independent)	Pavel Boyarinov (independent)	Pavel Grachev (nonexecutive)
Stanislav Kotomkin (independent)	Stanislav Kotomkin (independent)	Dmitry Klenov (nonexecutive)
Alexander Shevchuk (independent)	Alexander Shevchuk (independent)	Vladimir Klimanov (nonexecutive)
Evgeniy Madorskiy (nonexecutive)	Oleg Mamaev (nonexecutive)	Stanislav Kotomkin (independent)
Tony Maher (nonexecutive)	Tony Maher (nonexecutive)	Tony Maher (nonexecutive)
Olga Ryzhkova (nonexecutive)	Olga Ryzhkova (nonexecutive)	Mikhail Stiskin (nonexecutive)
Vyacheslav Khvan (nonexecutive)	Vladimir Travkov (nonexecutive)	Michael Foss (independent)
Alexander Shulgin (nonexecutive)	Anna Shakirova (nonexecutive)	Alexander Shevchuk (independent)

KEY COMPETENCIES OF MEMBERS OF THE BOARD OF DIRECTORS

Board composition as of 31 December 2020

	Strategy	Finance and audit	Children's goods market	Pet supplies market	Online sales	Digital products	Corporate governance	M&A and capital markets	GR/IR
Pavel Boyarinov	×				×	×			
Maria Davydova	×		×	×	×	×			
Stanislav Kotomkin	×				×	×			
Evgeniy Madorskiy	×	×					×	×	×
Tony Maher	×		×				×	×	
Oleg Mamaev	×								×
Olga Ryzhkova	×	×						×	×
Vladimir Travkov	×	×					×	×	×
Anna Shakirova	×	×			×	×	×	×	
Alexander Shevchuk	×	×					×	×	×

Board composition as of 31 March 2021

	Strategy	Finance and audit	Children's goods market	Pet supplies market	Online sales	Digital products	Corporate governance	M&A and capital markets	GR/IR
Andrey Anishchenko	×				×	×			
Maria Gordon	×	×					×	×	×
Pavel Grachev	×						×	×	×
Dmitry Klenov	×	×				×	×	×	×
Vladimir Klimanov	×							×	
Stanislav Kotomkin	×				×	×			
Tony Maher	×		×				×	×	
Mikhail Stiskin	×	×					×	×	
Michael Foss	×	×	×	×	×		×	×	×
Alexander Shevchuk	×	×					×	×	×

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2020



Evgeniy Madorskiy

Chairman of the Board of Directors,
Nonexecutive Director

Born in 1975
Citizenship: Russia

Education:

1996	St. Petersburg University of Economics and Finance, Major in Global Economics
1996	Université Paris-Dauphine, Major in Management
2004	HEC Paris School of Management, PhD in Economics

Experience:

2006–pres.	PJSFC Sistema Chief Investment Officer, Executive Vice President
2014–2018	PJSC MTS Bank, member of the Board of Directors
2018–2021	PJSC Detsky Mir, member of the Board of Directors
2019–pres.	JSC Sitronics, member of the Board of Directors



Maria Davydova

Chief Executive Officer

Born in 1974
Citizenship: Russia

Education:

1998	Institute of Humanities, Major in Economics
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Experience:

2006–2009	OJSC Arbat Prestige — Gradient, Deputy Director
2009–2011	MDK LLC, Commercial Director
2011–2012	Svyaznoy Market LLC, Director for Children’s Goods
2012–2013	LLC Enter, Commercial Director for Home and Recreation Products
2013–2020	PJSC Detsky Mir, Deputy Chief Executive Officer for Commercial Activities
2020–pres.	PJSC Detsky Mir, Chief Executive Officer, Chairwoman of the Management Board



Pavel Boyarinov

Independent Director

Born in 1986
Citizenship: Russia

Education:

2009	Bauman Moscow State Technical University, Major in Information Science and Control Systems
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Experience:

2015–pres.	Production Company Orion (Matrasru online store), the largest mattress online store in Russia, Chief Executive Officer
2018–pres.	PJSC Detsky Mir, member of the Board of Directors

Information on the members of the Board of Directors
as of 31 December 2020



Stanislav Kotomkin

Independent Director

Born in 1973
Citizenship: Russia

Education:

- 1996 Bauman Moscow State Technical University,
Major in Applied Mechanical Engineering
- 2013 Moscow School of Management Skolkovo, MBA
- 2014 IoD Chartered Director

Experience:

- 1999–pres. AMF International Flower Delivery Network Company,
co-owner, CEO, member of the Board of Directors
- 2018–pres. PJSC Detsky Mir,
member of the Board of Directors



Tony Maher

Nonexecutive Director

Born in 1956
Citizenship: Ireland

Education:

- 1994 Irish Management Institute,
Major in Management

Experience:

- 2012–pres. Denton Holdings SPC,
Director
- 2012–pres. Da Vinci Capital,
Director
- 2012–pres. JSC Progress,
Chairman of the Board of Directors
- 2015–pres. LPQ Russia Limited,
member of the Board of Directors
- 2018–pres. PJSC Detsky Mir,
member of the Board of Directors
- 2019–pres. MD Medical Group,
member of the Board of Directors



Alexander Shevchuk

Independent Director

Born in 1983
Citizenship: Russia

Education:

- 1996 Financial Academy under the Government
of the Russian Federation,
Major in Finance

Experience:

- 2014–pres. Association of Professional Investors,
Executive Director
- 2014–pres. PJSC IDGC of Center and Volga Region,
member of the Board of Directors
- 2015–pres. PJSC IDGC of Center,
member of the Board of Directors
- 2016–pres. OJSC IDGC of Urals,
member of the Board of Directors
- 2018–pres. PJSC Detsky Mir,
member of the Board of Directors



Oleg Mamaev

Nonexecutive Director

Born in 1979
Citizenship: Russia

Education:

- 2001 Lomonosov Moscow State University,
State and Municipal Administration

Experience:

- 2008–2017 PNK Group,
Executive Director
- 2017–2019 JSC, Leader Invest,
President
- 2019–pres. Sibmost Group LLC,
Chief Executive Officer
- 2020–2021 PJSC Detsky Mir,
member of the Board of Directors

Information on the members of the Board of Directors as of 31 December 2020



Olga Ryzhkova

Nonexecutive Director

Born in 1983
Citizenship: Russia

Education:

2001 Financial University under the Government of the Russian Federation,
Major in State and Municipal Administration

Experience:

2015–pres. RCIF Investment Management,
Senior Vice President

2017–pres. JSC Progress,
member of the Board of Directors

2018–2021 PJSC Detsky Mir,
member of the Board of Directors



Vladimir Travkov

Nonexecutive Director

Born in 1979
Citizenship: Russia

Education:

2002 Lomonosov Moscow State University,
Major in Economics and Management

Experience:

2016–2018 PJSC MTS,
Director of the Functional Control Department

2018–pres. PJSC AFK Sistema,
Vice President of Finance,
member of the Management Board

2019–pres. PJSC MEDSI Group of Companies,
member of the Board of Directors

2020–2021 PJSC Detsky Mir,
member of the Board of Directors



Anna Shakirova

Nonexecutive Director

Born in 1977
Citizenship: Russia

Education:

1999 Finance Academy under the Government of the Russian Federation,
Major in Economics

Experience:

2015–pres. JSC Sistema Venture Capital,
member of the Board of Directors

2018–pres. PJSC AFK Sistema,
Chief Investment Officer

2018–pres. Sistema Consult LLC,
member of the Board of Directors

2019–pres. SVK Fund LLC,
member of the Board of Directors

2020–2021 PJSC Detsky Mir,
member of the Board of Directors



Information on the members of the Board of Directors

AS OF 31 MARCH 2021



Maria Gordon

Chairwoman of the Board of Directors,
Independent Director

Born in 1974
Citizenship: Russia, United Kingdom

Education:

- | | |
|------|---|
| 1995 | University of Wisconsin (USA),
BA in Political Science |
| 1998 | Fletcher School of Law and Diplomacy,
Tufts University (USA),
Master of Jurisprudence and Diplomacy |

Experience:

- | | |
|------------|--|
| 1998–2010 | Goldman Sachs Asset Management (USA),
Managing Director |
| 2010–2014 | Pacific Investment Management Co (PIMCO, USA),
Executive Vice President |
| 2015–pres. | PJSC Alrosa,
member of the Supervisory Board |
| 2016–pres. | PJSC Moscow Exchange,
member of the Supervisory Board |
| 2017–pres. | PJSC Polyus,
member of the Board of Directors |
| 2021–pres. | PJSC Detsky Mir,
member of the Board of Directors |



Andrey Anishchenko

Independent Director

Born in 1980
Citizenship: Russia

Education:

- | | |
|------|---|
| 2003 | Moscow State University,
Candidate of Physical and Mathematical Sciences |
|------|---|

Experience:

- | | |
|------------|---|
| 2012–pres. | Grape LLC,
member of the Board of Directors |
| 2014–pres. | Possible LLC,
member of the Board of Directors |
| 2014–2015 | Possible LLC,
Chief Executive Officer |
| 2017–2020 | Skilbox LLC,
Managing Director, member of the Board of Directors |
| 2021–pres. | PJSC Detsky Mir,
member of the Board of Directors |



Pavel Grachev

Deputy Chairman
of the Board of Directors,
Nonexecutive Director

Born in 1973
Citizenship: Russia

Education:

- | | |
|------|--|
| 1998 | St. Petersburg State University,
Major in Jurisprudence |
| 1998 | University of Trieste (Italy),
Major in Jurisprudence |

Experience:

- | | |
|------------|--|
| 2014–2016 | JSC Polyus Krasnoyarsk,
President |
| 2014–2016 | Polyus Gold International Limited,
Chief Executive Officer,
member of the Board of Directors |
| 2014–pres. | PJSC Polyus,
Chief Executive Officer,
member of the Board of Directors |
| 2015–pres. | PJSC Federal Grid Company
of the Unified Energy System,
member of the Board of Directors |
| 2016–pres. | UK Polyus LLC,
Chief Executive Officer |
| 2016–pres. | PJSC RusHydro,
member of the Board of Directors |
| 2021–pres. | PJSC Detsky Mir,
member of the Board of Directors |

Information on the members of the Board of Directors as of 31 March 2021



Stanislav Kotomkin

Independent Director

Born in 1973
Citizenship: Russia

Education:

1996 Bauman Moscow Technical University,
Major in Applied Mechanical Engineering

2013 Moscow School of Management Skolkovo, MBA

2014 IoD Chartered Director

Experience:

1999–pres. AMF International Flower Delivery Network Company,
co-owner, CEO, member of the Board of Directors

2018–pres. PJSC Detsky Mir,
member of the Board of Directors



Vladimir Klimanov

Nonexecutive Director

Born in 1986
Citizenship: Russia

Education:

2008 St. Petersburg State University of Economics,
Major in Economics

Experience:

2012–2015 LLC RDIF Management Company,
expert

2015–pres. Management Company Polyus LLC,
Deputy Director of the M&A Department

2019–pres. Veta Capital Partners LLC,
Investment Director

2021–pres. PJSC Detsky Mir,
member of the Board of Directors



Tony Maher

Nonexecutive Director

Born in 1956
Citizenship: Ireland

Education:

1994 Irish Management Institute,
Major in Management

Experience:

2012–pres. Denton Holdings SPC,
Director

2012–pres. Da Vinci Capital,
Director

2012–pres. JSC Progress,
Chairman of the Board of Directors

2015–pres. LPQ Russia Limited,
member of the Board of Directors

2018–pres. PJSC Detsky Mir,
member of the Board of Directors

2019–pres. MD Medical Group,
member of the Board of Directors



Dmitry Klenov

Nonexecutive Director

Born in 1982
Citizenship: Republic of Cyprus

Education:

2004 Moscow State Institute of International Relations
(University) of the Ministry of Foreign Affairs of Russia,
Major in Jurisprudence

Experience:

2013–2019 Dmitry Gennadievich Klenov Law Office,
Attorney

2015–pres. UFG WM Holdings Ltd,
Director

2015–pres. Altus Capital Management Limited,
Director

2016–pres. UFG Investment Services Limited,
Director

2017–pres. OJSC Sakhalin Shipping Company,
member of the Board of Directors

2019–pres. Family Consultants Moscow Bar Association,
Attorney, Chairman of the Bar

2019–pres. PJSC Pharmacy Chain 36.6,
member of the Board of Directors

2021–pres. PJSC Detsky Mir,
member of the Board of Directors

Information on the members of the Board of Directors as of 31 March 2021



Michael Foss

Independent Director

Born in 1957
Citizenship: USA

Education:

- 1979 Washington University (USA),
Bachelor of Business Administration
- 1982 University of Michigan (USA), MBA

Experience:

- 2007–2013 Petco Animal Supplies,
Executive Vice President, Chief Financial Officer
- 2013–2016 Sports Authority (US sporting goods chain),
CEO, Chairman of the Board of Directors
- 2017–pres. Independent Pet Partners,
Co-Founder, Board Member
- 2021–pres. PJSC Detsky Mir,
member of the Board of Directors



Mikhail Stiskin

Nonexecutive Director

Born in 1983
Citizenship: Russia

Education:

- 2003 Moscow State Institute of International Relations
(University) of the Ministry of Foreign Affairs of Russia,
Major in Economics
- 2006 University of Michigan (USA),
Master of Economics

Experience:

- 2014–2016 Polyus Krasnoyarsk JSC,
Senior Vice President for Finance and Strategy
- 2014–2017 Polyus Gold International Limited,
Chief Financial Officer
- 2014–pres. PJSC Polyus,
Deputy General Director for Economics and Finance,
member of the Board of Directors
- 2014–pres. JSC TaigaEnergoStroy,
member of the Board of Directors
- 2014–pres. Lenzoloto Gold Mining Company JSC,
Chairman of the Board of Directors
- 2016–pres. UK Polyus LLC,
Senior Vice President for Finance and Strategy
- 2021–pres. PJSC Detsky Mir,
member of the Board of Directors



Alexander Shevchuk

Independent Director

Born in 1983
Citizenship: Russia

Education:

- 1996 Financial Academy under the Government of
the Russian Federation,
Major in Finance

Experience:

- 2014–pres. Association of Professional Investors,
Executive Director
- 2014–pres. PJSC IDGC of Center and Volga Region,
member of the Board of Directors
- 2015–pres. PJSC IDGC of Center,
member of the Board of Directors
- 2016–pres. OJSC IDGC of Urals,
member of the Board of Directors
- 2018–pres. PJSC Detsky Mir,
member of the Board of Directors



CORPORATE SECRETARY

The Corporate Secretary is responsible for ensuring that corporate procedures are implemented, coordinating actions to protect the rights and interests of shareholders, and supporting the effective work of the Board of Directors. The Corporate Secretary reports to and is accountable to the Board of Directors. Dmitry Bogatov serves as Detsky Mir's Corporate Secretary.



Dmitry Bogatov

Corporate Secretary,
Secretary of the Board of Directors

Born in 1977
Citizenship: Russia

Education:

2001	Military University of the Ministry of Defense, Jurisprudence
2013	Lomonosov Moscow State University, Strategic Management and Innovation

Experience:

2010–pres.	Detsky Mir, Corporate Secretary
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The Corporate Secretary's primary functions are as follows:

- Managing preparations for General Meetings of Shareholders, as well as meetings of the Board of Directors and Board committees
- Disclosing information in a timely manner and in compliance with regulatory requirements
- Ensuring that established corporate procedures are implemented or monitored to protect shareholders' rights and legitimate interests
- Supporting interaction with regulatory agencies, trading platforms, the registrar, and other professional participants in the securities market
- Supporting interaction between the Company and its shareholders and preventing corporate conflicts

CHAIRPERSON OF THE BOARD OF DIRECTORS



Maria Gordon

Chairwoman of the Board
of Directors

The Chairperson of the Board of Directors represents the Board and acts on its behalf in relations with the Company's executive bodies, shareholders, and third parties. The Chairperson should facilitate effective implementation of the functions entrusted to the Board of Directors.

The Chairperson facilitates a constructive atmosphere at meetings and ensures free discussion of agenda issues, takes the necessary measures to provide Board members with the information they need to make decisions on agenda items in a timely manner, and oversees the implementation of decisions made by the Board of Directors.

The Chairperson bears personal responsibility to the General Meeting for organizing the activities of the Board of Directors.

The primary functions of the Chairperson are as follows:

- Planning and organizing the work of the Board of Directors
- Setting the agenda, calling meetings of the Board of Directors and determining their form, ensuring that minutes of meetings are kept
- Ensuring that the members of the Board of Directors are given information on the agenda items for the next meeting
- Ensuring transparent and open discussion of issues considered at Board meetings, taking into account all Board members' opinions when making decisions, summarizing the results of discussions, and formulating any decisions made
- Chairpersonship of the General Meeting of Shareholders

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors holds meetings according to a schedule drawn up for the whole calendar year.

The first meeting of the Board of Directors is held after the General Meeting of Shareholders at which the Board is elected. The first meeting of the Board elects the Chairperson of the Board of Directors, appoints the Secretary of the Board of Directors, votes on the formation of Board committees, and determines the status of Board members.

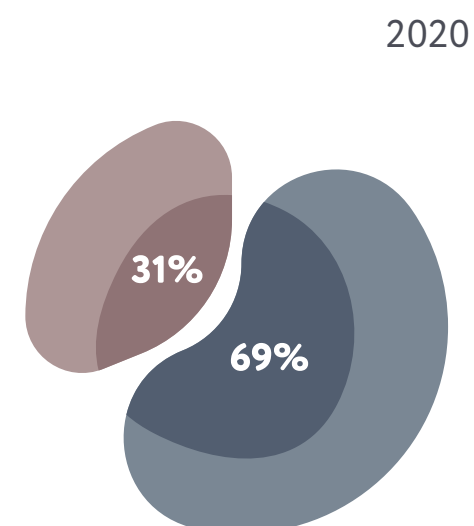
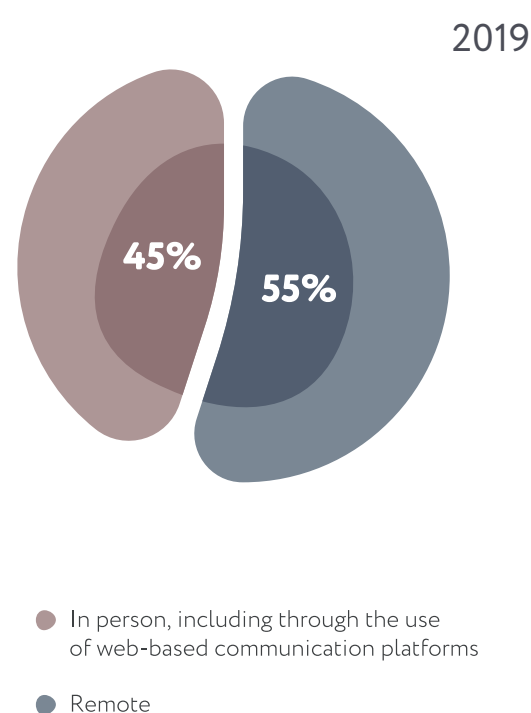
The date, time, and format of Board meetings are decided by the Chairperson of the Board. Meetings can be held either in person or with absentee voting (in absentia).

The most significant issues are discussed at in-person meetings, which use telecommunication technologies to allow Board members to discuss agenda items and make decisions in real time. Meetings in absentia are held by submitting ballots.

The Board of Directors does not use absentee voting to make decisions on the following issues:

- Determining the Company's priority areas of focus
- Convening the Annual General Meeting of Shareholders
- Share capital increases
- Preliminary approval of the Annual Report
- Appointment of the CEO and approval of the terms of his or her contract

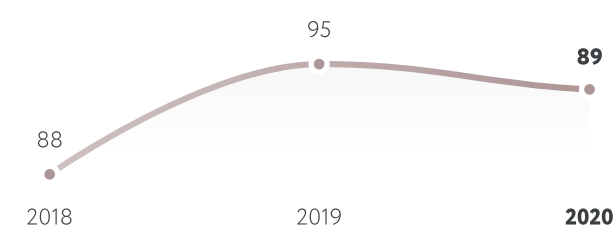
Directors' attendance at meetings of the Board of Directors



Directors' attendance at meetings of the Board of Directors in 2020

Director	In person	In absentia	%
Pavel Boyarinov	5/5	11/11	100%
Maria Davydova	3/3	6/6	100%
Alexey Katkov	2/2	5/5	100%
Stanislav Kotomkin	5/5	11/11	100%
Evgeniy Madorskiy	4/5	11/11	94%
Tony Maher	5/5	11/11	100%
Oleg Mamaev	3/3	5/6	89%
Olga Ryzhkova	4/5	7/11	69%
Vladimir Travkov	2/3	5/6	78%
Vyacheslav Khvan	2/2	3/5	71%
Vladimir Chirakhov	2/2	5/5	100%
Anna Shakirova	2/3	2/6	44%
Alexander Shevchuk	5/5	11/11	100%
Alexander Shulgin	2/2	4/5	86%

Engagement of Board members in Board meetings, %



More than 94% of Board meetings were held with the participation of 80% or more of the Board's members.

Key issues reviewed by the Board of Directors in 2020:

1. The Group's strategy for 2021–2024

2. The Company's financial performance for 2019, Q1 2020, H1 2020, and 9M 2020

3. Risk management report for 2019 and for H1 2020

4. Approval of internal documents: Charity Policy, Regulation on the Strategy and Sustainability Committee

5. Election of members of the Management Board (Maxim Egorov, Konstantin Frishberg, Denis Gurov, and Nikolay Ermakov)

6. Extension of the term of office of Management Board members (Maria Volodina and Artem Gubanov)

7. Termination of the term of office of Management Board members (Vladimir Chirakhov, Vyacheslav Mikhnenko, and Maxim Egorov)

8. Approval of KPIs for 2020 and 2021

9. Recommendations for dividend payments for 2019, H1 2020, and 9M 2020
10. Anti-crisis measures relating to the COVID-19 pandemic

11. Approval of loan agreements with Alfa Bank, Bank FC Otkritie, Sberbank, Raiffeisenbank, Gazprombank, UniCredit Bank, and Rosbank

12. Organizational issues concerning the work of the Board of Directors: election of the Chairman and Secretary; determination of the status of Board members; formation of Board committees; reviewing the Board's self-assessment results; and approving the Board's work plan for 2021

13. Approval of an investment project to construct a distribution center in the Urals Federal District

14. Approval of material transactions with suppliers

15. Creation of a special committee to communicate with traders in the Company's shares, investors, and financial and legal consultants regarding the Altus Capital offer

16. Approval of the Company's budget for 2021

17. Report on the activities of competitors in 2020

18. Hedging against currency risks

19. Approach to remuneration of nonexecutive members of the Board

Number of issues considered at Board meetings



COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee	The Committee undertakes a preliminary review of issues for consideration at meetings of the Board of Directors concerning audit, control, and preparation of financial statements.
	Committee decisions are advisory for the Board of Directors.

Nomination and Remuneration Committee

As of 31 December 2020, the Committee consisted of three members of the Board of Directors. A majority of Committee members must meet the independence criteria determined by the Company's internal documents and applicable Moscow Exchange listing rules. Other Committee members may be members of the Board of Directors who are not the sole executive body and/or members of the collegial executive body of the Company.

As of 16 March 2021, a new composition of the Audit Committee was formed consisting of three independent directors.

The Nomination and Remuneration Committee undertakes a preliminary review of issues for consideration at meetings of the Board of Directors concerning personnel appointments to the Company's management and oversight bodies, as well as the motivation and remuneration system for management, members of oversight bodies and employees.

Committee decisions are advisory for the Board of Directors.

As of 31 December 2020, the Committee consisted of four members of the Board of Directors. A majority of Committee members must meet the independence criteria determined by the Company's internal documents and applicable Moscow Exchange listing rules. Other Committee members may be members of the Board of Directors who are not the sole executive body and/or members of the collegial executive body of the Company.

As of 16 March 2021, a new composition of the Nomination and Remuneration Committee was formed, consisting of three independent directors.

Strategy and Sustainability Committee

The Strategy and Sustainability Committee undertakes a preliminary review and analysis of issues for consideration at meetings of the Board of Directors covering strategy and sustainability (ESG).

Committee decisions are advisory for the Board of Directors.

As of 31 December 2020, the Committee consisted of five members of the Board of Directors. As of 16 March 2021, a new composition of the Committee was formed consisting of eight members. Any member of the Board of Directors, including executive directors, can be a member of the Committee. There are no independence requirements for Committee members.

Special committee

A special committee was formed following the offer to purchase 29.9% of the Company's ordinary shares by Altus Capital on 30 November 2020. The committee was authorized to communicate on behalf of the Board with potential buyers and sellers of Detsky Mir shares, investors, and financial and legal advisers. The committee has the authority to assess and make public statements related to possible new offers and offers to purchase large blocks of shares. This process can include an assessment of the offer price and the potential change in their market value after the acquisition, as well as an assessment of the plans of the potential acquirer who made the offer to Detsky Mir.

AUDIT COMMITTEE

In the reporting year

As of 31 March 2021

Pavel Boyarinov Chairman of the Committee, Independent Director	Michael Foss Chairman of the Committee, Independent Director
Anna Shakirova Member of the Committee, Nonexecutive Director	Maria Gordon Member of the Committee, Independent Director
Alexander Shevchuk Member of the Committee, Independent Director	Alexander Shevchuk Member of the Committee, Independent Director

NOMINATION AND REMUNERATION COMMITTEE

In the reporting year

As of 31 March 2021

Stanislav Kotomkin Chairman of the Committee, Independent Director	Maria Gordon Chairwoman of the Committee, Independent Director
Evgeniy Madorskiy Member of the Committee, Nonexecutive Director	Andrey Anishchenko Member of the Committee, Independent Director
Pavel Boyarinov Member of the Committee, Independent Director	Alexander Shevchuk Member of the Committee, Independent Director
Alexander Shevchuk Member of the Committee, Independent Director	

STRATEGY AND SUSTAINABILITY COMMITTEE

In the reporting year

As of 31 March 2021

Evgeniy Madorskiy Chairman of the Committee, Nonexecutive Director	Pavel Grachev Chairman of the Committee, Nonexecutive Director	Tony Maher Member of the Committee, Nonexecutive Director
Maria Davydova Member of the Committee, Executive Director	Andrey Anishchenko Member of the Committee, Independent Director	Mikhail Stiskin Member of the Committee, Nonexecutive Director
Anna Shakirova Member of the Committee, Nonexecutive Director	Maria Gordon Member of the Committee, Independent Director	Michael Foss Member of the Committee, Independent Director
Alexander Shevchuk Member of the Committee, Independent Director	Maria Davydova Member of the Committee, Executive Director	
Pavel Boyarinov Member of the Committee, Independent Director	Stanislav Kotomkin Member of the Committee, Independent Director	

Based on the recommendations of the Russian Corporate Governance Code, the Company monitors the quality of its corporate governance every year, including through an assessment of the work of the Board of Directors and its committees. The results of the assessment are reviewed by the Board of Directors, as a rule at a meeting ahead of the AGM, so that they can be incorporated into the work plan for the Board of Directors and its committees. In 2020, the performance of the Board of Directors was assessed by means of a self-assessment. In 2021, the Board of Directors plans to involve an independent consultant in assessing its work.

Results of self-assessment reviews conducted by the Board of Directors

Criterion	Average score (out of five)
Composition and structure of the Board of Directors and its committees	3.1
Procedure, planning, and organization of the work of the Board of Directors and its committees	3.4
Functional areas of work of the Board of Directors and its committees	3.2
Assessment of the work of the Board of Directors	3.2

MANAGEMENT BOARD

Detsky Mir’s day-to-day activities are overseen by the Management Board and the CEO, who ensure that the Company achieves its objectives and executes its strategy in order to maintain its profitability, competitiveness, and financial and economic stability, as well as observes the rights of shareholders and provides social guarantees to employees.

The remits of the CEO and Management Board include resolution of all issues related to Detsky Mir’s day-to-day activities except for issues that fall under the remit of the General Meeting of Shareholders and the Board of Directors.

The CEO and Management Board are guided by Russian legislation, the Company’s Articles of Association, and other internal regulations.

The election of the CEO and early termination of his or her term of office fall within the remit of the Board of Directors. The CEO and members of the Management Board are accountable to the Board of Directors and regularly report on the Company’s performance.

In 2020, the Management Board held 50 meetings and considered 251 issues



Detsky Mir Management Board in 2020

- Maria Volodina

on the Management Board since 2014
- Anna Garmanova

on the Management Board since 2015
- Artem Gubanov

on the Management Board since 2017
- Maria Davydova

on the Management Board since 2015
- Vladimir Ilmetov

on the Management Board since 2015
- Farid Kamalov

on the Management Board since 2014
- Pavel Pishchikov

on the Management Board since 2017
- Anastasiya Yaroshevskaya

on the Management Board since 2016
- Denis Gurov

on the Management Board since 2020
- Konstantin Frishberg

on the Management Board since 2020
- Nikolay Ermakov

on the Management Board since 2020

Terminated in 2020

- Vyacheslav Mikhnenko

on the Management Board since 2019
- Tatiana Mudretsova

on the Management Board since 2019
- Vladimir Chirakhov

on the Management Board since 2012
- Maxim Egorov

on the Management Board since February 2020, terminated in December 2020



MANAGEMENT BOARD MEMBERS



Maria Davydova

Chief Executive Officer,
Chairwoman of the Management Board

Born in 1974
Citizenship: Russia

Education:

1998 Institute of Humanities

Experience:

- 2006–2009 OJSC Arbat Prestige — Gradient,
Deputy Director
- 2009–2011 MDK LLC,
Commercial Director
- 2011–2012 Svyaznoy Market LLC,
Director for Children’s Goods
- 2012–2013 LLC Enter,
Commercial Director for Home and Recreation
Products
- 2013–2020 PJSC Detsky Mir,
Deputy Chief Executive Officer for Commercial
Activities
- 2020–pres. PJSC Detsky Mir,
Chief Executive Officer,
Chairwoman of the Management Board

Equity ownership in Detsky Mir: 0.022%*



Anna Garmanova

Chief Financial Officer

Born in 1976
Citizenship: Russia

Education:

- 1998 Lomonosov Moscow State University
- 2002 Plekhanov Russian University of Economics

Experience:

- 2008–pres. PJSC Detsky Mir,
Chief Financial Officer, Head of Corporate
Accounting, Head of Methodology, Taxation,
and Reporting

Equity ownership in Detsky Mir: 0.01%



Farid Kamalov

Chief Operating Officer

Born in 1980
Citizenship: Russia

Education:

- 2003 Moscow State Institute of Electronic Engineering

Experience:

- 2003–2010 MVideo Management LLC,
Hypermarket Director, Section Manager,
Salesperson
- 2010 Korablik R LLC,
Director of Retail Sales
- 2010–2012 Korablik R LLC,
Division Head
- 2012–pres. PJSC Detsky Mir,
Chief Operating Officer

Equity ownership in Detsky Mir: 0.08%

* Hereinafter, the share of the Company’s
ordinary shares belonging to the person in question

Management Board members



Maria Volodina
Commercial Director, Fashion

Born in 1973
Citizenship: Russia

- Education:**
- 1996 Moscow State Academy of Light Industry
- Experience:**
- 2007–2010 Kira Plastinina Style LLC,
Product Department Head
- 2010–2011 SELA Corporation,
Head of Assortment Planning
- 2011–pres. PJSC Detsky Mir,
Commercial Director, Fashion

Equity ownership in Detsky Mir: 0.01%



Vladimir Ilmetov
Corporate Security Director

Born in 1958
Citizenship: Russia

- Education:**
- 1983 Kuibyshev State University
- Experience:**
- 2010–2014 Moscow Bank for Reconstruction and Development,
Senior Vice President – Head of Security
- 2014–pres. PJSC Detsky Mir,
Security Director

Equity ownership in Detsky Mir: 0.01%



Pavel Pishchikov
Director for E-Commerce

Born in 1979
Citizenship: Russia

- Education:**
- 1997 Dnipropetrovsk State University
- Experience:**
- 2011–2017 Carnaval LLC (Dochki-Sinochki Group),
E-Commerce Director
- 2016–pres. PJSC Detsky Mir,
Director for E-Commerce

Equity ownership in Detsky Mir: 0.011%



Anastasiya Yaroshevskaya
HR Director

Born in 1984
Citizenship: Russia

- Education:**
- 2006 Moscow City University of Psychology and
Education
- Experience:**
- 2008–2016 Hoff,
Deputy HR Director
- 2016–pres. PJSC Detsky Mir,
HR Director

Equity ownership in Detsky Mir: 0.001%

Management Board members



Artem Gubanov

Director for Real Estate and Development

Born in 1983
Citizenship: Russia

Education:

2005 Ulyanovsk State University

Experience:

2011–2013 PJSC Detsky Mir,
Executive Project Director

2013–2013 Korablik LLC,
Head of Real Estate and Chain Development

2014–pres. PJSC Detsky Mir,
Director for Real Estate and Development

Equity ownership in Detsky Mir: 0%



Denis Gurov

Director of Logistics

Born in 1981
Citizenship: Russia

Education:

2006 Russian State Social University

Experience:

2013–2020 Dixy Group,
Director of Logistics

2020–pres. PJSC Detsky Mir,
Director of Logistics

Equity ownership in Detsky Mir: 0%



Nikolay Ermakov

Chief Technical Officer

Born in 1980
Citizenship: Russia

Education:

2004 National University of Science and Technology (MISiS)

Experience:

2014–2017 Rambler & Co,
Director of Software Development

2017–2018 Gett,
Director of Moscow Center Software Development,
Gett, General Director of Gett Systems Rus

2018–2020 X5 Retail Group,
Director of Software Development

2020–pres. PJSC Detsky Mir,
Chief Technical Officer

Equity ownership in Detsky Mir: 0%



Konstantin Frishberg

Commercial Director
for Fast-Moving Consumer Goods

Born in 1978
Citizenship: Russia

Education:

2000 Higher School of Economics

Experience:

2015–2015 Wikimart LLC,
Commercial Director

2016–pres. PJSC Detsky Mir,
Commercial Director for Fast-Moving Consumer
Goods, Head of the Commercial Division for Toys
and Sports

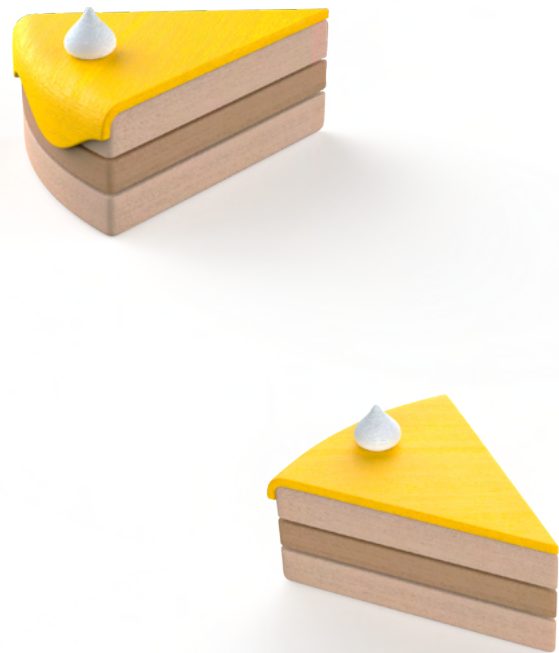
Equity ownership in Detsky Mir: 0%

REMUNERATION REPORT

REMUNERATION FOR MEMBERS OF THE BOARD OF DIRECTORS

In 2020, remuneration for members of the Board of Directors was paid to:

- Members of the Board of Directors meeting the Moscow Exchange listing rules independence criteria;
- The Chairperson of the Board, provided that he or she was not an employee of a shareholder owning more than 5% of voting shares in the Company and had not within the last year received remuneration (in any form) exceeding half of his or her basic remuneration from a shareholder holding more than 5% of voting shares.



RUB 14.7 m

Basic remuneration paid to members of the Board of Directors in 2020

RUB 19.7 m

Total remuneration paid to Board members in 2020

PAYMENTS TO MEMBERS OF THE BOARD OF DIRECTORS CAN BE MADE IN THE FOLLOWING FORMS:



BASIC REMUNERATION

The basic remuneration for a member of the Board of Directors is paid in cash. In accordance with the Regulation on Remuneration and Compensation, basic remuneration is USD 60,000 (sixty thousand) for the corporate year. Base remuneration is paid in equal monthly instalments based on an extract from the minutes of the Company's General Meeting of Shareholders concerning election of members of the Board.



ADDITIONAL REMUNERATION FOR PERFORMING ADDITIONAL DUTIES

Board members are paid additional remuneration for performing additional duties related to their work with Board committees.



REIMBURSEMENT OF EXPENSES

All members of the Board of Directors have the right to compensation for expenses (travel expenses, rental costs of living quarters, etc.) related to their duties as a member of the Board.

Remuneration paid to members of the Board of Directors, RUB m

	2016	2017	2018	2019	2020
Total remuneration	16.4	16.0	21.0	16.8	19.7
• Basic remuneration	6.2	16.0	18.5	12.9	14.7
• Additional remuneration	10.2	-	2.5	3.9	5.0
Compensation	2.3	2.8	1.3	-	-

At the end of 2020, the Board of Directors recommended that the General Meeting of Shareholders approve amendments to the Regulation on Remuneration and Compensation Paid to Members of the Board of Directors, due to an expected increase in the share of independent members of the Board.

As a result, an EGM on 12 March 2021 approved the relevant changes:

Main changes to the Regulation on Remuneration and Compensation Paid to Members of the Board of Directors

Previous version

Remuneration is provided only for independent members of the Board of Directors.

Basic remuneration for an independent member of the Board of Directors is USD 60,000 per corporate year.

Additional remuneration for members of Board committees is USD 2,500 per corporate year. A member of the Board of Directors may serve on no more than two committees.

New version (2021)

Remuneration is provided for all members of the Board of Directors, with the exception of executive directors.

Basic remuneration for a nonexecutive member of the Board of Directors is USD 60,000 per corporate year.

Additional remuneration for duties of a member/ chairperson of a Board committee are to remain unchanged.

Additional remuneration for the Chairperson of the Board of Directors (who is not a member of the Company's Management Board) was approved in the amount of USD 60,000 per corporate year.

Total remuneration paid to the Chairperson of the Board of Directors is capped at USD 120,000 per year.

CEO AND MANAGEMENT BOARD REMUNERATION

The CEO and members of the Management Board are full-time employees of Detsky Mir. Their compensation consists of a salary and an annual bonus for meeting KPIs set by the Board of Directors (for more details, see the [Our Employees](#) section).

Salaries are set in line with the Company's salary structure. Other payments—such as additional payments, compensation, and bonuses—are governed by the Regulation on Remuneration and Bonuses for Employees and the Regulation on Material and Technical Support.

In 2020, remuneration for the CEO and Management Board totaled RUB 1,353.1 m (RUB 253.7 m in salaries, RUB 1,099.4 m in bonuses), while total compensation amounted to RUB 2.8 m.

Remuneration and other compensation for the CEO and Management Board, RUB m

	2016	2017	2018	2019	2020
Total remuneration paid to the CEO and Management Board members, RUB m	725.0	898.2	836.2	1 227.3	1,353.1
• Salary	331.6	227.2	409.0	464.2	253.7
• Annual bonuses	70.3	96.0	110.9	125.0	92.9
• Long-term incentives	323.1	575.1	316.3	638.1	1,006.5
Compensation	7.9	8.1	6.4	7.4	2.8



* The Regulation on Remuneration and Compensation Paid to Members of the Company's Board of Directors is available on the [website](#).

CEO annual remuneration structure

Base remuneration	Bonus	Long-term incentive plan	Expenses reimbursed
Set under the terms of the employment contract.	The incentive program sets a bonus limit equal to the annual salary. Within this limit, portions are paid contingent on fulfillment of Company and personal KPIs.	Amount depends on corporate KPIs, length of participation in the plan, and the extent of responsibility for the achievement of results.	<ul style="list-style-type: none">mobile phone expensestransport expenses

Management Board annual remuneration structure

Base remuneration	Bonus	Long-term remuneration program	Expenses reimbursed
Set under the terms of the employment contract.	The incentive program sets a bonus limit equal to the annual salary. Within this limit, portions are paid contingent on fulfillment of Company and personal KPIs.	Amount depends on corporate KPIs, length of participation in the program, and the extent of responsibility for the achievement of results.	<ul style="list-style-type: none">mobile phone expenses

KPIs

Central office employees are eligible for a quarterly or annual bonus contingent on the fulfillment of financial (corporate) and functional (individual) KPIs.	In 2020, targets were set for the following corporate indicators: <ul style="list-style-type: none">RevenueEBITDANet profit	At the beginning of the year, the Board of Directors approves a list of corporate KPIs and their weighting. The weighting ratio between corporate and functional KPIs at CEO-1 level is approved by the Board of Directors.
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LTI PLAN FOR KEY EMPLOYEES

In addition to the short-term incentive plan, Detsky Mir runs a long-term incentive (LTI) plan for key senior managers and the CEO. The plan aims to increase the Company’s market capitalization.

A new LTI plan has been in effect since February 2020 and runs through February 2023. In 2020, the final payments were made under the LTI plans for 2016–2018 and 2017–2020.

LTI 2016–2018

Purpose: completion of the Company’s IPO and an increase in the Company’s value during the period of the plan

- Participants—15 key Company employees;
- Budget is calculated as 3% of the difference between the IPO price and the purchase price of the Company’s shares by the Russia–China Investment Fund in 2015;
- Payment in cash and/or Company shares (through the purchase of shares on the open market) in the ratio approved by the Board of Directors.

At the beginning of 2017, the Company went public. Payment for this plan was made during 2018–2020.

LTI 2017–2020

Purpose: growth of the Company’s market capitalization after the IPO

- Covers a three-year period up to February 2020;
- Participants—21 key Company employees;
- Budget is calculated as 4.6% of the increase in the Company’s market value (including payment of dividends) over the lifetime of the program;
- Payment in cash and/or Company shares (through the purchase of shares on the open market) in the proportion approved by the Board of Directors in 2020;
- Additional cash payments of RUB 500 m (excluding Single Social Tax contributions) were made during 2018–2019 following a separate decision of the Board of Directors.

LTI 2020–2023

Goal: further growth of the Company’s market capitalization

- Covers the three-year period to February 2023;
- Participants—21 key Company employees;
- Budget calculated as 4.6% of the increase in the Company’s market capitalization (including dividend payments) over the lifetime of the program;
- Payment in cash and/or Company shares (via share purchases on the open market) in the proportion approved by the Board of Directors during 2021–2023.

CONTROL AND AUDIT

INTERNAL CONTROL FRAMEWORK

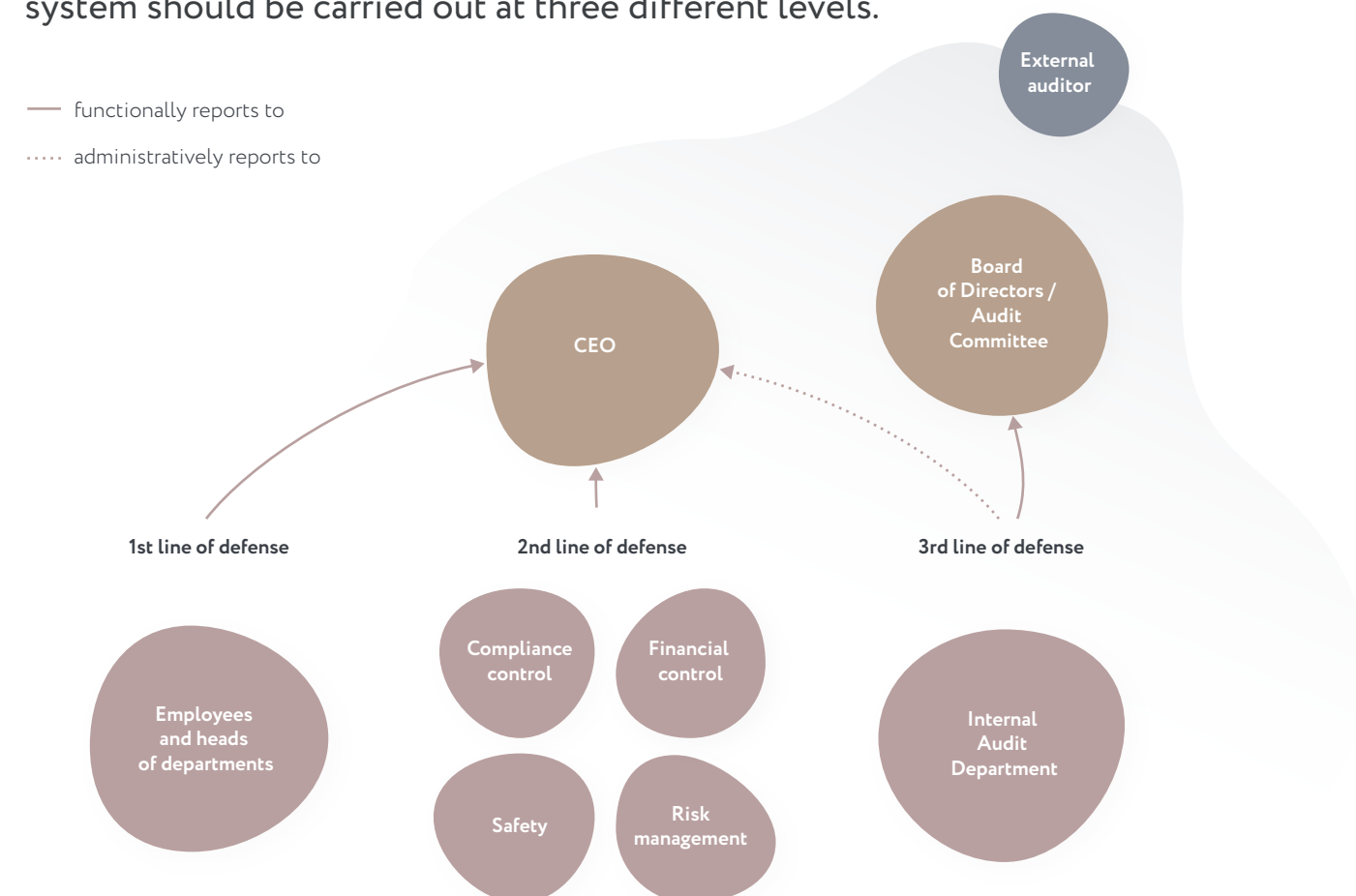
Detsky Mir's Internal Control System (ICS) is a set of organizational measures, methods, procedures, corporate culture standards, and actions taken by the Company with the aim of achieving an optimal balance between business growth and risks in order to ensure that the Company is financially stable and conducts its business efficiently, while ensuring the safety of its assets, compliance with legislation, charters, and internal Company documents, and timely preparation of reliable reports.

Detsky Mir's ICS complies with the generally accepted methodology of the COSO Internal Control—Integrated Framework 2013 and includes the following components:

- Control of environment
- Risk assessment
- Control of activities
- Information and communication
- Monitoring of activities



According to the “three lines of defense” approach, the process of ensuring the effectiveness of the internal control system should be carried out at three different levels.



The first line of defense is the responsibility of the business process owners whose activities create and/or manage risks that can contribute to or hinder the achievement of Detsky Mir's objectives. The first line manages risk and also develops and implements controls to respond to those risks.

The second line is used to support management by consolidating experience, improving processes, and monitoring alongside the first line to provide effective risk and control management. The second line of defense functions separately

from the first line but comes under the direction and control of senior management. The second line is essentially a governance and/or oversight function that oversees numerous aspects of risk management.

The third line of defense provides senior management and the Board of Directors with assurance that both the first and second lines of risk management and control measures are in line with the expectations of the Board and senior management. To ensure objectivity

and organizational independence, the third line of defense is prohibited from performing management functions. In addition, the third line of defense is directly subordinate to the Board of Directors. It is thus a function that provides assurance that an adequate system of controls and risk management is in place. It is not a management function, which is how it differs from the second line of defense.

INTERNAL CONTROL FUNCTION

INTERNAL CONTROL FUNCTIONS ARE DISTRIBUTED WITHIN THE COMPANY AS FOLLOWS:

Board of Directors	Board of Directors Audit Committee	Chief Executive Officer	Heads of business units and senior management	All Company employees as owners of controls are responsible for:	Internal Audit Commission Desk
<ul style="list-style-type: none">Monitoring and evaluating the activities of the Management Board and senior managementApproving the Company's financial and business plans, budgets, and investment programs, and regularly reviewing the progress reports submitted by the CEO, Management Board, and other responsible persons concerning approved plans and decisionsRegularly reviewing and assessing progress on implementing approved strategies and annual and quarterly budgets, achieving targets, and management performanceUndertaking an assessment of management, financial, political, and other risks affecting the Company's operations and ensuring a functional ICSEnsuring the Company's compliance with statutory requirements, corporate governance principles, and disclosure of complete and accurate information about the Company	<ul style="list-style-type: none">Providing assistance and control over preparing and auditing financial statements, including assessment of the external auditor's performanceAssessing the risk management system and compliance with applicable legal requirements for financial reporting, auditing, and planningCarrying out financial modeling, including previews of draft budgets before submission to the Board of DirectorsApproving the work plan of the Internal Control and Audit Department and reviewing its annual and semiannual performance reportsEvaluating related-party and other major transactions	<ul style="list-style-type: none">Coordinating the implementation of decisions made by the General Meeting of Shareholders and the Board of DirectorsEstablishing effective ICS and risk managementManaging activities and effective communication between structural unitsAllocating responsibilities among structural units and monitoring performanceOverseeing budget development and monitoring performanceSafeguarding the Company's fixed assets and material resourcesEnsuring the legal compliance of the Company's operations	<ul style="list-style-type: none">Dividing roles and responsibilities among employees that report to them in accordance with the principle of segregation of dutiesIncluding functions and responsibilities for implementing control activities in employee job descriptionsDeveloping a uniform corporate culture to strengthen the Company's ICSMonitoring employee compliance with internal regulationsImplementing and monitoring control activitiesReporting to superiors in a timely manner any irregularities observed in the implementation of control activities	<ul style="list-style-type: none">Effectively implementing control and risk management activities in accordance with job descriptions and internal regulationsInforming immediate superiors in a timely manner of emerging risks and cases where control activities may not be implemented for any reason and/or control or risk management activities require changesCompleting regular upskilling training in internal control and risk management under the approved training program	<p>The Internal Audit Commission of the Company's annual financial and business performance, as well as unscheduled audits, to:</p> <ul style="list-style-type: none">Confirm the reliability of data in the Company's annual report, annual financial statements, and other financial documentsFormulate proposals for improving the ICS, as well as proposals for implementing activities to solidify the Company's financial position

INTERNAL AUDIT COMMISSION

The Internal Audit Commission exercises control over the Company's financial and business activities.

The Internal Audit Commission is elected by the General Meeting of Shareholders from candidates proposed by shareholders or the Board of Directors for a period until the next annual General Meeting of Shareholders. Members of the Board and the Company's Management Board, along with the Company's chief accountant, may not serve as members of the Internal Audit Commission.

The Company's Annual Report and annual accounts (financial statements) along with a report on related-party transactions concluded by the Company in the reporting year are submitted to the General Meeting of Shareholders only with the findings of the Internal Audit Commission.

Composition of the Internal Audit Commission elected in 2020

Irina Borisenkova

Chief Accountant,
PJSC AFK Sistema

Yury Vikulin

Director of Internal Audit,
PJSC Detsky Mir

Anton Kozlov

Director of Financial Audit,
PJSC AFK Sistema

Internal Audit Commission functions

- Conducting documentary audits of the Company's financial and business activities as well as its trading, settlement, currency, and other operations
- Verifying adherence with established estimates, standards, and limits
- Checking that payments made to suppliers of products and services, payments to the budget, accrual and payment of dividends, and fulfillment of other obligations are done correctly and in a timely manner
- Verifying compliance by the Company and its management bodies with regulations and statutes, as well as with decisions of the General Meeting of Shareholders and the Board of Directors
- Verifying that the Company's operational, accounting, and statistical accounting and reporting are true and accurate
- Verifying the Company's cash and property position
- Verifying compliance with rules concerning record keeping and storage of financial documents
- Verifying the implementation of recommendations based on the results of previous audits and reviews

The activities of the Internal Audit Commission are governed by Russian legislation, the Company's Articles of Association, and the Regulation on the Company's Internal Audit Commission approved in accordance with the Articles of Association.



INTERNAL AUDIT DEPARTMENT

Primary tasks of the Internal Audit Department

- Performing systematic checks and audits of structural units, processes, areas of activity, and projects to form an independent assessment and express an opinion regarding reliability and efficiency
- Participating in audit commissions pursuant to decisions of annual general meetings of participants and independently assessing systems of internal control, risk management, and corporate governance
- Advising Company employees on the effectiveness of control, risk management, and corporate governance

The ICS includes the following measures

- Analyzing the extent to which the goals of business processes, projects, and structural units comply with the goals of the Company, verifying the reliability and integrity of business processes and information systems, including the reliability of procedures to counter criminal actions, abuse, and corruption
- Determining the adequacy of the criteria established by the Management Board to analyze the extent of fulfillment (achievement) of the established goals
- Checking the reliability of the Company's accounting (financial), statistical, management, and other reporting
- Identifying shortcomings in the ICS that have prevented (or still prevent) the Company from achieving its goals
- Assessing the results of measures undertaken at all levels to eliminate violations and shortcomings and improve the ICS
- Checking the effectiveness and appropriateness of resource use
- Verifying the physical security and safeguarding of assets
- Verifying compliance with legislation, the Articles of Association, and internal documents

The Head of the Internal Audit Department (Yury Vikulin, appointed on 20 November 2017) is accountable to the Company's Board of Directors and is appointed and dismissed by the Board of Directors.

The Director of the Internal Audit Department reports functionally to the Company's Board of Directors and administratively to the CEO.

The Department's activities are governed by the Regulation on the Internal Audit Department (approved by Minutes of the Board of Directors No. 16 dated 28 December 2020).

The risk management system includes the following measures

- Verifying the sufficiency and maturity of the risk management system's elements (goals and objectives, infrastructure, organization of processes, regulatory and methodological support, interaction of structural units within the risk management system, and reporting)
- Verifying the completeness of identification and the accuracy of risk assessment at all levels of its management
- Verifying the effectiveness of control procedures and other risk management measures, including the effective use of resources allocated for these purposes
- Analyzing information on realized risks (violations revealed by internal audits, failure to achieve established goals, litigation, etc.)

The corporate governance system includes the following measures

- Quality control of regulatory support and communication procedures at all levels of management
- Protecting the rights of shareholders and ensuring effective relationships with stakeholders
- Compliance with ethical principles and corporate values
- Compliance with procedures for setting goals and monitoring achievement

The Internal Audit Department's priorities, which are aligned with the Company's objectives and take into account available resources and a risk-oriented approach to planning activities, are determined by the functional plan approved by the Board of Directors Audit Committee.

REPORT ON THE ACTIVITIES OF THE INTERNAL AUDIT DEPARTMENT

During 2020, the Internal Audit Department operated in line with the functional plan approved by the Company's Board of Directors.

The performance of the Internal Audit Department for the first half of the year and for 2020 as a whole were reviewed and approved by the Audit Committee. The Audit Committee gave a positive assessment of the activities of the Internal Audit Department and considers it to be effective. In December 2020, the Audit Committee approved the functional plan of the Internal Audit Department for 2021.

EXTERNAL AUDIT

On 30 June 2020, the AGM approved JSC Deloitte and Touche CIS as the Company's auditor (location: 5 Lesnaya St., Moscow, 125047 Russia), OGRN 1027700425444, certificate of membership in the Self-Regulatory Organization of Auditors of the Sodruzhestvo Association dated 31 January 2020, ORNZ 12006020384.

JSC Deloitte & Touche CIS is a leading audit and consulting firm providing audit, consulting, corporate finance, risk management, and tax and legal consulting services. It is part of the international association of firms Deloitte Touche Tohmatsu LLC, a global leader in professional services, and has more than 286,000 employees in more than 150 countries.

Deloitte.

In the reporting year, the auditor conducted:

- an audit of PJSC Detsky Mir, Kub-Market LLC, DM-Capital LLC, DM-Gazeta LLC, and the Detsky Mir Charitable Foundation for 2019 prepared in accordance with Russian Accounting Standards and conducted in accordance with International Standards on Auditing (ISA);
- an audit of the consolidated financial statements of PJSC Detsky Mir prepared in accordance with IFRS for 2019 and conducted in accordance with ISA;
- a review of the consolidated financial information of PJSC Detsky Mir for the half year ended 30 June 2020, prepared in accordance with IFRS and conducted in accordance with International Standard on Review Engagements 2410;
- special-purpose services to verify the Group's compliance with covenants stipulated by the loan agreement with PJSC VTB Bank.

In March and April 2021, the Audit Committee approved the results of the external auditor based on the results of audits for 2020, including conclusions on the effectiveness of the internal control system over the formation of financial statements in Detsky Mir Group.

Based on the audit results, the auditor of PJSC MTS expressed an opinion on the reliability of the financial statements of PJSC Detsky Mir for 2020 prepared in accordance with Russian Accounting Standards, and the consolidated financial statements of PJSC MTS and its subsidiaries for 2020 prepared in line with International Financial Reporting Standards.



BUSINESS ETHICS AND COMPLIANCE

Detsky Mir seeks to ensure that the actions of the Company and its employees comply with the Company's values, business ethics standards, and regulatory requirements.

Key regulatory documents

- Code of Ethics
- 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
- Rules for ensuring the security of personal data
- Information Security Policy
- Rules for Procurement of Goods, Works, and Services
- Requirements for transport service providers
- Anti-corruption documents, listed below
- Antitrust policy
- Rules for Checking Counterparties
- Rules for Personnel Recruitment
- Policy on Managing the Use of Chemicals

Stakeholders

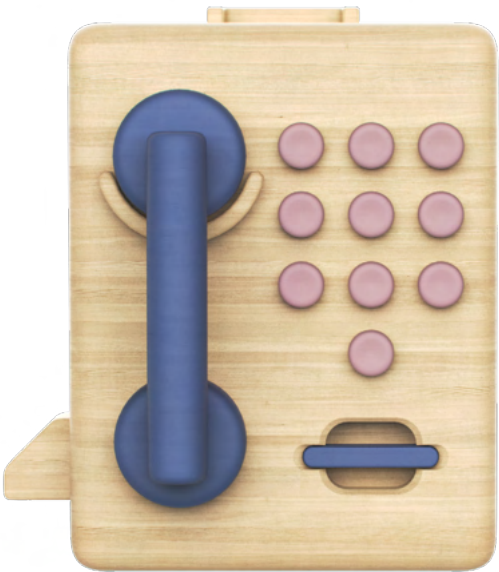
- Investment and financial community
- Regional authorities and local communities
- Employees and trade unions
- General public and the mass media
- Business partners
- Customers



Key regulatory documents can be found on the Company's [website](#)

HOTLINE

To improve risk management, prevent abuse, and detect possible corruption, fraud, or other violations in the Company’s activities in a timely manner, the Company has launched the Workforce Watch corporate whistleblowing program. All upheld reports to the hotline were resolved.



Resolution of reports received via the hotline

Subject of report	2018		2019		2020	
	↓	✓	↓	✓	↓	✓
HR management	101	14	145	24	126	40
Retail sales and customer service	21	3	2	-	13	2
Execution of contracts	-	-	10	3	30	4
Property and asset management	-	-	7	3	8	2
Health, safety, and environment (HSE)	1	1	5	2	2	1
Procurement procedures	2	-	1	-	3	-
B2B sales and customer service	-	-	1	-	-	-
Other	18	4	6	2	4	-
Total	143	22	177	34	186	49

Channels and (anonymous) means of reporting:

report@detmir.ru

+7 495 781–08–30

+7 800 250–00–00

Reported using the key phrase Workforce Watch

Mail:
6 3rd Nizhnelikhoborskiy Proezd, bldg. 3, Moscow 127238, Russia to the attention of the Head of the Legal Department, and/or the Head of the Internal Control and Audit Department, and/or the Head of the Corporate Security Department marked “Confidential – Workforce Watch”

Anti-Corruption Documents:

- Code of Ethics
- Anti-Corruption Charter
- Management policies related to conflicts of interest
- Corporate Code of Conduct located at ir.detmir.ru/anti-corruption

TRANSACTIONS IN SECURITIES BASED ON INSIDER INFORMATION

The Regulations on Insider Information determine procedures for maintaining a List of Insiders; gaining access to insider information; notifying persons included on the List of Insiders about their inclusion on 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’s securities; and protecting insider information. Information on transactions involving Company securities performed by members of governing bodies is disclosed in accordance with the applicable legislation.

ANTITRUST COMPLIANCE

The Company maintains a policy aimed at compliance with applicable antitrust legislation. This includes monitoring compliance with antitrust legislation in Russia, Kazakhstan, and Belarus; applying procurement procedures when selecting contractors; and control over pricing.

TRAINING

A digital memo for employees on compliance with anti-corruption principles is circulated quarterly. New hires must read the Policy on Managing Conflicts of Interest, the Code of Ethics, and the Anti-Fraud Policy.

A priority task for management is communicating the Company’s values to employees, including the policy of zero tolerance for corruption and unlawful practices.

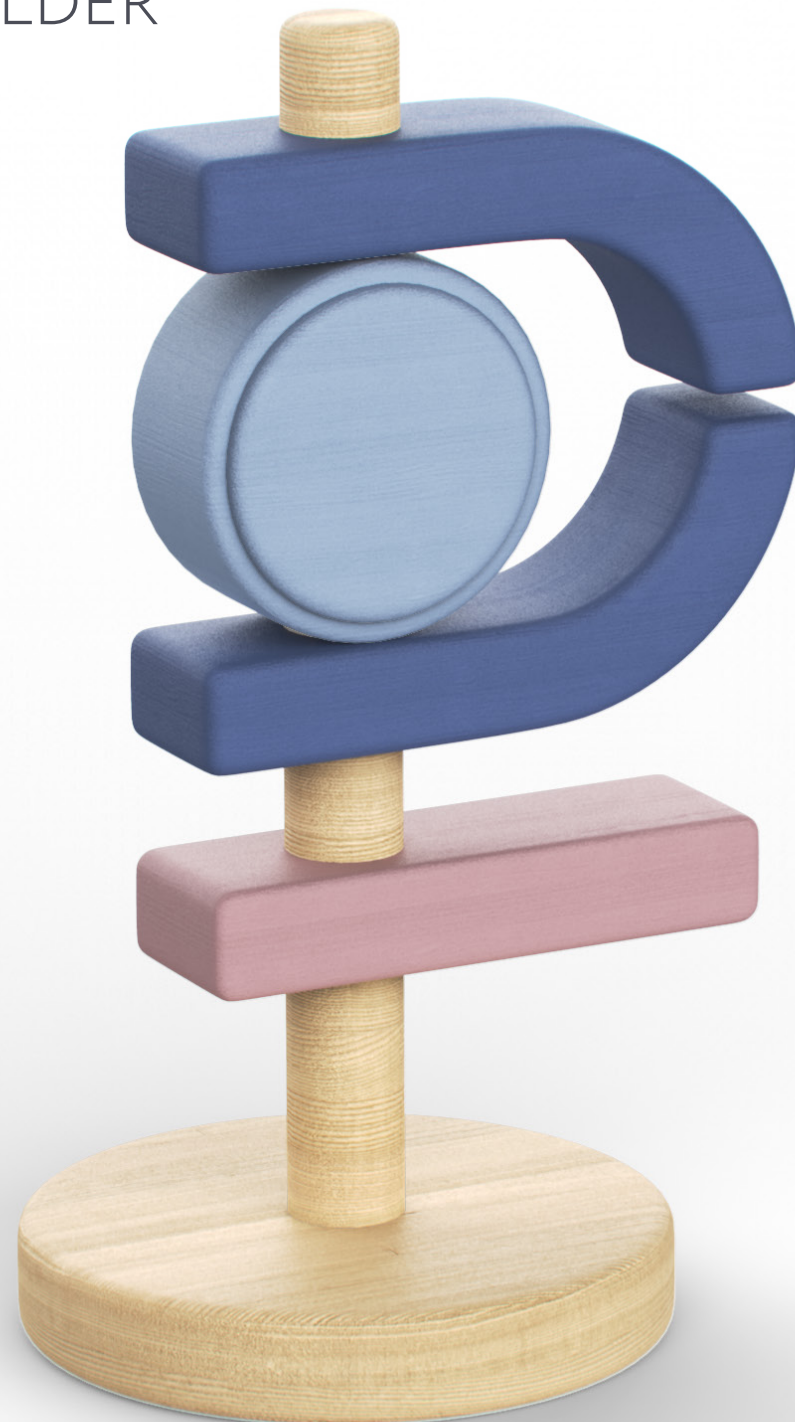
CAPITAL AND SHARES

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

The share capital of PJSC Detsky Mir as of 31 December 2020 was RUB 295,600 and consisted of 739,000,000 ordinary registered uncertified shares with a par value of RUB 0.0004 each. The Company did not place any preferred shares.

The state registration number of the issue of ordinary shares is 1-02-00844-A (ticker symbol DSKY; ISIN RU000A0JSQ90), date of state registration 11 February 2014. No additional share issues were placed in 2020.

The total number of entities and individuals included on the last list (22 November 2020) of those eligible to participate in the General Meeting of Shareholders was 132,141, most of whom are individuals.



Detsky Mir share capital structure as of 31 December 2020, %*

Holders	As of 31 December 2020		As of 31 December 2019		
	Number of shares	Share of share capital	Number of shares	Share of share capital	Change in share of share capital, p.p.
Legal entities, including	693,670,193	93.87%	669,602,231	90.6%	3.3%
PJSC AFK Sistema	-	-	246,658,096	33.8%	33.8%
Russia-China Investment Fund	-	-	66,523,430	9.0%	9.0%
Gulf Investments Limited	184,750,000	25.0%	-	-	25.0%
Goldman Sachs Group, Inc.	38,858,098	5.3%	5,736,778	0.8%	4.5%
Capital Group Company Inc.	41,644,226	5.6%	36,777,700	5.0%	0.7%
Treasury shares	4,693,245	0.6%	3,481,035	0.5%	0.2%
Management	419,414	0.05%	14,358,647	1.9%	1.9%
Other individuals	44,910,393	6.1%	55,039,122	7.5%	1.4%



* Please visit the Company's [website](#) for up-to-date information on the share capital structure.

SHAREHOLDER CAPITAL

In February 2017, PJSC Detsky Mir conducted an initial public offering (IPO) on Moscow Exchange (MOEX), the leading Russian platform, under the DSKY ticker symbol. The Company's shares were included in the first level of the MOEX quotation. The securities are traded in the T+2 trading mode.

The shares are included in the main Russian stock indices: IMOEX and RTSI (Moscow Exchange and RTS indices), EPSI (subindex of shares of pension savings assets), MOEXCN (consumer sector index), and RUBMI (broad market index).

All of the Company's issued and outstanding shares are ordinary registered shares of the same par value. Shares of PJSC Detsky Mir give their owners (shareholders) certain rights, including the right to participate in the Company's management, the right to receive a part of the Company's profit in the form of a dividend, and the right to receive a part of the property remaining after the Company's liquidation.

As of 31 December 2020, Detsky Mir's capitalization amounted to RUB 100.6 bn, an increase of 34.7% since 31 December 2019.

Quotations of PJSC Detsky Mir shares and trading volumes for the reporting year are presented in the [A new era for the Russian stock market](#) section.



For information on current quotes and prices of Detsky Mir shares, see moex.com

DIVIDENDS

Dividends form an integral part of the Company's investment case and shareholder returns.

The Company has a Dividend Policy, developed and approved by the Board of Directors, which clearly sets out the financial (economic) circumstances under which the Company should or should not pay dividends.

Decisions on the payment of dividends (including the amount and form of payment) are made by the General Meeting of Shareholders

based on recommendations by the Board of Directors. The Dividend Policy stipulates payment of at least 50% of consolidated IFRS net profit for the previous year. Historically, the Company has paid up to 100% of RAS net income. Dividends are traditionally paid twice a year: an interim payment for nine months and for the full reporting year (the remainder after the payment of interim dividends).

The following factors may affect the size of dividend payments: the Company's growth prospects, financial position, and financing needs; the general macroeconomic situation and market conditions; as well as other factors, including factors related to taxation and legislation.



* Detsky Mir's Dividend Policy can be found on the [website](#).

Dividends declared on the Company's shares

Reporting period for which dividends were accrued	Date of the General Meeting of Shareholders' decision on the payment of dividends	Shareholder register record date	Amount of dividends (RUB per share)	Total amount of dividends (RUB m)	Share of net profit (RAS), %	Dividend yield, %
9M 2020	17.12.2020	28.12.2020	5.08	3,754	100%	8.7%
H1 2020	18.09.2020	29.09.2020	2.50	1,848	45%	10.2%
2019	30.06.2020	11.07.2020	3.00	2,217	55%	8.1%
9M 2019	06.12.2019	17.12.2019	5.06	3,739	100%	10.4%
2018	16.05.2019	27.05.2019	4.45	3,289	100%	10.0%
9M 2018	15.12.2018	26.12.2018	4.39	3,244	100%	8.9%
2017	18.05.2018	29.05.2018	3.88	2,867	100%	7.2%
9M 2017	04.12.2017	15.12.2017	2.97	2,195	100%	7.1%
2016	28.06.2017	17.07.2017	3.48	2,572	100%	-
9M 2016	02.12.2016	12.12.2016	4.22	3,119	100%	-

BONDS

Detsky Mir is a leading Russian issuer of corporate bonds. The Company uses proceeds from bond placements to refinance its debt portfolio and to finance its investment program.

In April 2020, the Company successfully closed the order book on an issue of exchange-traded series BO-06 bonds with a total par value of RUB 3 bn and a coupon rate of 7% per annum. The date of the next offer is set for 8 May 2023.

Coupon payments on all of the Company’s bonds in the reporting year took place in full and in accordance with the payment schedule.

More information about Detsky Mir bonds can be found on the Company’s website at ir.detmir.ru

As of the end of 2020, the Company had three bond issues in circulation.

In circulation	Issue size, RUB m	Coupon rate	Coupon payment dates	Coupon payment, RUB m	Maturity
BO-07 Bonds	5,000	8.90%	12 April and 11 October	221.9	13 April 2022
BO-05 Bonds	3,000	7.25%	8 June and 12 December	108.45	8 December 2022
BO-06 Bonds	3,000	7.00%	6 May and 4 November	104.7	8 May 2023

CREDIT RATINGS

In March 2020, the RAEX rating agency (Expert RA) assigned Detsky Mir a long-term credit rating of ruA+ with a stable outlook.

translates into sustainable sales growth.

The Company has a significant amount of undrawn approved credit lines, as well as access to the public debt capital markets. The Company plans to refinance short-term liabilities, including those for more than one year.

Detailed information can be found on the website raexpert.ru.

INTERACTION WITH SHAREHOLDERS AND INVESTORS

The Company maintains an ongoing dialogue with shareholders and investors to ensure that the market is well informed about the Company’s activities. Material information about the Company’s activities is promptly disclosed in press releases and Russian regulatory disclosures (material facts) using authorized information disclosure services in line with Russian legislative requirements. The Company regularly publishes its financial statements under both IFRS and RAS, as well as presentations for investors.

KEY IR ACHIEVEMENTS IN 2020

- 12 largest investment banks / brokers (analytical coverage)
- >500 contacts with Company investors and shareholders
- >20 broker conferences and roadshows
- Debut Investor Day (involving over 100 participants)
- Third place in the Best Corporate by Small Cap IR Russia 2020 category (MOEX and Institutional Investor)
- Third place in the category of Best CFO in the consumer sector according to Institutional Investor

In August 2020, the Company held its inaugural Investor Day as an online conference where it presented a new medium-term strategy and financial results for the first half of 2020. The event was attended by current Detsky Mir shareholders and potential investors, as well as by investment analysts.

In the reporting year, the Company began publishing a Databook on a quarterly basis for the first time to make it more convenient to work with operational statistics and consolidated financial indicators.

Detsky Mir’s Investor Relations (IR) team has received a number of prestigious industry awards. The Company’s information disclosure practices, events for analysts and investors, and other aspects of IR activities have been rated highly by the investment community.

APPENDIX

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REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

This report concerning compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Board of Directors at a meeting on 25 May 2021, Minutes No. 10 dated 26 May 2021.

The Board of Directors certifies that this report contains full and reliable information about the Company’s compliance with the principles and recommendations of the Corporate Governance Code in 2020.

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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 the items considered.	1. The internal document approved by the general meeting of shareholders governing procedures to hold general meetings of shareholders is publicly available. 2. The company provides means of communication such as a hotline, email or online forum to enable shareholders to communicate their opinion and send in their questions ahead of the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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 information on who proposed the agenda items and nominees to the company’s Board of Directors and Audit Commission.	Full compliance	
1.1.3	In preparation for and during the general meeting, shareholders were able to access information related to the meeting, ask questions of executive bodies and members of the Board of Directors, and communicate with each other in an unobstructed and timely manner.	1. In the reporting period, shareholders were given the opportunity to ask questions of the Company’s Board of Directors, as well as members of its executive bodies, both on the eve of and during the annual general meeting. 2. The Board of Directors’ position (including any dissenting opinions included in the minutes) regarding each agenda item in general meetings held during the reporting period was included in the materials for the general meeting of shareholders. 3. The Company provided shareholders who were entitled to this information with access to the list of persons entitled to participate in the general meeting on the same day as the Company itself received this information. This was the case for all general meetings held in the reporting period.	Partial compliance	The comment refers to clause 1 of the evaluation criteria. In the reporting period, shareholders were given the opportunity to ask members of the executive bodies and members of the Company’s Board of Directors questions on the eve of the Annual General Meeting of Shareholders of the Company via e-mail. In connection with measures to combat COVID-19, the Company’s Annual General Meeting of Shareholders was held in the form of absentee voting, which prevented members of the Company’s governing bodies from being present at the meeting.

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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 within at least 60 days of 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 able 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 each meeting, request a copy of the ballot filled in by him/ her and certified by the counting commission.	Noncompliance	In accordance with the Civil Code of the Russian Federation, a decision made at 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. Given 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 using the method set out in the Corporate Governance Code. Due to anti-pandemic (COVID-19) measures in the reporting year, all of the Company's General Meetings of Shareholders were held in the form of absentee voting. This form of voting prevents shareholders from exercising their voting right in the simplest and most convenient way.

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
1.1.6	The general meeting procedure established by the Company enables all persons attending the meeting to voice their opinion and ask questions.	<p>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.</p> <p>2. Candidates for the Company's management and governance bodies were present to answer shareholders' questions during the meeting where their nominations were put to a vote.</p> <p>3. When passing resolutions on the preparation and holding of general meetings of shareholders in the reporting period, the Board of Directors considered the use of telecommunications to provide shareholders with remote access to general meetings.</p>	Partial compliance	<p>The comment refers to clauses 1 and 2 of the evaluation criteria.</p> <p>In connection with anti-pandemic (COVID-19) measures, the Company's Annual General Meeting of Shareholders was held with absentee voting, which excluded the presence of candidates for the Company's management and control bodies at the meeting.</p>
1.2	Shareholders have an equal and fair opportunity to share in 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 for paying dividends.	<p>1. The Company's dividend policy is developed, approved by the Board of Directors, and disclosed.</p> <p>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.</p>	Full compliance	
1.2.2	The Company shall not 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.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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 through means other than dividends and liquidation value.	1. To ensure its shareholders do not receive profit (income) from the Company by any means other than dividends and liquidation value, the Company's internal documents detail controls to ensure the timely identification and 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 related-party transactions.	Full compliance	
1.3	The corporate governance system and its practices ensure that all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, are treated equally by the Company.			
1.3.1	The Company has established the necessary conditions to ensure that each shareholder receives fair treatment from the Company's governing bodies and controlling entities, including conditions to prevent the 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 impact voting in the reporting period.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
1.4	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as the opportunity 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, and are able 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 exercises strategic management of the Company, establishes the basic principles of and approaches to risk management and internal control, 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 the appointment and removal of executive bodies, including as a result of 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, as 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) released by the sole executive body or members of the collective executive body on the implementation of the Company's strategy.	Full compliance	

No.

Corporate governance principle

Compliance criteria

Compliance status

Reason for noncompliance

2.1.2	The Board of Directors defines the main long-term goals of the Company's operations, assesses and approves its key performance indicators, and key business goals, as well as the strategic and business plans for the Company's core lines of business.	1. In the reporting period, the Board of Directors reviewed in its meetings matters related to the progress of strategy implementation, 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	
2.1.3	The Board of Directors determines the principles of and approaches to risk management and internal control.	1. The Board of Directors has determined the principles of and approaches to risk management and internal control. 2. The Board of Directors assessed the risk management and internal control system in the Company during the reporting period.	Full compliance	

No.

Corporate governance principle

Compliance criteria

Compliance status

Reason for noncompliance

2.1.4	The Board of Directors defines the Company's remuneration and/or reimbursement (compensation) policy for costs due to members of the Board of Directors, executive bodies and other key executives of the Company.	1. The Company has developed and put in place a remuneration and/or reimbursement (compensation) policy for costs due to 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 said policy (policies).	Partial compliance	<p>This comment refers to clauses 1 and 2 of the evaluation criteria.</p> <p>According to the Law on Joint Stock Companies, the issue of the Company's payment of remuneration and compensation to members of the Board of Directors falls within the remit of the General Meeting of Shareholders. Thus, the Regulation on Remuneration and Compensation Paid to Members of the Company's Board of Directors was approved by the Company's General Meeting of Shareholders, and not by the Board of Directors. Provisions on remuneration and compensation for members of management bodies and key employees of the Company (there are several bylaws) were approved by the Company's Board of Directors. Thus, the Company's Board of Directors annually reviews matters related to remuneration and incentives offered to members of 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 fall within the remit of the General Meeting of Shareholders.</p>
2.1.5	The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company's bodies, shareholders and employees.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company has set up a system to identify transactions involving conflicts of interest, and introduced a set of measures to resolve such conflicts.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.1.6	The Board of Directors plays a key role in ensuring the Company's transparency, the timeliness and completeness of its disclosures, and the unrestricted access of shareholders to Company documents.	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 material corporate events.	1. In the reporting period, the Board of Directors considered the Company's corporate governance practices.	Noncompliance	<p>In 2020, there was no need to consider the Company's corporate governance practices at meetings of the Company's Board of Directors.</p> <p>The Board of Directors analyzes the Company's corporate governance practices when conducting self-assessments.</p> <p>Instructions issued by the Board of Directors are executed on time.</p> <p>Control over the execution of orders is entrusted to the secretary of the Board of Directors.</p>
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 shareholders.	1. The Company's Annual Report for the reporting period includes information on individual attendance at board of directors and committee meetings. 2. The Annual Report contains key results from the Board of Directors' performance assessment undertaken in the reporting period.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.2.2	The Chairman of the Board of Directors is available to communicate with the Company's shareholders.	1. The Company has a transparent procedure in place to enable shareholders to express their opinion and send questions to the Chairman of the Board of Directors.	Full 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 an impeccable business and personal reputation, who possess the knowledge and expertise required to both make decisions on issues designated to the Board of Directors and to perform its functions efficiently, are elected to the Board of Directors.	<p>1. The procedure established by the Company for assessing the Board of Directors' performance includes, inter alia, assessment of the members of the Board of Directors' professional qualifications.</p> <p>2. In the reporting period, the Board of Directors (or its Nomination Committee) assessed nominees to the Board of Directors on the basis of their having the required experience, knowledge, business reputation, and absence of any conflicts of interest, etc.</p>	Partial compliance	<p>This comment refers to clauses 1 and 2 of the evaluation criteria.</p> <p>The Company assesses nominees on the basis of their compliance with the independence criteria of Moscow Exchange, and determines whether they have any conflicts of interest. Assessment of the nominees' professional qualities is undertaken by persons who propose nominees to the Board of Directors. The Company cannot influence the selection of candidates proposed by shareholders. 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 did not intend to implement procedures to assess nominees to the Board of Directors on the basis of whether they had the required experience or knowledge.</p> <p>In 2020, the Board of Directors' Nomination and Remuneration Committee searched for and selected candidates for the independent director positions so that these persons could be elected at an extraordinary General Meeting of Shareholders in March 2021.</p>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.3.2	The Company's Board of Directors is elected by a transparent procedure whereby shareholders are able to receive sufficient information about nominees to get an idea of their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included the election of the Board of Directors, the Company provided shareholders with the biographical details of all nominees for the Board of Directors, the results of their assessment by the Board of Directors (or its Nomination Committee), information on whether the nominee met with the independence criteria as 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 on their compliance with the independence criteria of Moscow Exchange, and determines whether they have any conflicts 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' Nomination and Remuneration Committee searched for and selected candidates for the independent director positions so that these persons could be elected at an extraordinary General Meeting of Shareholders in March 2021.</p>
2.3.3	The Board of Directors is balanced, including in terms of the qualifications of its members, their experience, knowledge and business acumen, and has the trust of shareholders.	1. As part of the Board of Directors' assessment carried out in the reporting period, the Board of Directors analyzed its needs in terms of professional qualifications, experience, and business skills.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.3.4	The Company has enough directors to organize the Board of Directors' activities in the most efficient way, and has the ability to establish committees within the Board of Directors and ensure the Company's significant minority shareholders are able to elect and vote for a nominee for the Board of Directors.	1. As part of the Board of Directors' assessment 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 needs of the Company and the interests of shareholders.	Full compliance	
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 of the Company's executive bodies, particular groups of shareholders or other stakeholders. It is important to note 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, a significant shareholder or contractor, a competitor of the Company, or the government.	1. In the reporting period, all independent members of the Board of Directors met the independence criteria as set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the Board of Directors.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.4.2	Nominees to the Board of Directors are assessed for their compliance with certain independence criteria. Independent members of the Board of Directors are also reviewed regularly against this criteria. In these assessments, substance prevails over form.	<p>1. In the reporting period, the Board of Directors (or the Nomination Committee of the Board of Directors) formed an opinion on the independence of each nominee for 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 that specify the actions that must be taken by a member of the Board of Directors if he/she ceases to be independent, which include notifying the Board of Directors in a timely manner.</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.	Noncompliance	<p>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 Moscow Exchange.</p> <p>In 2020, the Board of Directors proposed six candidates who met the criteria of independence for election to the Board of Directors to shareholders. The Board of Directors has therefore done everything in its power to ensure that shareholders can elect a sufficient number of independent directors.</p>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company by undertaking certain corporate actions.	1. Independent directors (who do not have conflicts of interest) undertake preliminary assessments of corporate actions that may present potential conflicts of interest, and present their results to the Board of Directors.	Partial compliance	Opinions of independent directors are always taken into account, but their assessment of any Company action is entirely subjective, is not carried out within the framework of any formalized procedure, and is not mandatory. From our perspective, this approach is more flexible and efficient. In 2021, the Company does not plan to introduce any formal procedures to assess corporate actions.
2.5	The Chairman of the Board of Directors facilitates the best performance of duties assigned to the Board of Directors.			
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 the independent directors and facilitate interaction with the chairman of the Board of Directors.	<p>1. The Board of Directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors.</p> <p>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.</p>	Partial compliance	<p>This comment refers to points 1 and 2 of the evaluation criteria.</p> <p>The role, rights, and duties of the Chairperson of the Board of Directors are duly set out in the Regulations on the Board of Directors of the Company. The Chairperson of the Board of Directors is not an independent director. Independent members of the Board of Directors do not elect a senior independent director as the vehicle for communication with the Chairperson of the Board of Directors, as all independent directors are entitled to freely share their opinion and address the Chairperson regarding any matters relating to the activities of the Supervisory Board. The Company believes that the excessive formalization of interactions between the members of the Board of Directors complicates and prolongs decision-making processes. In 2021, the Company does not intend to change this approach.</p>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.5.2	The Chairman of the Board of Directors maintains a constructive environment at meetings, enables the free discussion 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.	Full compliance	
2.5.3	The Chairman of the Board of Directors takes all necessary steps to ensure the timely provision of information required to make decisions on agenda items to members of the Board of Directors.	1. The Company's internal documents set out the duties of the Chairman of the Board of Directors, namely the duty to take all necessary steps to ensure the timely provision of information required to make decisions on agenda items to members of the Board of Directors.	Full compliance	
2.6	Members of the Board of Directors act reasonably, in good faith, and in the best interests of the Company and its shareholders. Their actions are carried out based on key information provided, while exercising due care and prudence.			
2.6.1	Members of the Board of Directors make decisions based on all available information, without conflict of interest, ensuring the equal treatment of the Company's shareholders, and assuming normal business risks.	<p>1. The Company's internal documents state that a member of the Board of Directors shall notify the Board of Directors if he/she has a conflict of interest with respect to 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 state that a member of the Board of Directors shall abstain from voting on any item in which he/she has a conflict of interest.</p> <p>3. The Company has procedures in place enabling the Board of Directors to get professional advice on matters within its remit at the expense of the Company.</p>	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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.	1. The Company has adopted and published an internal document clearly defining the rights and obligations of members of the Board of Directors.	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 any relevant appointments made.</p>	Partial compliance	<p>This comment refers to clause 1 of the evaluation criteria.</p> <p>The Company keeps 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.</p>
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 inquiries regarding the Company and entities under its control. The company's executive bodies must provide the 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 principle	Compliance criteria	Compliance status	Reason for noncompliance
2.7	Key factors ensuring the Board's efficient performance: meetings of the Board of Directors, preparation for meetings and the participation of members of 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 any 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 these meetings in a proper manner.	1. The Company has approved an internal document that describes the procedure for arranging and holding meetings of the Board of Directors and sets out, in particular, that notice of a meeting shall be given, as a rule, at least five days prior to the meeting.	Full compliance	
2.7.3	The format of meeting of the Board of Directors is determined by 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 documents state that the most important matters (as per the list set out in Recommendation 168 of the Code) are to be discussed at in-person meetings of the Board of Directors.	Partial compliance	The Regulation on the Board of Directors of the Company outlines a shorter list of matters to be discussed only at in-person meetings of the Board of Directors. In 2021, the Company does not intend to change this approach.

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.7.4	Resolutions on the most important matters relating to the Company's operations are passed at meetings 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 state that resolutions on the most important matters set out in Recommendation 170 of the Code are to be passed at meetings 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.	Noncompliance	In practice, all resolutions of the Board of Directors are passed by a majority of all elected members of the Board of Directors. In 2021, the Company does not intend to change this approach.
2.8	The Board of Directors establishes committees for the preliminary consideration of the most important matters related to the Company's operations.			
2.8.1	An Audit Committee comprising independent directors has been established for the preliminary consideration of matters related to controlling the Company's financial and business operations.	<p>1. The Board of Directors has established an Audit Committee comprising solely independent directors.</p> <p>2. The Company's internal documents set out the tasks of the Audit Committee, including those listed in Recommendation 172 of the Code.</p> <p>3. At least one member of the Audit Committee, in the form of an independent director, has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements.</p> <p>4. Meetings of the Audit Committee were held at least once a quarter during the reporting period.</p>	Partial compliance	<p>This comment relates to clause 1 of the evaluation criteria.</p> <p>The Audit Committee is chaired by an independent director. Most of the Committee members are independent directors (two out of three). This practice complies with the requirements of the listing rules of 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.</p> <p>In 2020, the Board of Directors proposed to shareholders six candidates who met the independence criteria for election to the Board of Directors. In 2021, if shareholders elect a sufficient number of independent directors, the Board of Directors will have the opportunity to form an Audit Committee consisting exclusively of independent directors.</p>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.8.2	For the preliminary consideration of matters related to adopting an efficient and transparent remuneration scheme, a Remuneration Committee has been established comprising independent directors and headed by an independent director who is not the Chairman of the Board of Directors.	<div>1. The Board of Directors has established a Remuneration Committee comprising solely independent directors.</div> <div>2. The Remuneration Committee is chaired by an independent director who is not the Chairman of the Board of Directors.</div> <div>3. The Company's internal documents set out the tasks of the Remuneration Committee, including those listed in Recommendation 180 of the Code.</div>	Partial compliance	<div>This comment relates to clause 1 of the evaluation criteria.</div> <div>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 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. In 2020, the Board of Directors proposed to shareholders six candidates who met the independence criteria for election to the Board of Directors. In 2021, if shareholders elect a sufficient number of independent directors, the Board of Directors will have the opportunity to form a Nomination and Remuneration Committee consisting exclusively of independent directors.</div>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.8.3	For preliminary consideration of matters related to talent management (succession planning) and the professional composition and efficiency of the Board of Directors, a Nomination (appointments, HR) Committee has been established predominantly comprising independent directors.	<div>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) predominantly comprising independent directors.</div> <div>2. The Company's internal documents set out the tasks of the Nomination Committee (or the tasks of the committee assuming this function), including those listed in Recommendation 186 of the Code</div>	Partial compliance	<div>This comment relates to clause 1 of the evaluation criteria.</div> <div>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 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. In 2020, the Board of Directors proposed to shareholders six candidates who met the independence criteria for election to the Board of Directors. In 2021, if shareholders elect a sufficient number of independent directors, the Board of Directors will have the opportunity to form a Nomination and Remuneration Committee consisting exclusively of independent directors.</div>

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.8.4	Taking into account the Company's scale of operations and level of risk, the Company's Board of Directors has made sure that the composition of its committees is fully in line with the Company's business goals. Additional committees were either established or deemed unnecessary (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 deemed unnecessary.	Full compliance	
2.8.5	Committees are composed to enable the comprehensive discussions of matters under preliminary consideration, taking into account a full range 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 or the Remuneration Committee may attend committee meetings only at the invitation of the chairman of the respective committee.	Partial compliance	This comment relates to clause 1 of the evaluation criteria. The Strategy and Sustainability Committee is chaired by a non-executive director, which does not contradict the requirements of the listing rules of Moscow Exchange.
2.8.6	Committee chairs inform the Board of Directors and its Chairman about the work of their committees on a regular basis.	1. During the reporting period, committee chairs reported to the Board of Directors on the work of their committees on a regular basis.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
2.9	The Board of Directors assesses the performance of the Board of Directors, its committees, and its members.			
2.9.1	The Board of Directors' performance assessment is aimed at determining the efficiency of the Board of Directors, its committees and members, the consistency of their work with the Company's development requirements. It is also designed to bolster the work of the Board of Directors and identify areas for improvement.	1. The self-assessment or external assessment of the Board of Directors' performance carried out in the reporting period included the performance assessment of committees, individual members of the Board of Directors, and the Board of Directors in general. 2. The results of the self-assessment or external assessment of the Board of Directors carried out during the reporting period were considered at an in-person meeting of the Board of Directors.	Partial compliance	This comment relates to clause 1 of the evaluation criteria. Self-assessments were not carried out in relation to individual members of the Board of Directors. This approach is intended to create a trusting atmosphere on the Board of Directors and to avoid conflict. A long-term analysis of the self-assessments carried out shows that many members of the Board of Directors are not ready to objectively assess their colleagues. Such statistics reduce the value of this information and do not allow for objective assessments.
2.9.2	The performance of the Board of Directors, its committees, and its members is assessed regularly, at least once a year. An external organization (adviser) is engaged at least once every three years to carry out an independent assessment of the Board of Directors' performance.	1. The Company engaged an external organization (adviser) to carry out an independent assessment of the Board of Directors' performance on at least one occasion over the last three reporting periods.	Noncompliance	The Company did not engage advisers to carry out an independent assessment of the Board of Directors' performance. The Board of Directors plans to consider an independent assessment in 2021.

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
3.1	The Company's Corporate Secretary facilitates efficient ongoing interactions with shareholders, coordinates the Company's efforts to protect shareholder rights and interests, and supports the efficient performance of the Board of Directors.			
3.1.1	The Corporate Secretary has the knowledge, experience and qualifications necessary 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 Company's corporate website and in the Company's annual report. It provides the same level of detail as for members of the Board of Directors and the Company's executives.	Full 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 and dismissal of and additional remuneration for the Corporate Secretary.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
4.1	The remuneration offered by the Company is sufficient to attract, motivate and retain people with the talents and qualifications required by the Company. The remuneration payable to members of the Board of Directors, executive bodies and other key Company executives complies with the Company's approved remuneration policy.			
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 (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, assumes 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 the relevant recommendations to the Board of Directors as required.	Full compliance	

No.	Corporate governance principle	Compliance criteria	Compliance status	Reason for noncompliance
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 Company executives, 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 Company executives, and regulates (regulate) all types of payments, benefits and privileges provided to such persons.	Full compliance	
4.1.4	The Company outlines its policy on the reimbursement (compensation) of expenses, detailing a list of reimbursable expenses and specifying the service levels that members of the Board of Directors, executive bodies and other key Company executives can claim. This policy is included the Company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursing costs incurred by members of the Board of Directors, executive bodies and other key Company executives.	Full compliance	
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4.2	The remuneration system for members of the Board of Directors ensures that the financial interests of the directors are aligned with the long-term financial interests of the 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 principle	Compliance criteria	Compliance status	Reason for noncompliance
4.2.2	The long-term ownership of the Company's shares helps align the financial interests of members of the Board of Directors with the long-term interests of shareholders. 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) the provision of the Company's shares to members of the Board of Directors, clear rules regarding share ownership by members of the Board of Directors shall be defined and disclosed, aimed at stimulating the long-term ownership of such shares.	Full compliance	
4.2.3	The Company does not allocate any extra payments or compensation in the event of the early termination of powers of members of the Board of Directors resulting from a change in control or any other reasons.	1. The Company does not allocate any extra payments or compensation in the event of the early termination of powers of members of the Board of Directors resulting from a change in control or any other reasons.	Full compliance	

4.3 When determining the amount of remuneration payable to members of executive bodies and other key Company executives, the Company considers the performance and personal contribution of each executive to the Company's performance.

4.3.1	The remuneration payable to members of executive bodies and other key Company executives is determined via a reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the Company's results and the employee's personal (individual) contribution.	<p>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 Company executives.</p> <p>2. During the latest assessment of the system of remuneration of members of executive bodies and other key Company executives, the Board of Directors (Remuneration Committee) made sure that the Company applies an efficient ratio of the fixed and variable parts of remuneration.</p> <p>3. The Company has in place a procedure that guarantees the return to the Company of bonus payments illegally received by members of executive bodies and other key Company executives.</p>	Partial compliance	<p>This comment refers to clause 3 of the evaluation criteria.</p> <p>All procedures related to the motivation and remuneration of members of executive bodies and other key Company executives are designed to prevent illegal bonus payments to these employees. The Company does not provide a procedure that guarantees the return to the Company of bonus payments illegally received by members of executive bodies and other key Company executives. These matters are regulated by the legislation of the Russian Federation and cannot be covered by the Company's bylaws.</p>
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).	<p>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).</p> <p>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.</p>	Full compliance	

4.3.3	The compensation (golden parachute) payable by the Company in case of early termination of the powers of members of executive bodies or key executives at the Company's initiative, provided no actions are carried out in bad faith, does not exceed double the fixed amount of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the Company in case of early termination of the powers of members of executive bodies or key executives at the Company's initiative, provided no actions are carried out in bad faith, did not exceed double the fixed component of their annual remuneration.	Full compliance
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5.1 The Company has an effective risk management and internal control system in place providing reasonable assurance in achieving the Company's goals.

5.1.1	The Company's Board of Directors determines the principles of and approaches to risk management and internal control.	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
5.1.2	The Company's executive bodies ensure the establishment and continuous operation of an efficient risk management and internal control system.	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
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5.1.4	The Company's Board of Directors takes the necessary measures to ensure that risk management and internal control are consistent with the principles and approaches 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 an assessment of the effectiveness of the Company's risk management and internal control system.
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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 sourced an independent external organization to carry out internal audits. The functional and administrative reporting lines of the internal audit unit are separated. The internal audit unit reports functionally to the Board of Directors.	1. To perform internal audits, the Company has set up a separate internal audit unit that reports functionally to the Board of Directors or the Audit Committee, or sourced an independent external organization under the same principle of subordination.	Full compliance
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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
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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 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	This comment refers to clause 2 of the evaluation criteria. 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 on the Board's committees (as defined in the Code). 3. If the Company has a controlling shareholder, the Company publishes a memorandum of the controlling shareholder setting out the latter's plans for the Company's corporate governance.	Full compliance	

6.2 The Company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.

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.	<p>1. The Company's information policy defines approaches to and criteria for 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.</p> <p>2. If the Company's securities are traded in 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.</p> <p>3. If foreign shareholders hold a significant number of the Company's shares, during the reporting year, information was disclosed not only in Russian but also in one of the most commonly used foreign languages.</p>	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.	<p>1. In the reporting period, the Company disclosed annual and semi-annual financial statements prepared under IFRS. The company's annual report for the reporting period contains annual financial statements prepared under IFRS, along with the auditor's report.</p> <p>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.</p>	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.	<p>1. The Company's annual report contains information on the key aspects of the Company's operations and its financial results.</p> <p>2. The Company's annual report contains information on the environmental and social aspects of the Company's operations.</p>	Full compliance
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6.3 The Company provides information and documents as per the requests of shareholders in compliance with the principles of equal and unhindered access.

6.3.1	The Company provides information and documents as per the requests of shareholders in compliance with the principle 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 that 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 determined by the Company's information policy, shareholders are informed about 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 its shareholders' positions (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 that 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 that fall within the remit of the Company's Board of Directors.	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 fall within the remit of the Board of Directors. When execution of such corporate actions is expressly referred by law to the remit of the general meeting of shareholders, the Board of Directors presents relevant recommendations to shareholders. 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.	Noncompliance	The Articles of Association of the Company do not define the notion of "material corporate action". Members of the Company's Board of Directors apply a responsible approach to considering all matters within their remit, regardless of their significance. The Board of Directors seeks to provide shareholders with the maximum amount of information on material issues. In 2020, a special committee of the Board of Directors was created to communicate with buyers and sellers of the Company's shares, investors, as well as financial and legal consultants on the Altus Capital offer.

7.1.2	The Board of Directors plays a key role in making decisions or developing 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.	Noncompliance	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 remit of the Board of Directors prior to voting on this matter. The Company considers the introduction of additional procedures to indicate the position of a member of the Board of Directors to be inappropriate.
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 the 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 out 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 approval prior to execution.	Partial compliance	This comment refers to clause 1 of the evaluation criteria. 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. The Company's Articles of Association assigns consideration of transactions to the remit of the Board of Directors, including those that do not meet the criteria established by law for major transactions and transactions in which there is an interest but that do meet the criteria established by the Company's Articles of Association. The Company does not plan to amend the Articles of Association in this regard, as it believes that the remit of the Company's Board of Directors includes a sufficient number of issues of significant importance for the Company.

7.2 The Company executes material corporate actions in such a way as to ensure that shareholders receive complete information about such actions on a timely basis, 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 of these actions.	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	
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>1. The Company's internal documents are used in the case of sourcing 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 are used in the case of sourcing an independent appraiser to assess the value of the Company's shares upon 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	<p>This comment refers to clause 1 of the evaluation criteria.</p> <p>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.</p>

INFORMATION ON MAJOR TRANSACTIONS IN 2020

The Company complies with all legal requirements for the approval of related-party transactions. The Company’s Articles of Association stipulate that related-party transactions are subject to approval by the Board of Directors or the General Meeting of Shareholders prior to completion. The terms of related-party transactions are given preliminary consideration by the Audit Committee, which makes recommendations to the Board of Directors on the approval or disapproval of the transaction under consideration.

If there is a positive recommendation from the Audit Committee, the transaction is submitted for consideration by the Board of Directors. Members of the Board of Directors who are recognized as related parties to the transaction, as well as the CEO of the Company, do not participate in voting on approval of related-party transactions. Such transactions are approved by a majority of votes of non-related-party directors; the number of directors who take part in the voting should be no less than five.

Transaction date	Approval date	Governing body that approved the transaction	Subject of the transaction and its essential terms
21 January 2020	5 November 2019	Board of Directors	<p>Supplementary Agreement to the Loan Agreement.</p> <p>Parties to the transaction: PJSC Detsky Mir—the Borrower; VTB Bank (public joint stock company)—Bank/Lender. The Lender opens a credit line for the Borrower with a debt limit for the purpose of financing current activities in accordance with the Articles of Association. The interest rate is no more than 20.00% (twenty point 00/100 percent) per annum. The interest rate for each tranche is determined on the date of issue and is indicated in the corresponding Application accepted by the Lender. The crediting term is: 2,555 (two thousand five hundred and fifty-five) calendar days. The price of the transaction is RUB 19,200,000,000.00; the maximum amount of a one-time debt on Credits on any day of the Credit Line’s validity period is no more than RUB 8,000,000,000.00; the maximum amount of interest debt is RUB 11,200,000,000.00.</p>
7 October 2020	31 July 2020	Board of Directors	<p>Supplementary Agreement to the Loan Agreement on opening a revolving credit line.</p> <p>Parties to the transaction: PJSC Detsky Mir—the Borrower; Alfa-Bank JSC—Lender/Bank.</p> <p>The Bank provides the Borrower with funds in Russian rubles in the form of a revolving credit line (the “Credit Line”). The term of the Credit Line is 31 December 2023 inclusive. Transaction price: RUB 21,904,109,589.04 (excluding fines and penalties): the maximum amount of a one-time debt on Credits on any day of the Credit Line’s validity period is no more than RUB 13,000,000,000.00 (the “Debt Limit”); the maximum amount of debt on interest is RUB 8,904,109,589.04.</p>

INFORMATION ON RELATED-PARTY TRANSACTIONS IN 2020

Information on related-party transactions in an amount totaling less than 2% of the book value of the Company’s assets: in 2020, the Company did not complete any such transactions.

Information on related-party transactions in an amount totaling more than 2% of the book value of the Company’s assets

Transaction date	Approval date	Governing body that approved the transaction	Subject of the transaction and its essential terms	Information on related party (parties)
14 February 2020	11 February 2020	Board of Directors	<p>Supplementary Agreement to the Agreement on the supply of goods for children.</p> <p>Parties to the transaction: PJSC Detsky Mir, TIN 7729355029—Supplier; LLP Detsky Mir Kazakhstan, BIN 111040006142, RNN 620200380026—Buyer. The Seller sells and the Buyer buys the goods on DDP terms of the Republic of Kazakhstan in accordance with the International Rules for the Interpretation of Trade Terms (INCOTERMS, 2010). The goods are delivered in batches during 2020, while the name, assortment, quantity of goods in each batch and unit price are additionally agreed by the Parties and fixed by signing the corresponding orders/attachments. The deadline for the fulfillment of obligations under the transaction is 31 December 2020. The transaction price is RUB 3,000,000,000.00.</p>	<p>Farid Kamalov, who is at the same time the person performing the functions of the sole executive body of LLP Detsky Mir Kazakhstan and a member of the Management Board of PJSC Detsky Mir—share of participation in the authorized capital of the issuer: 0.08%; share of participation in the authorized capital of LLP Detsky Mir Kazakhstan: 0%.</p>

INFORMATION ON TRANSACTIONS WITH THE COMPANY’S SHARES PERFORMED BY MEMBERS OF GOVERNING BODIES IN 2020

During 2020, the following transactions with ordinary registered shares in the Company were performed by members of the Board of Directors and the Management Board:

	Date of Transaction	Transaction type	Number of shares
Farid Kamalov	3 March 2020	sale	22,460
Alexander Shevchuk	17 March 2020	sale	400
Pavel Pishchikov	18 March 2020	sale	95,000
Vladimir Chirakhov	22 April 2020	sale	1,251,000
Vladimir Chirakhov	20 April 2020	sale	3,460,000
Vladimir Chirakhov	6 May 2020	sale	7,859,440
Vladimir Chirakhov	13 May 2020	sale	3
Alexey Katkov	21 May 2020	sale	371,072
Farid Kamalov	3 June 2020	sale	189,490
Farid Kamalov	8 June 2020	sale	150,000
Tatiana Mudretsova	8 June 2020	sale	25,000
Pavel Pishchikov	10 June 2020	sale	25,000

	Date of Transaction	Transaction type	Number of shares
Pavel Pishchikov	3 September 2020	sale	10,000
Farid Kamalov	9 November 2020	sale	192,330
Vladimir Ilmetov	2 December 2020	sale	106,870
Pavel Pischikov	2 December 2020	sale	42,000
Farid Kamalov	3 December 2020	sale	107,670
Pavel Pishchikov	11 December 2020	sale	10,000

INFORMATION ABOUT THE COMPANY

Full trade name
of the Company:

Public Joint Stock Company Detsky Mir

Short trade name
of the Company:

PJSC Detsky Mir

Location
of PJSC Detsky Mir:

37 Vernadsky Avenue, Building 3,
Moscow 119415, Russian Federation

Correspondence address
of PJSC Detsky Mir:

6 3rd Nizhnelikhoborskiy Proezd, Building 3,
Moscow 127238, Russian Federation

Tel.: 8 (800) 250-00-00

Website address:

detmir.ru ir.detmir.ru corp.detmir.ru

Addresses of corporate pages in social networks:

[VKontakte](#) [Instagram](#) [Odnoklassniki](#) [Facebook](#)
[YouTube](#) [Twitter](#) [Telegram](#)



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DETSKY MIR GROUP

Consolidated Financial Statements
For the Year Ended 31 December 2020
And Independent Auditor's Report

DETSKY MIR GROUP

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL
OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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 2020, 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:

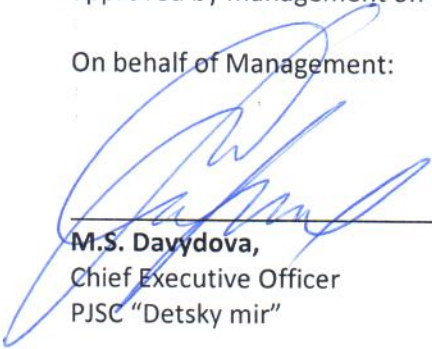
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient 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 2020 were approved by management on 26 February 2021.

On behalf of Management:



M.S. Davydova,
Chief Executive Officer
PJSC "Detsky mir"



A.S. Garmanova,
Chief Financial Officer
PJSC "Detsky mir"

INDEPENDENT AUDITOR'S REPORT

To: the Board of Directors and Shareholders of Public Joint Stock Company "Detsky mir"

Opinion

We have audited the 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 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, 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 matter to be key to our audit because significant 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 16 and Note 5 on page 27.

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 2020 the value of inventories held by the Group was RUB 42,494 million (31 December 2019: RUB 38,636 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

We challenged whether the inventories’ valuation 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;
-

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit**

items held and the approach the management uses 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 specific trends that drive provision rates.

- 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 of gross inventory balance year to year and investigating the changes in the ratios taking into account the expected changes in the methodology.

The Group's inventory provision is disclosed in Note 13 on page 36.

The key assumptions related to inventory measurement are disclosed in Note 5 on page 27.

Other Matter – Supplementary Financial Information

Management is responsible for the preparation of information accompanying the consolidated financial statements, which is presented as supplementary financial information on pages 56-60. This information is provided for the purposes of additional analysis and is not a required part of the consolidated financial statements for year ended 31 December 2020 prepared in accordance with IFRS. Such information has not been subjected to the audit procedures applied in our audit of the consolidated financial statements for the year ended 31 December 2020 and, accordingly, we do not express opinion on it.

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 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 by 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.

When we read the Annual and Quarterly reports, if we conclude that there is a material misstatement therein, we are 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 IFRS, 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 skepticism 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 consolidated 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

26 February 2021



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 2020 (in millions of Russian Rubles, except earnings per share)

	Notes	2020	2019
Revenue	6	142,882	128,764
Cost of sales		(98,909)	(87,232)
GROSS PROFIT		43,973	41,532
Selling, general and administrative expenses	7	(29,490)	(28,631)
Other operating income/(expenses), net		82	(8)
OPERATING PROFIT		14,565	12,893
Finance income		82	11
Finance expenses	8	(4,496)	(4,878)
Foreign exchange loss, net		(2,093)	(124)
PROFIT BEFORE TAX		8,058	7,902
Income tax expense	9.1	(1,309)	(1,360)
PROFIT FOR THE YEAR		6,749	6,542
Other comprehensive (loss)/income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		(35)	74
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,714	6,616
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:	17	734,561,783	735,675,274
Earnings per share, basic and diluted (in Russian Rubles per share)		9.19	8.89

The Notes on pages 11 to 55 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 (in millions of Russian Rubles)

	Notes	At 31 December 2020	At 31 December 2019
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	10	9,274	9,755
Intangible assets	11	1,524	1,464
Right-of-use assets	12	33,726	32,988
Deferred tax assets	9.2	2,811	2,415
Other non-current assets		124	138
Total non-current assets		47,459	46,760
CURRENT ASSETS			
Inventories	13	42,494	38,636
Trade receivables	14	3,670	4,048
Advances paid and other receivables	15	1,535	1,435
Prepaid income tax		10	13
Cash and cash equivalents	16	1,826	1,769
Total current assets		49,535	45,901
TOTAL ASSETS		96,994	92,661
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	1	1
Treasury shares	17	(407)	(317)
Additional paid-in capital		5,793	5,793
Accumulated deficit		(8,145)	(7,305)
Currency translation reserve		126	161
Total equity deficit		(2,632)	(1,667)
NON-CURRENT LIABILITIES			
Lease liabilities	18	28,619	27,635
Long-term loans and borrowings	19	12,200	8,980
Deferred tax liabilities	9.2	92	104
Total non-current liabilities		40,911	36,719
CURRENT LIABILITIES			
Trade payables		35,770	32,911
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	7,582	10,270
Lease liabilities	18	8,227	7,145
Advances received, other payables and accrued expenses	21	5,975	6,042
Deferred revenue	22	527	436
Income tax payable		634	805
Total current liabilities		58,715	57,609
Total liabilities		99,626	94,328
TOTAL EQUITY AND LIABILITIES		96,994	92,661

The Notes on pages 11 to 55 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2019	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)
Profit for the year	-	-	-	6,749	-	6,749
Other comprehensive loss	-	-	-	-	(35)	(35)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	-	6,749	(35)	6,714
Share-based compensation (Note 20)	-	-	-	186	-	186
Purchase of treasury shares (Note 17)	-	(90)	-	-	-	(90)
Dividends (Note 17)	-	-	-	(7,775)	-	(7,775)
Balance at 31 December 2020	1	(407)	5,793	(8,145)	126	(2,632)

The Notes on pages 11 to 55 form an integral part of these consolidated financial statements.

DETSKY MIR GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Russian Rubles)

	2020	2019 (restated) ¹
Operating activities:		
Profit for the year	6,749	6,542
Adjustments for:		
Depreciation and amortization expense	10,413	10,005
Finance expenses	4,496	4,878
Foreign exchange loss, net	2,093	124
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	2,081	1,270
Income tax expense recognized in profit or loss	1,309	1,360
Expense on equity-settled share-based compensation	188	8
Finance income	(82)	(11)
Other	12	34
Changes in working capital:		
Decrease in trade receivables	373	200
(Increase)/decrease in advances paid and other receivables	(132)	226
Increase in inventories	(5,912)	(4,818)
Increase in trade payables	1,507	3,819
(Decrease)/increase in advances received, other payables and accrued expenses	(267)	1,164
Increase/(decrease) in deferred revenue	91	(284)
Cash generated by operations	22,919	24,517
Interest paid	(4,297)	(4,599)
Interest received	78	4
Income tax paid	(1,980)	(1,696)
Net cash generated by operating activities	16,720	18,226
Investing activities:		
Payments for property, plant and equipment	(1,705)	(2,789)
Payments for intangible assets	(695)	(718)
Proceeds from sale of property, plant and equipment	42	40
Net cash used in investing activities	(2,358)	(3,467)
Financing activities:		
Purchase of treasury shares	(90)	(139)
Sale of treasury shares	-	36
Repayment of loans and borrowings	(63,315)	(72,522)
Dividends paid	(7,775)	(6,998)
Lease payments	(6,369)	(6,589)
Proceeds from loans and borrowings	63,878	70,302
Net cash used in financing activities	(13,671)	(15,910)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	691	(1,151)
CASH AND CASH EQUIVALENTS, beginning of the year	1,769	3,335
Effect of changes in foreign exchange rates on cash and cash equivalents	(634)	(415)
CASH AND CASH EQUIVALENTS, end of the year	1,826	1,769

The Notes on pages 11 to 55 form an integral part of these consolidated financial statements.

¹ In order to improve the presentation of certain lines in the consolidated statement of cash flows the Group made some presentation changes of the effect of changes in foreign exchange rates for the year ended 31 December 2019: increase in trade payables line was increased by RUB 415 million, whereas effect of changes in foreign exchange rates line was changed for the respective amount.

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (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. As at 31 December 2020 and in the year then ended the Group operated "Detsky mir" branded stores in Russia, Kazakhstan and Belarus, "Detmir PVZ" branded small-format stores in Russia, and "Zoozavr" branded retail stores in Russia. In 2020 the Group ceased the operations in Early Learning Centre (hereinafter, the "ELC") branded stores.

In 2020 the Company launched its own marketplace that enables third-party sellers to offer their products to consumers in the online store of the Company.

In June and September 2020, the Company's shareholders PJSC Sistema (hereinafter, "Sistema") and the Russia-China Investment Fund (hereinafter, "RCIF") priced the offering of Detsky mir shares. Through these two offerings in June and September, Sistema and the RCIF ceased to hold any ownership interest in the Company, and a free float of Detsky mir increased up to 100%.

In December 2020, Gulf Investments Limited acquired a 25.0% stake in the Company, which led to the decrease of the Company's free float to 75.0%.

The registered shareholders of the Company and their effective ownership were as follows, as at the specified dates:

	31 December 2020, %	31 December 2019, %
Gulf Investments Limited	25.00	-
Goldman Sachs Group, Inc. ¹	5.26	-
Capital Group Companies, Inc. ¹	5.64	5.05
PJSC Sistema and its subsidiaries	-	33.38
Floette Holdings Limited ²	-	4.50
Exarzo Holdings Limited ²	-	4.50
Other shareholders	64.10	52.57
Total	100	100

¹ Indirect control of a certain number of votes relating to voting shares;

² Represent the interests of the RCIF.

As at 31 December 2020 the Group had neither the ultimate controlling party nor the ultimate controlling beneficiary owner.

As at 31 December 2019 the Group had no ultimate controlling party whereas the key ultimate beneficiary defined as prescribed by the Russian legislation was Mr. Vladimir Yevtushenkov.

DETSKY MIR GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Russian Rubles)

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 2020, %	31 December 2019, %
LLP Detsky mir-Kazakhstan, Kazakhstan	100	100
LLC DM-Tech (earlier, LLC Kub-Market), RF	100	100
LLC Detmir BEL, Belarus	100	100

As at 31 December 2020 and 2019 the Group does not have non-wholly owned subsidiaries that have non-controlling interests to the Group.

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 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 2020 and 1 June 2020 (for IFRS 16), 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:

- Amendments to IAS 1 and IAS 8 – "Definition of Material";
- Amendments to IFRS 3 – "Definition of a Business";
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – "Interest Rate Benchmark Reform";
- Amendments to IFRS 16 – "Covid-19-Related Rent Concessions";
- Conceptual Framework for Financial Reporting issued on 29 March 2018.

No new standards and interpretations adopted in 2020 had a material impact on these consolidated financial information of the Group for the year ended 31 December 2020. As for amendments to IFRS 16, the Group preferred not to take an exemption from assessing whether a COVID-19-related rent concession is a lease modification and continued applying its accounting policy consistently.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Russian Rubles)**

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:

- IFRS 10 and IAS 28 (amendments) – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”;
- Amendments to IAS 1 – “Classification of Liabilities as Current or Non-current”;
- Amendments to IAS 1 – “Disclosure of accounting policies”;
- Amendments to IFRS 3 – “Reference to the Conceptual Framework”;
- Amendments to IAS 16 – “Property, Plant and Equipment—Proceeds before Intended Use”;
- Amendments to IAS 37 – “Onerous Contracts – Cost of Fulfilling a Contract”;
- Amendments to IFRS 4, IAS 39, IFRS 7, IFRS 9, IFRS 16 – “Interest Rate Benchmark Reform – Phase II”;
- IFRS 17 “Insurance contracts”;
- Annual Improvements to IFRS Standards 2018-2020 Cycle: IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, IFRS 16 “Leases”, IAS 41 “Agriculture”.

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 2020 as well as comparative information presented in these consolidated financial statements.

Going concern principle

These consolidated financial statements have been prepared on the 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.

In mid-March and April the Group faced the impact of a new coronavirus disease (COVID-19), which led to a considerable drop of traffic across the retail stores, resulted in retail revenue decrease, besides a number of retail stores were closed during the lockdown declared in Russia and Kazakhstan. Nevertheless, the outbreak of COVID-19 and its impact on the global economy confirmed that the Group selected an effective business model, driven by omnichannel and multi-category proposition. The most of Russian stores remained open to continue playing the important societal role of providing essential food and non-food products for children during the lockdown. As a result, during 2020 the Group managed to increase its share across all its markets and achieved explosive growth in the online segment (Note 6).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Russian Rubles)**

The management considered the Group's forecasts and projections for foreseeable future, taking into account current and anticipated economic situation, the Group's financial position, available undrawn credit lines (Note 19), covenants' compliance, planned store opening program and the anticipated cash flows and related expenditures from retail stores. Maintaining financial stability is a top priority for the Group: the Group has been successfully refinancing its borrowings and maintaining a stable cash balance (Note 16) to ensure business continuity in case of any downturn. The Group's primary sources of liquidity are cash flows from operating activities and, from time to time, debt financings. The Group's net working capital deficit, calculated as total current assets less total current liabilities, was RUB 9,180 million and RUB 11,708 million as at December 31, 2020 and 2019, respectively. The Group always operates with net working capital deficit owing to efficient use of cash in funding operations and provides returns to its shareholders in the form of payments of cash dividends, also the Group's inventory days and days payable levels are among industry-leading due to its agile sourcing model and algorithms used to forecast demand.

As part of the strategy that focuses on the online channel, in 2020 the Group launched the marketplace and continued improving its logistics by opening its first regional distribution centre in July 2020. In order to increase gross margin profitability due to accelerated opening of small-format stores Detmir PVZ, the Group closed ELC-branded stores, the share of which in the total revenue of the Group in 2019 comprised less than 1%. The Group will continue to expand the assortment of children's goods and strengthen logistics capabilities by launching more distribution centres in large Russian cities.

The Group's management has, at the time of the approval of these consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue its operations in the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

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.

The presentation currency of the Group is Russian Rubles ("RUB"), and all values are rounded to the nearest million RUB, except where otherwise indicated.

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.

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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. According to the distribution channels used 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.

Revenue recognition

The revenue is recognized by the Group when it transfers control 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.

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Revenue from sales of goods

The Group recognizes revenue from sales of goods when 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), in the gross amount of consideration to which it expects to be entitled in exchange for the goods transferred.

Marketplace commission

Marketplace commission represents commission fees charged to third-party sellers for selling their goods through the Group's online marketplace. The Group offers a marketplace platform via the Company's online store that enables sellers to sell their products through the Company's website. The Group's performance obligation with respect to these transactions is to arrange the transaction through the Company's website. Marketplace commission is recognized on a net basis at the point of delivery of products as the Group generally is not the primary obligor, does not bear the inventory risk, and does not have the ability to establish prices for the other party's goods. The Group charges a fixed rate commission fee based on the sales amount unless there are any additional conditions prescribed in the contract between the Group and sellers.

Gift cards

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.

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.

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.

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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.

Finance income

Interest income comprises interest receivable on funds invested. 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.

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.

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Exchange rates for the currencies in which the Group transacts are presented below:

	At 31 December 2020	At 31 December 2019
Closing exchange rates at the year-end – RUB		
1 EUR	90.6824	69.3406
1 Tenge	0.1755	0.1622
1 USD	73.8757	61.9057
1 BYN	28.6018	29.4257
	2020	2019
Average exchange rates for the year ended – RUB		
1 EUR	82.4487	72.5021
1 Tenge	0.1741	0.1690
1 USD	72.1464	64.7362
1 BYN	29.5858	30.9653

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.

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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.

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

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.

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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.

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.

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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.

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.

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.

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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 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 consolidated statement of profit or loss and other comprehensive income.

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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 (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade receivables, contract assets and lease 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.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring in the financial instrument at the reporting date with the risk of default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more 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.

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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.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the Group have made in the process of applying its accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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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.

Supplier bonuses

The Group's agreements and arrangements with suppliers set forth a number of conditions when 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. Depending on the arrangement with a supplier and applying judgment to determine the commercial substance of the bonus received, the Group either recognizes the bonus as a reduction to cost of sales or defers it over the period the related inventory is sold. Management has concluded that a significant portion of payments from suppliers is accounted for as a reduction of inventory cost of purchase 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.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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.

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.

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. Provision rates for the allowance are determined based on historical performance of the inventory (sales below cost of sales) for the last twelve months.

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.

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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.

Government grants

In the year ended 31 December 2020 the Group received a loan from PJSC "Sberbank" under government anti-crisis support program, which is provided at substantially preferential interest rates compared to those suggested on the market conditions. Determining whether this loan qualifies for government grants or should be accounted for as a financial instrument requires certain judgement from management: likelihood of different outcomes prescribed in the loan agreement, qualitative analysis of the criteria imposed by the arrangement and other factors. As government grants are recognized in the Group's consolidated financial statements only if there is reasonable assurance that all the conditions and criteria necessary to receive them are met and it's virtually certain that grants are to be received, the above-described loan is presented within the loans and borrowings line as it does not qualify for government grants as at 31 December 2020.

6. REVENUE

The Group's revenue for the year ended 31 December 2020 and 2019 was as follows:

	2020	2019
Sales of goods, including online store revenue		
Russian Federation (hereinafter, "RF")	137,865	124,577
Kazakhstan	3,798	3,739
Belarus	981	331
Total sales of goods, including online store revenue	142,644	128,647
Marketplace commission		
RF	53	-
Total marketplace commission	53	-
Other revenue		
RF	185	117
Total other revenue	185	117
Total	142,882	128,764

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Revenue from ELC-branded stores, presented within sales of goods line and attributable to RF, for the years ended 31 December 2020 and 2019 amounted to RUB 435 million and RUB 1,055 million, respectively.

Revenue from Zoozavr-branded stores, presented within sales of goods line and attributable to RF, for the years ended 31 December 2020 and 2019 amounted to RUB 351 million and RUB 114 million, respectively.

Revenue from Detmir PVZ-branded stores, presented within sales of goods line and attributable to RF, for the year ended 31 December 2020 amounted to RUB 145 million.

Revenue from sales of goods in the online store, presented within sales of goods, including online store revenue line, for the years ended 31 December 2020 and 2019 was as follows:

	2020	2019
Online store:		
RF	34,705	14,489
Kazakhstan	298	23
Total	35,003	14,512

Revenue from sales of goods ordered via the online store and picked up at Group's retail stores amounting to RUB 25,314 million and RUB 10,718 million for the years ended 31 December 2020 and 2019, 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 2020 and 2019 were as follows:

	2020	2019
Payroll and other personnel costs	11,331	11,154
Depreciation and amortization	10,413	10,005
Rent and utilities	1,985	1,891
Banking services	1,491	1,271
Advertising and marketing expenses	1,141	1,399
Repair and maintenance	598	603
Software maintenance	448	362
Promotional materials	409	470
Security expenses	398	429
Consulting services	224	243
Office equipment	145	149
Communication expenses	144	131
Taxes (other than income tax)	122	(55)
Travel expenses	78	95
Stationery and other materials	43	46
Other	520	438
Total	29,490	28,631

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Payroll expenses for the year ended 31 December 2020 include RUB 740 million (for the year ended 31 December 2019: RUB 899 million) relating to long-term incentive plans (Note 20). Payroll expenses for the year ended 31 December 2020 also include contributions to state pension fund in amount of RUB 2,045 million (for the year ended 31 December 2019: RUB 1,976 million).

8. FINANCE INCOME AND EXPENSES

The Group's finance income and expenses for the year ended 31 December 2020 and 2019 were as follows:

Finance income

	2020	2019
Interest income on bank deposits, cash and cash equivalents	79	5
Interest income from refundable lease advances paid	3	6
Total	82	11

Finance expenses

	2020	2019
Interest expense on lease liabilities	2,309	2,573
Interest expense on bank loans	1,321	1,685
Interest expense on bonds	866	620
Total	4,496	4,878

9. INCOME TAXES

9.1. Income tax recognized in profit or loss

Income tax expense recognized in profit or loss comprised the following:

	2020	2019
Current tax		
Current income tax expense	(2,035)	(2,054)
Adjustment of income tax for prior years	318	89
	(1,717)	(1,965)
Deferred tax		
Deferred income tax benefit	408	605
	408	605
Total income tax expense recognized in profit or loss	(1,309)	(1,360)

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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 2020 and 2019:

	2020	2019
Profit before tax	8,058	7,902
Income tax expense calculated at 20% (2019: 20%)	(1,612)	(1,580)
Non-deductible expenses, including non-deductible inventory losses	(69)	(27)
Adjustment of income tax for prior years	318	89
Effect from the application of preferential rates (other than 20%)	147	158
Other	(93)	-
Income tax expense recognized in profit or loss	(1,309)	(1,360)

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 2020 and 2019 net deferred tax assets were presented as follows:

2020	At 1 January	Recognized in profit or loss	At 31 December
Deferred tax assets in relation to:			
Inventories	5,681	833	6,514
Accrued expenses and other deductible temporary differences	3,633	(358)	3,275
Lease liabilities and right-of-use assets	2,085	1,271	3,356
Deferred revenue	436	91	527
Tax losses carried forward	32	17	49
Forward contracts	45	103	148
Property, plant and equipment and intangible assets	162	26	188
Total temporary differences	12,074	1,983	14,057
Deferred tax assets	2,415	396	2,811
Deferred tax liabilities in relation to:			
Property, plant and equipment	(417)	55	(362)
Trade receivables	(103)	7	(96)
Total temporary differences	(520)	62	(458)
Deferred tax liabilities	(104)	12	(92)
Net deferred tax assets	2,311	408	2,719

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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

As at 31 December 2020 and 2019 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 2020 and 2019 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:

	<u>Buildings and leasehold improvements</u>	<u>Trade equipment</u>	<u>Office and warehouse equipment and other fixed assets</u>	<u>Construction in-progress</u>	<u>Total</u>
Cost					
At 1 January 2019	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
Additions	-	-	-	1,664	1,664
Transfers	494	481	321	(1,296)	-
Disposals	(154)	(133)	(83)	-	(370)
Translation to presentation currency	17	11	7	-	35
At 31 December 2020	11,855	3,839	3,606	639	19,939
Accumulated depreciation and impairment					
At 1 January 2019	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
Depreciation expense	993	626	440	-	2,059
Impairment	39	13	9	-	61
Disposals	(137)	(122)	(68)	-	(327)
Translation to presentation currency	6	5	6	-	17
At 31 December 2020	5,337	2,596	2,732	-	10,665
Carrying amount / net book value					
Balance at 1 January 2019	4,931	1,453	857	1,985	9,226
Balance at 31 December 2019	7,062	1,406	1,016	271	9,755
Balance at 31 December 2020	6,518	1,243	874	639	9,274

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Most of the Group's additions of items of property, plant and equipment relate to launch of new retail stores and a new distribution centre and comprise purchase of trade premises, leasehold improvements and trade and warehouse equipment.

As at 31 December 2020 construction in progress line was represented mainly by advances paid for the construction of the new distribution centre in the amount of RUB 457 million.

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.

Impairment of property, plant and equipment of RUB 47 million and RUB 14 million was recognized in the consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2020 in relation to property, plant and equipment in ELC-branded stores closed in 2020 and leasehold improvements in stores expected to be closed in 2021, respectively (for the year ended 31 December 2019: RUB 20 million in relation to leasehold improvements in stores expected to be closed in 2020).

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Trademarks	Other intangible assets	Total
Cost				
At 1 January 2019	2,793	4	79	2,876
Additions	709	-	9	718
At 31 December 2019	3,502	4	88	3,594
Additions	693	-	2	695
At 31 December 2020	4,195	4	90	4,289
Accumulated amortization				
At 1 January 2019	1,581	-	40	1,621
Amortization expense	484	-	25	509
At 31 December 2019	2,065	-	65	2,130
Amortization expense	621	-	14	635
Balance at 31 December 2020	2,686	-	79	2,765
Carrying amount				
Balance at 1 January 2019	1,212	4	39	1,255
Balance at 31 December 2019	1,437	4	23	1,464
Balance at 31 December 2020	1,509	4	11	1,524

Additions of software in 2020 and 2019 relate primarily to licenses acquired for ERP system and capitalized implementation costs.

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12. RIGHT-OF-USE ASSETS

The Group leases retail premises, offices and warehouses with average lease term (initial) of 7.8 years as at 31 December 2020 (31 December 2019: 7.1 years). Movements in the carrying amount of right-of-use assets were as follows (movements of lease liabilities are disclosed in Note 18):

	<u>2020</u>	<u>2019</u>
Cost		
At 1 January	47,120	36,695
New lease contracts and modification of existing lease contracts	8,365	10,943
Lease prepayments	21	16
Translation to presentation currency	90	(78)
Disposals	(390)	(456)
At 31 December	55,206	47,120
	<u>2020</u>	<u>2019</u>
Accumulated depreciation and impairment		
At 1 January	14,132	7,089
Depreciation expense	7,719	7,456
Disposals	(390)	(456)
Impairment	7	108
Translation to presentation currency	25	(22)
Other	(13)	(43)
At 31 December	21,480	14,132
Balance at 1 January	32,988	29,606
Balance at 31 December	33,726	32,988
	<u>2020</u>	<u>2019</u>
Amounts recognized in profit and loss		
Depreciation expense on right-of-use assets	7,719	7,456
Interest expense on lease liabilities	2,309	2,573
Impairment	7	108
Expenses related to variable lease payments not included in the measurement of the lease liability and leases of low-value items	878	854
Other	(13)	(43)

Impairment of right-of-use assets of RUB 7 million was recognized in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2020 (for the year ended 31 December 2019: RUB 108 million).

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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 9,556 million for the year ended 31 December 2020 (for the year ended 31 December 2019: RUB 9,162 million).

13. INVENTORIES

Inventories as at 31 December 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Merchandise inventories	42,279	38,425
Materials	215	211
Total	42,494	38,636

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 2,081 million and RUB 1,270 million for the years ended 31 December 2020 and 2019, respectively, were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

14. TRADE RECEIVABLES

Trade receivables as at 31 December 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Trade receivables	3,671	4,049
Loss allowance	(1)	(1)
Total	3,670	4,048

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.

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15. ADVANCES PAID AND OTHER RECEIVABLES

Advances paid and other receivables as at 31 December 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Value added tax receivable	842	823
Advances paid to suppliers	193	321
Other advances paid	138	138
Prepaid expenses	31	24
Other taxes receivable	8	6
Other receivables	382	166
Loss allowance for doubtful other receivables	(59)	(43)
Total	1,535	1,435

The following table summarizes the changes in the allowance for doubtful other receivables:

	2020	2019
At 1 January	(43)	(72)
Additional loss allowance recognized on other receivables	(16)	-
Write-offs against loss allowance for doubtful receivables on other receivables	-	29
At 31 December	(59)	(43)

In determining the recoverability and quality of 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 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Cash in transit	1,198	1,210
Cash on hand	402	315
Cash in bank accounts	226	244
Total	1,826	1,769

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 2020 and 2019 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 2019	736,693,997	739,000,000	739,000,000
Purchase of treasury shares	(1,556,610)	-	-
Sale of treasury shares	381,578	-	-
At 31 December 2019	735,518,965	739,000,000	739,000,000
Purchase of treasury shares	(1,212,210)	-	-
At 31 December 2020	734,306,755	739,000,000	739,000,000

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

Treasury shares

During year ended 31 December 2020 and 2019, the Group purchased 1,212,210 and 1,556,610 of the Company's ordinary shares in a number of transactions for a total consideration of RUB 90 million and RUB 139 million, respectively.

No sales of the Company's ordinary shares by the Group took place during the period ended 31 December 2020. During year ended 31 December 2019, the Group sold 381,578 of the Company's ordinary shares to management of the Group and received a total cash consideration of RUB 36 million.

As at 31 December 2020 the Group had 4,693,245 treasury shares with cost of RUB 407 million. As at 31 December 2019 the Group had 3,481,035 treasury shares with cost of RUB 317 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 2020, the Company's statutory undistributed earnings were negative, while statutory net profit for the year ended 31 December 2020 (unaudited) was RUB 8,117 million (for the year ended 31 December 2019: RUB 7,789 million).

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On 17 December 2020, the annual General meeting of shareholders approved the dividend announcement for the 9 months 2020 in the amount of RUB 3,733 million or RUB 5.08 per share, which were paid in full on 28 December 2020.

On 18 September 2020, the annual General meeting of shareholders approved the dividend announcement for the fourth quarter of 2019 in the amount of RUB 1,837 million or RUB 2.5 per share, which were paid in full on 29 September 2020.

On 30 June 2020, the annual General meeting of shareholders approved the dividend announcement for the year 2019 in the amount of RUB 2,205 million or RUB 3 per share, which were paid in full on 11 July 2020.

On 6 December 2019 extraordinary General meeting of shareholders approved the dividend announcement 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 announcement for the year 2018 in the amount of RUB 3,274 million or RUB 4.45 per share, which were paid in full on 29 May 2019.

18. LEASE LIABILITIES

As at 31 December 2020 lease liabilities comprised the following:

	31 December 2020	31 December 2019
Gross lease payments, including:		
Current portion (less than 1 year)	10,165	9,592
More than 1 to 5 years	27,135	26,849
Over 5 years	6,333	7,204
Total gross lease payments	43,633	43,645
Less unearned interest	(6,787)	(8,865)
Analysed as:		
Current portion	8,227	7,145
Non-current portion	28,619	27,635
Total lease liabilities	36,846	34,780

The following table summarizes the changes in the lease liabilities (movements of right-of-use assets are disclosed in Note 12):

	2020	2019
Balance as at 1 January	34,780	30,546
Interest expense on lease liabilities	2,309	2,573
Lease payments	(8,678)	(9,162)
New lease contracts and modification of existing lease contracts	8,336	10,943
Translation to presentation currency	99	(120)
Balance as at 31 December	36,846	34,780

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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 2020 and 31 December 2019, 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.

In the end of 2020 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 2020. The aggregate future cash outflows to which the Group is exposed in respect of these contracts are RUB 1,025 million as at 31 December 2020 (31 December 2019: RUB 1,717 million).

19. LOANS AND BORROWINGS

Loans and borrowings as at 31 December 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Loans and borrowings		
Unsecured bank loans in Russian Rubles	7,546	8,250
Secured bank loans in Russian Rubles	1,236	-
Bonds	11,000	11,000
	19,782	19,250
Less short-term loans and borrowings and current portion of long-term loans and borrowings	(7,582)	(10,270)
Loans and borrowings, non-current	12,200	8,980

Bank loans in Russian Rubles

At 31 December 2020 and 2019 the loans in Russian Rubles were provided to the Group by 6 and 3 Russian banks respectively.

A loan received from PJSC "Sberbank" under government anti-crisis support program in June-August 2020 amounted to RUB 1,236 million is presented within the loans and borrowings line as it does not qualify for government grants as at 31 December 2020. The loan is provided with the guarantee from the state corporation "VEB.RF", which has the responsibility of the guarantor to the creditor for the fulfilment of the obligations for up to 85% of the principal amount, including interest.

The fair value of the Group's bank loans, including amounts due within one year, as at 31 December 2020 and 2019 is RUB 8,787 million and 8,261 million, respectively. The carrying amount of this debt is RUB 8,782 million and RUB 8,250 million, respectively.

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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 2020 valuation is determined by reference to the Group's traded bonds yield of 5.91%, Level 2 input (31 December 2019: 6.65%, Level 2 input).

Bonds

In May 2020, the Group issued and placed documentary exchange non-convertible bonds (Series BO 06) 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% per annum. The bonds mature on 29 April 2027 with the pull offer date on 8 May 2023.

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. This issue was fully repaid in April 2020.

As at 31 December 2020 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 141 million. 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.

The Level-1 fair value of exchange-traded bonds, including the amounts due for payment within one year, as at 31 December 2020, amounted to RUB 11,474 million with the carrying amount equal to RUB 11,000 million (31 December 2019: RUB 11,400 million with the carrying amount equal to RUB 11,000 million).

Unused credit line facilities

As at 31 December 2020 and 2019, the total amount of undrawn credit lines of the Group was RUB 34,402 million and RUB 34,350 million, respectively, including RUB 34,258 million and RUB 30,750 million relating to long-term credit lines, respectively.

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Covenants

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios. Non-compliance with these covenants may result in negative consequences of the Group: in particular, the creditors can increase the interest rate on the loan, require for collateral or ask for early repayment of outstanding debt.

As at 31 December 2020 and 31 December 2019 the Group was in compliance with all financial covenants stipulated by its loan agreements.

Pledges

As at 31 December 2020 and 2019 the Group had 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 2020:

	As at 31 December 2020
Within the first month	2,246
From one to three months	1,536
From three months to one year	3,800
From one year to two years	9,200
From two year to five year	3,000
Total	19,782

20. SHARE-BASED COMPENSATION

During the year ended 31 December 2020 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. 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.

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.

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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 2019	1,616,539	-
Exercised during the period	(808,264)	86.86
Outstanding at 31 December 2019	808,275	-
Exercised during the period	(808,275)	89.27
Outstanding at 31 December 2020	-	-
Exercisable at 31 December 2020	-	-

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 at that anniversary will be awarded with the Company's ordinary shares.

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.

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.

In February 2020 the Incentive Plan 3 was settled in cash in full.

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. 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.

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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.

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.

In February 2020 the amendment to the Incentive Plan 3 was settled in cash in full.

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 at certain dates within this period will be awarded. 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.

In March 2020, 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 Incentive Plan 4.1 was reclassified to a cash-settled share-based payment arrangement.

In April 2020 the Incentive Plan 4.1 was settled in cash in full ahead of schedule proportionally to hours worked.

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 at certain dates within this period will be awarded. 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.

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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.

In October 2020, the Group's Board of Directors revised the settlement dates of the Incentive Plan 4.2 and combination of options for each settlement date. The total duration of the Incentive Plan 4.2 was reduced to April 2023.

Long-term incentive plans adopted in 2020

In September 2020, the Group's Board of Directors approved a new employee long-term incentive plan (the "Incentive Plan 5"). Under the Incentive Plan 5, which covers a 2.5-year period to March 2023, senior management in continuing employment as at certain dates within this period will be awarded. 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 5 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 is to be paid in three payments as at certain dates. The first and second part of the award were assessed based on the forecasted dividends to be paid during the certain periods and on the assumption that the participants will stay employed by the Group until their rights for these payments vest. The third part of the award was assessed on the assumption that the participants will stay employed by the Group until their rights for the third payment 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 103 per share on settlement date in 2023. The fair value of the award, which is equivalent to 20,573,760 of such share options, on the grant date amounted to RUB 124 million, or RUB 6.0 per share option.

Liabilities recognized in relation to long-term incentive plans

As at 31 December 2020, the Group recognized liabilities of RUB 224 million in relation to the cash-settled share-based payment arrangements (31 December 2019: RUB 963 million). These liabilities include accrued social contributions of RUB 29 million (31 December 2019: RUB 129 million).

Expenses recognized in relation to long-term incentive plans

In the year ended 31 December 2020, expenses totalling RUB 740 million (year ended 31 December 2019: RUB 899 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, Incentive Plan 4.2 and Incentive Plan 5 were recognized as Selling, General and Administrative expenses in the consolidated statement of profit or loss and other comprehensive income, including RUB 188 million (year ended 31 December 2019: RUB 8 million) arising from share-based payment transactions. These expenses, RUB 188 million, were recognized as a credit to equity within Accumulated Deficit line in relation to equity-settled share-based payment arrangements in 2020 (2019: RUB 8 million).

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Reclassification of equity-settled share-based payment arrangement to cash-settled share-based payment arrangement (the Incentive Plan 4.1) was recognized as a debit to equity within Accumulated Deficit line in 2020 in the amount of RUB 2 million (2019: 248).

21. ADVANCES RECEIVED, OTHER PAYABLES AND ACCRUED EXPENSES

Advances received, other payables and accrued expenses as at 31 December 2020 and 2019 comprised the following:

	31 December 2020	31 December 2019
Accrued expenses and other current liabilities	3,707	3,310
Payables to employees	798	1,387
Advances received	867	680
Taxes payable other than income tax	417	470
Interest payable on bonds	141	182
Interest payable on bank loans	45	13
Total	5,975	6,042

22. DEFERRED REVENUE

Deferred revenue arising from the Group's customer loyalty program as at 31 December 2020 and 2019 was as follows:

	2020	2019
As at 1 January	436	720
Revenue deferred during the period	11,885	5,499
Revenue recognized in the consolidated statement of profit or loss and other comprehensive income	(11,794)	(5,783)
As at 31 December	527	436

Increase in revenue deferred and revenue recognized in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2020 was caused by a greater volume of promotional bonuses accrued in the reporting year compared to the previous one.

During 2020 the Group recognized revenue in amount of RUB 436 million that was deferred as at 31 December 2019 (during 2019: RUB 720 million). Revenue recognition on the final deferred revenue balance is expected within the next twelve months.

Revenue of the Group is disclosed in Note 6.

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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 PJSC Sistema, which retained the largest non-controlling stake and exercised significant influence over the Group as at 31 December 2019, for the respective year then ended and until September of the year ended 31 December 2020 (Note 1), and other related parties:

	31 December 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Balances outstanding with related parties				
Cash and cash equivalents	-	-	72	-
Trade receivables/ (payables)	-	-	26	(221)
Other receivables/ (payables)	-	-	1	(12)

Outstanding balances with related parties were unsecured and settled in cash.

The Group's transactions with subsidiaries of PJSC Sistema and other related parties for the year ended 31 December 2020 and 2019, as follows:

Related party	Type of transaction	2020	2019
MTS	Communication costs	23	31
MTS	Advertising and marketing expenses	-	43
MTS	Agency fee	17	-
MTS – Bank	Bank commission	-	1
MTS – Bank	Interest income	8	2
CJSC “NVision group”	Acquisition of fixed assets	4	13
CJSC “NVision group”	Software maintenance	-	4
JSC “Progress”	Acquisition of goods, net of bonuses received	761	2,362
LLC Segezha packaging	Acquisition of goods	5	5
JSC “Business property”	Rent	3	2

The information about dividends declared and paid is disclosed in Note 17.

Remuneration of key management personnel of the Group

During 2020 and 2019, directors of the Group and other members of key management personnel received remuneration in the amount of RUB 1,121 million (including RUB 542 million of short-term non-share-based benefits, RUB 450 million of accrued short-term share-based compensation and RUB 129 million of accrued long-term share-based compensation) and 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), respectively.

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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.

Categories of financial instruments as at 31 December 2020 and 2019 are as follows:

	31 December 2020	31 December 2019
Financial assets at amortized cost		
Cash and cash equivalents	1,826	1,769
Trade accounts receivable	3,670	4,048
Other receivables	382	166
Security deposits (refundable)	114	118
	5,992	6,101
Financial liabilities at amortized cost		
Lease liabilities	(36,846)	(34,780)
Trade payables	(35,770)	(32,911)
Loans and borrowings	(19,782)	(19,250)
Other payables	(4,691)	(4,892)
	(97,089)	(91,833)
Net financial liabilities	(91,097)	(85,732)

The fair value of financial assets and financial liabilities such as trade accounts receivable, other receivables, trade payables, other payables is close to carrying amount due to the short maturities of these instruments.

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.

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	1 January 2020	Non-cash changes (i)	Translation to presentation currency	Financing cash flows (ii)	31 December 2020
Bank loans	8,250	(31)	-	563	8,782
Bonds	11,000	-	-	-	11,000
Lease liabilities	34,780	8,336	99	(6,369)	36,846
Total	54,030	8,305	99	(5,806)	56,628

	1 January 2019	Non-cash changes (i)	Translation to presentation currency	Financing cash flows (ii)	31 December 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

- (i) Non-cash changes of bank loans include a benefit of the loan received under government anti-crisis support program at a below market rate interest, which is measured as the difference between the initial carrying value and the proceeds received and is recognized as a reduction to the interest expense on loans (Note 19). Non-cash changes of lease liabilities include new lease contracts and modification of existing lease contracts.
- (ii) 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.

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.

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	Total	Less than 3 months	3 months to 1 year	1-5 years	More than 5 years
At 31 December 2020					
Loans and borrowings with fixed rate					
Loan principal	13,192	2,192	-	11,000	-
Interest	180	180	-	-	-
	13,372	2,372	-	11,000	-
Loans and borrowings with floating rate					
Loan principal	6,590	1,590	3,800	1,200	-
Interest	6	6	-	-	-
	6,596	1,596	3,800	1,200	-
Lease liabilities					
Lease liabilities with interest	43,633	2,537	7,628	27,135	6,333
	43,633	2,537	7,628	27,135	6,333
Other financial liabilities					
Trade payables	35,770	-	35,770	-	-
Other non-interest bearing liabilities	4,505	4,505	-	-	-
	40,275	4,505	35,770	-	-
Total	103,876	11,010	47,198	39,335	6,333
	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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The weighted average interest rate for borrowings as at 31 December 2020 was 5.84% (as at 31 December 2019: 7.11%).

The effective interest rate for bonds as at 31 December 2020 was 7.93% (as at 31 December 2019: varied from 9.5% for the short-term bonds up to 8.28% for the long-term portion).

The weighted average effective interest rate for lease liabilities as at 31 December 2020 was 5.91% (as at 31 December 2019: 6.64%).

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 are potentially subjected 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 2020 trade receivables from three major suppliers comprised 49% of the Group's consolidated trade receivables (31 December 2019: 49%). 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.

The table below shows the balances that the Group has with eight of its major banks as at the balance sheet date (including cash in transit in the amount of RUB 1,198 million and RUB 1,210 million as at 31 December 2020 and 2019, respectively):

Bank	Rating	Carrying amount as at 31 December 2020	Carrying amount as at 31 December 2019
Sberbank	Baa3 (Moody's)	1,006	987
Alfa-Bank	Ba1 (Moody's)	163	125
Otkritie Bank	Ba2 (Moody's)	141	3
MTS bank	BB- (Fitch)	40	94
VTB	Baa3 (Moody's)	40	59
Rosbank	Baa3 (Moody's)	10	11
Raiffeisenbank	Baa3 (Moody's)	5	82
Gazprom Bank	Ba1 (Moody's)	2	71
Total		1,407	1,432

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 2020 and 2019.

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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 2020 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 2020 outstanding liabilities from forward contracts amounted to RUB 148 million and were included in Advances received, other payables and accrued expenses line item (Note 21). 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). During 2020 losses from foreign exchange forward contracts amounted to RUB 103 million and were included in the foreign exchange loss line item in the consolidated statement of profit and loss and other comprehensive income (2019: RUB 441 million of loss).

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 2020			31 December 2019	
	EUR	USD	JPY	EUR	USD
Assets					
Cash and cash equivalents	-	14	-	3	2
Trade and other receivables	11	34	-	3	219
Total assets	11	48	-	6	221
Liabilities					
Trade and other payables	(301)	(10,491)	(213)	(141)	(7,497)
Total liabilities	(301)	(10,491)	(213)	(141)	(7,497)
Total net position	(290)	(10,443)	(213)	(135)	(7,276)

Foreign currency sensitivity analysis

The following tables demonstrate the sensitivity on profit (net of tax) and equity to a reasonably possible change (20%) in the USD, Euro and JPY period end exchange rates with all other variables held constant.

	USD		Euro		JPY	
	Change in currency exchange rate, %	Impact on net profit	Change in currency exchange rate, %	Impact on net profit	Change in currency exchange rate, %	Impact on net profit
2020	20%	(1,671)	20%	(46)	20%	(34)
	-20%	1,671	-20%	46	-20%	34

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	USD		Euro	
	Change in currency exchange rate, %	Impact on net profit	Change in currency exchange rate, %	Impact on net profit
2019	+20%	(1,164)	+20%	(22)
	-20%	1,164	-20%	22

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The Group manages this risk through analysis of current interest rates, performed by treasury function on the Group entities level. To mitigate the risk exposure the Group receives loans at both fixed and floating rates. In case of changes in market interest rates management may consider refinancing of a particular financial instrument on more favourable terms.

The table below details sensitivity of the Group's borrowings with floating rates to increase of floating rates (RF Central Bank base rate + 0.85%-2.4%) by 2%, which represents management's assessment of the reasonably possible change in interest rates. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the reporting date was outstanding for the entire annual period.

	2020	2019
Impact on net profit	(132)	(17)

26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

At 31 December 2020 the Group has entered into contractual commitments for the acquisition of property, plant and equipment and intangible assets in the amount of RUB 1,926 million, which mainly comprise amounts for the construction of the new distribution centre in the amount of RUB 1,854 million (31 December 2019: RUB 67 million, which related mostly to IT equipment and software).

Taxation and legal proceedings

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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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.

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. 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 (Note 4).

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27. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group has evaluated subsequent events through 26 February 2021, the date on which the consolidated financial statements were approved.

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

SUPPLEMENTARY FINANCIAL INFORMATION: NON-IFRS MEASURES (UNAUDITED)

In this note, additional financial 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 and provide comfort on key performance measures used to assess the Group's financial performance, the Group decided to disclose supplementary financial information for the year ended 31 December 2020, 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.

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 2020 would have been as follows:

	2020	2019
As if IAS 17 "Leases" was applied		
Revenue	142,882	128,764
Cost of sales	(98,909)	(87,232)
GROSS PROFIT	43,973	41,532
Selling, general and administrative expenses	(30,497)	(30,247)
Other operating income/(expenses), net	53	(8)
OPERATING PROFIT	13,529	11,277
Finance income	79	5
Finance expense	(2,188)	(2,305)
Foreign exchange loss, net	(2,093)	(124)
PROFIT BEFORE TAX	9,327	8,853
Income tax expense	(1,563)	(1,550)
PROFIT FOR THE YEAR	7,764	7,303
Other comprehensive (loss)/income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Effect of translation to presentation currency	(3)	12
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,761	7,315
Earnings per share		
Weighted average number of shares outstanding, basic and diluted:	734,561,783	735,675,274
Earnings per share, basic and diluted (in Russian Rubles per share)	10.57	9.93

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 2020 would have been as follows:

	31 December 2020	31 December 2019
As if IAS 17 "Leases" was applied		
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	9,274	9,755
Intangible assets	1,524	1,464
Deferred tax assets	2,140	1,998
Other non-current assets	219	241
Total non-current assets	13,157	13,458
CURRENT ASSETS		
Inventories	42,494	38,636
Trade receivables	3,670	4,048
Advances paid and other receivables	1,812	1,756
Prepaid income tax	10	13
Cash and cash equivalents	1,826	1,769
Total current assets	49,812	46,222
TOTAL ASSETS	62,969	59,680
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1	1
Treasury shares	(407)	(317)
Additional paid-in capital	5,793	5,793
Accumulated deficit	(5,462)	(5,637)
Currency translation reserve	127	130
Total equity/ (equity deficit)	52	(30)
NON-CURRENT LIABILITIES		
Long-term loans and borrowings	12,200	8,980
Deferred tax liabilities	92	104
Total non-current liabilities	12,292	9,084
CURRENT LIABILITIES		
Trade payables	35,770	32,911
Short-term loans and borrowings and current portion of long-term loans and borrowings	7,582	10,270
Advances received, other payables and accrued expenses	6,112	6,204
Deferred revenue	527	436
Income tax payable	634	805
Total current liabilities	50,625	50,626
Total liabilities	62,917	59,710
TOTAL EQUITY AND LIABILITIES	62,969	59,680

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 2020 would have been as follows:

	2020	2019 (restated) ²
As if IAS 17 "Leases" was applied		
OPERATING ACTIVITIES:		
Profit for the year	7,764	7,303
Adjustments for:		
Depreciation and amortization expense	2,694	2,549
Finance expenses	2,187	2,305
Foreign exchange loss, net	2,093	124
Write-offs of merchandise inventories relating to shrinkage and write-down to net realizable value	2,081	1,270
Income tax expense recognized in profit or loss	1,563	1,550
Expense on equity-settled share-based compensation	188	8
Finance income	(79)	(5)
Other	47	(31)
Changes in working capital:		
Decrease in trade receivables	373	200
(Increase)/decrease in advances paid and other receivables	(88)	194
Increase in inventories	(5,912)	(4,818)
Increase in trade payables	1,507	3,819
(Decrease)/increase in advances received, other payables and accrued expenses	(267)	1,172
Increase/(decrease) in deferred revenue	91	(284)
Cash generated by operations	14,242	15,356
Interest paid	(1,989)	(2,027)
Interest received	78	4
Income tax paid	(1,980)	(1,696)
Net cash generated by operating activities	10,351	11,637
INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(1,705)	(2,789)
Payments for intangible assets	(695)	(718)
Proceeds from sale of property, plant and equipment	42	40
Net cash used in investing activities	(2,358)	(3,467)
FINANCING ACTIVITIES:		
Purchase of treasury shares	(90)	(139)
Sale of treasury shares	-	36
Proceeds from loans and borrowings	63,878	70,302
Repayment of loans and borrowings	(63,315)	(72,522)
Dividends paid	(7,775)	(6,998)
Net cash used in financing activities	(7,302)	(9,321)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	691	(1,151)
CASH AND CASH EQUIVALENTS, beginning of the year	1,769	3,335
Effect of changes in foreign exchange rates on cash and cash equivalents	(634)	(415)
CASH AND CASH EQUIVALENTS, end of the year	1,826	1,769

² In order to improve the presentation of certain lines in the consolidated statement of cash flows the Group made some presentation changes of the effect of changes in foreign exchange rates for the year ended 31 December 2019: increase in trade payables line was increased by RUB 415 million, whereas the effect of changes in foreign exchange rates line was changed for the respective amount.

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 2020 would have been as follows:

	2020	2019
As if IAS 17 "Leases" was applied		
Payroll and other personnel expenses	11,331	11,154
Rent and utilities	10,707	11,028
Depreciation and amortization	2,694	2,549
Banking services	1,491	1,271
Advertising and marketing expenses	1,141	1,399
Repair and maintenance	598	603
Software maintenance	448	362
Promotional materials	409	470
Security expenses	398	429
Consulting services	224	243
Office equipment	145	149
Communication expenses	144	131
Taxes (other than income tax)	122	(55)
Travel expenses	78	95
Stationery and other materials	43	46
Other	524	373
Total	30,497	30,247

