DETSKY MIR GROUP ADJ. EBITDA INCREASES BY 30.1%
TO RUB 1.9BN IN Q1 2019

Moscow, Russia, 29 April 2019 – Detsky Mir Group ("Detsky Mir", "the Group" or "the Company", MOEX: DSKY), Russia's largest specialized children's goods retailer and a Sistema Group company (LSE: SSA, MOEX: AFKS) announces its unaudited financial results in accordance with International Financial Reporting Standards (IFRS) for the first quarter ended 31 March 2019.

Q1 2019 FINANCIAL HIGHLIGHTS[1]

- Group unaudited revenue increased by 16.1% year-on-year to RUB 27.9 bn.
  - Online revenue[2] increased by 74.1% year-on-year to RUB 2.6 bn.
  - Revenue in Kazakhstan rose by 60.4% year-on-year to RUB 743 m.
- Like-for-like sales[3] at Detsky Mir stores in Russia and Kazakhstan grew by 7.2%. The number of tickets grew by 8.2% while the average ticket price decreased by 0.9%.
- Like-for-like sales at Detsky Mir stores in Russia grew by 6.6%. The number of tickets grew by 7.5% while the average ticket price decreased by 0.9%.
- Like-for-like sales[4] at Detsky Mir stores in Kazakhstan increased by 36.4%.
- Detsky Mir opened six new branded stores[5] in Q1 2019. The Group had 748 stores as of 31 March 2019.[6]
- Total selling space increased by 12.1% year-on-year to approximately 769,000 sq. m.
- Gross profit increased by 13.7% year-on-year to RUB 8.1 bn, with a gross margin of 29.0%.
- SG&A as a percentage of revenue[7] decreased by 1.3 p.p year-on-year, driven by increased operational efficiency.
- Adjusted EBITDA[8] increased by 30.1% year-on-year to RUB 1.9 bn; the adjusted EBITDA margin was 6.7%. EBITDA[9] totalled RUB 1.6 bn (+27.2% year-on-year).
- Adjusted net profit[10] increased by 4.5% year-on-year to RUB 474 m. Net profit totalled RUB 291 m (-13.4% year-on-year).
- The net debt /adjusted EBITDA ratio stood at 1.8x as of 31 March 2019.

EVENTS AFTER THE REPORTING PERIOD

- In April 2019, the Board of Directors recommended that the AGM (convened on 16 May 2019) approve a final dividend for the 2018 financial year of RUB 3.3 bn representing a payment of RUB 4.45 per ordinary share. The BoD also recommended that the AGM set the record date establishing eligibility to receive the dividend as 27 May 2019.
- In April 2019, Detsky Mir successfully issued its series BO-07 exchange-traded bond with a nominal value of RUB 5 bn and a coupon rate set at 8.90% p.a. The put option is in 3 years. Investor demand was more than twice the bond issue size, allowing the issuer to revise the marketing range from the initial level. Proceeds from the placement were used to refinance existing debt with the aim of further diversifying the credit portfolio and reducing costs.

Vladimir Chirakhov, PJSC Detsky Mir Chief Executive Officer, said:

"We were able to increase business growth rate in the first quarter of 2019 amid continued stagnation of consumer demand in Russia. Consolidated unaudited revenue rose by 16.1% YoY to RUB 27.9bn.

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(1) Excluding the effect of the new IFRS 16 ("Lease") accounting standards.
(2) This channel includes online orders at www.detmir.ru, including in-store pick-up.
(3) Hereinafter Like-for-like average growth, like-for-like number of tickets growth and like-for-like revenue growth based on stores in operation for at least 12 full calendar months.
(4) Calculated in the national currency of Kazakhstan (tenge).
(5) In Q1 2019, Detsky Mir closed five stores.
(6) Including 68 ELC and ABC stores, as well as six Zoozavr stores.
(7) Hereinafter, selling, general and administrative expenses exclude D&A expenses and adjusted for share-based compensation and cash bonuses under the LTI program
(8) Hereinafter, adjusted EBITDA is calculated as profit for the period before income tax, FX loss, net finance expense, D&A; adjusted for share-based compensation and cash bonuses under the LTI program. See Attachment A.
(9) Hereinafter, see Attachment A for definitions and reconciliation of EBITDA to IFRS financial measures.
(10) Hereinafter, adjusted for additional bonus accruals under the LTI program (together with related tax effects). See Attachment A.

"In addition to ramp-up of stores opened in 2017-2018, one of the key drivers behind revenue growth was like-for-like sales growth rate of 7.2% resulting from 8.2% increase in the number of transactions.

"E-commerce is still the fastest-growing segment of Detsky Mir's business. The online store's revenue increased by 74.1% YoY in Q1 2019. This channel's share in the Company's total revenue rose to 9.3%.

"Our team's top priority remains improving operating efficiency, primarily to offer our customers an affordable and wide range of products. Despite continued investment in prices in the reporting period, we managed to improve our EBITDA margin by 0.7 p.p. to 6.7%, thanks to a significant reduction in selling, general and administrative expenses as a percentage of revenue – by 1.3 p.p.

"Adjusted net income grew 4.5% in the first quarter of 2019. This line was impacted by an increase in interest expenses and a foreign exchange loss. Detsky Mir will continue to combine high business growth rates and high level of dividend payments."

OPERATING HIGHLIGHTS

	Q1 2019	**Q1 2018**	***Change***
Number of stores	**748**	**625**	***19.7%***
Detsky Mir	674	579	*16.4%*
ELC & ABC	68	46	*47.8%*
Zoozavr	6	-	-
Selling space ('000, sq.m.)	**769**	**686**	***12.1%***

Russian Ruble (RUB), million	**Q1 2019**	**Q1 2018**	***Change***
Detsky Mir in Russia	26,930	23,380	*15.2%*
Detsky Mir in Kazakhstan	743	463	*60.4%*
Other[11]	213	176	*21.0%*
Total Revenue	**27,886**	**24,020**	***16.1%***

Detsky Mir in Russia and Kazakhstan	**Q1 2019**	**Q1 2018**	***Change***
Like-for-like revenue growth	**7.2%**	**5.7%**	*1.5 p.p.*
Like-for-like number of tickets growth	8.2%	9.3%	*(1.1 p.p.)*
Like-for-like average ticket growth	-0.9%	-3.3%	*2.4 p.p.*

Detsky Mir in Russia	**Q1 2019**	**Q1 2018**	***Change***
Like-for-like revenue growth	**6.6%**	**5.1%**	*1.5 p.p.*
Like-for-like number of tickets growth	7.5%	8.8%	*(1.3 p.p.)*
Like-for-like average ticket growth	-0.9%	-3.4%	*2.5 p.p.*

Six stores of the Detsky Mir chain were opened in the first quarter of 2019, as most of the new stores are traditionally opened in the second half of the year. At the same time, we achieved our goal for Detsky Mir's international expansion by opening three stores in the Republic of Belarus. The first stores were launched in Minsk's biggest shopping malls. The Company plans to open at least 80 new Detsky Mir stores in 2019, including 10 stores in Belarus.

At the end of the reporting period, Detsky Mir Group included 748 stores: 674 Detsky Mir stores in 254 cities of Russia, Kazakhstan and Belarus, and 68 ELC and ABC stores. The total selling space of all the stores of the Group is 769,000 sq m (+12.1% YoY).

In the first quarter of 2019, Detsky Mir Group accelerated business growth rates: consolidated unaudited revenue grew by 16.1% YoY to RUB 27.9bn. The company's significant growth of turnover is driven by the stores that were opened in 2017-

(11) Includes performance of ELC, ABC, Zoozavr stores as well as Detmir retail chain in Belarus

2018 and reached full capacity utilisation, as well as a 7.2% increase in Detsky Mir's like-for-like sales in Russia and Kazakhstan. The company continues to pursue its strategy for consolidation of the children's goods market by attracting new customers from competing retail chains, which has resulted in an 8.2% increase in the number of tickets.

During the traditional Russian 'Men's Day' and 'Women's Day' holiday period the Company's sales enjoyed healthy growth, with toys being a major contributor. Toys accounted for 33% of total Detsky Mir sales in Russia in Q1 2019. In the reporting period the company started procurement of toys from Spin Master, one of the world's leading producers by sales volume. In the clothing and footwear category the Company successfully sold its winter collection and generated strong sales at the start of the spring season, with the share of this category in total Detsky Mir sales in Russia reaching 24%.

In the first quarter of 2019, the online channel's revenue increased 74.1% YoY to RUB 2.6bn. The share of the Company's online store in its total revenue is 9.3%. One of the key drivers of online revenue growth in the reporting year was the improvement of the In-Store Pickup service. The share of revenue from online orders collected at Detsky Mir stores increased to 82% of the online store's total revenue.

FINANCIAL HIGHLIGHTS

Income Statement Highlights[12]

Russian Ruble (RUB), million	**IAS 17**		***Change***	**IFRS 16**	
	Q1 2019	**Q1 2018**		**Q1 2019**	**Q1 2018**
Revenue	**27,886**	**24,020**	***16.1%***	**27,886**	**24,020**
Online store	2,584	1,484	*74.1%*	2,584	1,484
Gross profit	**8,082**	**7,106**	***13.7%***	**8,082**	**7,106**
Gross profit margin,%	*29.0%*	*29.6%*	*-0.6 p.p.*	*29.0%*	*29.6%*
SG&A	(6,205)	(5,655)	*9.7%*	(3,915)	(3,608)
% of revenue	*-22.2%*	*-23.5%*	*1.3 p.p.*	*-14.0%*	*-15.0%*
Other operating expenses	(2)	(9)	*-73.7%*	(2)	(9)
EBITDA	**1,646**	**1,294**	***27.2%***	**3,936**	**3,341**
EBITDA margin, %	*5.9%*	*5.4%*	*0.5 p.p..*	*14.1%*	*13.9%*
Adjusted EBITDA	**1,875**	**1,441**	***30.1%***	**4,165**	**3,489**
Adjusted EBITDA margin, %	6.7%	6.0%	*0.7 p.p.*	14.9%	14.5%
Profit for the period	**291**	**336**	***-13.4%***	**-164**	**232**
Profit margin, %	*1.0%*	*1.4%*	*-0.4 p.p.*	*-0.6%*	*1.0%*
Adjusted profit for the period	**474**	**453**	***4.5%***	**19**	**350**
Adjusted profit margin, %	1.7%	1.9%	*-0.2 p.p.*	0.1%	1.5%
Net debt	**23,106**	**16,300**		**23,106**	**16,300**
Lease liabilities	**-**	**-**		**33,211**	**30,597**
Net debt / EBITDA	*1.9*	*1.6*			
Net Debt / adjusted EBITDA	*1.8*	*1.5*			

Detsky Mir's operating profit demonstrated substantial growth in Q1 2019. Rapid revenue growth, combined with optimisation of purchasing prices, effective product mix management and increased operating efficiency, allowed us to increase adjusted EBITDA by 30.1% YoY to RUB 1.9bn and EBITDA margin by 70 bps YoY to 6.7%.

(12) Although the Company has applied IFRS 16 "Lease" as of January 1, 2018, the comparison of key financial indicators of unaudited financial statements is provided without reference to the application of IFRS 16. According to management opinion, this approach allows to more accurately assess the dynamics of business growth. At the same time, the methodology of calculating the lease terms was updated for the audited results of FY 2018 with IFRS 16 "Lease". As a result, the financial results using the IFRS 16 "Lease" for 1Q2019 are presented according to the updated methodology.

In the reporting period, the Company continued to invest in prices to attract new customers from competing retail chains. As a result, gross margin declined by 60 bps YoY to 29.0%. At the same time, development of private labels and transition to direct contracts allowed the Company to offer popular products at the best prices in the market, while maintaining high sales margins. The share of private labels and direct imports in the total turnover increased to 37.5% (+620 bps YoY).

The Company aims at constant improvement of operating efficiency, i.e. reduction in operating costs, primarily rental and personnel costs, through optimisation of labour productivity and improvement of commercial terms with lessors. In Q1 2019, both rental and personnel costs (net of LTI payments) as a percentage of revenue decreased by 0.3 p.p. YoY. Digitalisation of leaflets and newspapers optimised marketing expenses as a percentage of revenue by 0.25 p.p. YoY.

Adjusted selling, general and administrative expenses, excluding depreciation and amortisation expenses and LTI payments, as a percentage of revenue decreased in Q1 2019 by 1.3 p.p. YoY to 22.2%.

Selling, General and Administrative (SG&A) Expenses

Russian Ruble (RUB), million	**IAS 17**		*Change*	**IFRS 16**	
	Q1 2019	**Q1 2018**		**Q1 2019**	**Q1 2018**
Payroll	**2,397**	**2,133**	***12.4%***	**2,397**	**2,133**
% of revenue	8.6%	8.9%	*-0.3 p.p.*	8.6%	8,9%
Rent & Utility	**2,679**	**2,372**	***13.0%***	**389**	**324**
% of revenue	9.6%	9.9%	*-0.3 p.p.*	1.4%	1.4%
Advertising & Marketing	**319**	**336**	***-4.8%***	**319**	**336**
% of revenue	1.1%	1.4%	*-0.25 p.p.*	1.1%	1.4%
Other	**809**	**815**	***-0.7%***	**809**	**815**
% of revenue	2.9%	3.4%	*-0.5 p.p.*	2.9%	3.4%
SG&A (excl. D&A and LTI)	**6,205**	**5,655**	***9.7%***	**3,915**	**3,608**
% of revenue	22.2%	23.5%	*-1.3 p.p.*	14.0%	15.0%
Depreciation and amortisation	**592**	**508**	***16.5%***	**2,444**	**2,262**
% of revenue	2.1%	2.1%	*0.01 p.p.*	8.8%	9.4%
Additional bonus accruals under the LTI program	229	147	***55.3%***	229	147
% of revenue	0.8%	0.6%	*0.2 p.p.*	0.8%	0.6%

Net interest expenses as a percentage of revenue in Q1 2019 increased by 40 bps YoY, due to the growth of debt at the end of 2018 and seasonality of the business. The weighted average cost of the Company's debt at the end of the reporting period decreased to 9.03% (-50 bps YoY).

The effective income tax rate decreased to 8.1% in the reporting period due to changes in allowance method for inventory shortages (assessment of income tax from the amount of shortages in allowance) and is a one-off. The adjustment amounted to RUB 46m. Depreciation and amortisation costs as a percentage of revenue remained unchanged in Q1 2019, at 2.1%. The Company made a loss from exchange rate differences in the amount of RUB 182m against a gain in Q1 2018.

Adjusted net income in Q1 2019 was up 4.5%, reaching RUB 474m. This result was mainly due to an increase in interest expenses and a loss from exchange rate differences. Adjusted net profit margin was 1.7% (-20 bps YoY).

Consolidated Cash Flow Statement Highlights

Russian Ruble (RUB), million	**IAS 17**		*Change*	**IFRS 16**	
	Q1 2019	**Q1 2018**		**Q1 2019**	**Q1 2018**
Adjusted EBITDA	**1,875**	**1,441**	***30.1%***	**4,165**	**3,489**
Add / (deduct):					
Change in working capital	(4,943)	(5,103)	*-3.1%*	(4,743)	(5,103)
Net interest and income tax paid	(1,094)	(802)	*36.4%*	(2,103)	(802)
Other operating cash flows	186	64	*192.3%*	186	64
Net cash flows generated from operating activities	**(3,976)**	**(4,400)**	***9.6%***	**(2,495)**	**(2,353)**

Net cash used in investing activities	**(855)**	**(318)**	***169.2%***	**(855)**	**(318)**
Net cash generated from financing activities	**2,836**	**2,527**	***12.2%***	**1,354**	**480**
Net increase/(decrease) in cash & cash equivalents	**(1,996)**	**(2,191)**	***-8.9%***	**(1,996)**	**(2,191)**

In Q1 2019, operating cash flow before changes in working capital (adj. EBITDA) increased 30.1% YoY and amounted to RUB 1.9bn. Working capital changes decreased by 3.1% YoY to RUB 4.9bn. The change in working capital was affected by the repayment of receivables (bonuses from suppliers), as well as a decline in the level of accounts payable due to the seasonality of the business and the growing share of direct imports and private labels. The sum of net interest expenses and income tax in the reporting period increased 36.4% to RUB 1.1bn. As a result, cash from operations amounted to RUB 4.0bn in Q1 2019 compared to RUB 4.4.bn in Q1 2018.

The amount of cash used in investing activities (mainly for acquiring fixed assets and intangible assets) increased to RUB 855m in Q1 2019 compared to RUB 318m in the same period last year. The increase in capital expenditure was due to an advance payment for the purchase of real estate for opening a flagship store in Moscow in the amount of RUB 306m (excluding VAT). In addition, the Company invested RUB 194m in the equipment for the new distribution centre Bekasovo-2 launched at the end of 2018.

Cash from financing activities in the reporting period amounted to RUB 2.8bn vs. RUB 2.5bn in the same period last year. The growth of this indicator is due to the drawdown of cash on opened credit facilities for financing the Company's investment programme.

As of 31 March 2019, the Company's total debt amounted to RUB 24.4bn, including short-term (78.6%) and long-term (21.4%) debt. Net debt is RUB 23.1bn. All of the company's liabilities are in roubles. As of 31 March 2019, the undrawn credit limits on the Company's credit facilities opened with the largest Russian and international banks amounted to RUB 24.7bn. Net debt/adjusted EBITDA increased to 1.8x, mainly due to investments in opening Bekasovo-2 in Q4 2018 and additional investments in working capital.

Additional information is available on the Company’s corporate website, www.corp.detmir.ru.

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<u>Conference Call Information</u>

Detsky Mir’s management will host a conference call today at 16:00 (Moscow time) / 14:00 (London time) / 9:00 (New York time) to discuss the Company’s Q1 2019 unaudited IFRS Financial Results.

The dial-in numbers for the conference call are:

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Detsky Mir Group (MOEX: DSKY) is a multi-format retailer and Russia’s largest specialized children’s goods retailer. The Group comprises the Detsky Mir retail chain, ELC (Early Learning Centre in Russia) and the ABC retail chains, as well as the Zoozavr pet supplies retail chain. The company operates a network of 674 Detsky Mir stores located in 254 cities in Russia, Kazakhstan and Belarus, as well as 56 ELC and 12 ABC stores as of 31 March 2019. The Zoozavr retail chain comprises six stores. Total selling space was approximately 769,000 square meters.

In accordance with the audited Financial Statements under IFRS, Group revenue amounted to RUB 110.9 bn for FY 2018, adjusted EBITDA totalled RUB 12.7 bn and adjusted profit amounted to RUB 7.2 bn.

Detsky Mir Group's shareholder structure as of the date of this announcement is as follows: PJSC Sistema[13] - 52.10%, Russia-China Investment Fund (RCIF) [14] - 14.03%, other shareholders owning less than 5% of the shares - 33.87%.

Lear more at www.detmir.ru, corp.detmir.ru, elc-russia.ru.

Disclaimer

Some of the information in these materials may contain projections or other forward-looking statements regarding future events or the future financial performance of Detsky Mir. You can identify forward looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could," "may" or "might" the negative of such terms or other similar expressions. Detsky Mir wishes to caution you that these statements are only predictions and that actual events or results may differ materially. Detsky Mir does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of Detsky Mir, including, among others, general economic conditions, the competitive environment, risks associated with operating in the Russian Federation, rapid technological and market change in the industries Detsky Mir operates in, as well as many other risks specifically related to Detsky Mir and its operations.

(13) Sistema PJSFC is a publicly-traded diversified Russian holding company serving over 150 million customers in the sectors of telecommunications, children's goods retail, paper and packaging, healthcare services, agriculture, high technology, banking, real estate, pharmaceuticals and hospitality.
(14) RCIF, an equity fund established by the Russian Direct Investment Fund (RDIF) and China Investment Corporation (CIC), holds its stake in PJSC Detsky Mir through its funds: FLOETTE HOLDINGS LIMITED and EXARZO HOLDINGS LIMITED.

Attachment A

EBITDA is calculated as profit for the period before income tax expense, foreign exchange loss, finance expense, finance income, depreciation and amortisation, as well as profit from taking control in the subsidiary. *EBITDA margin* is calculated as *EBITDA* for a given period divided by revenue for the same period expressed as a percentage. Our *EBITDA* may not be similar to *EBITDA* measures of other companies; is not a measurement under accounting principles generally accepted under IFRS and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of profit and loss. We believe that *EBITDA* provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under IFRS, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. *EBITDA* is commonly used as one of the bases for investors and analysts to evaluate and compare the periodic and future operating performance and value of companies.

Adjusted EBITDA and Adjusted profit for the period are used to evaluate the financial performance of the Group. This represents an underlying financial measure adjusted for one-off gains and losses. We believe that adjusted measures provide investors with additional useful information to measure our underlying financial performance, particularly from period to period, because these measures are exclusive of certain one-off gains and losses.

EBITDA and Adjusted EBITDA of the first quarter can be reconciled to our consolidated statements of profit and loss as follows:

RUB mln	**IAS 17**		**IFRS 16**	
	Q1 2019	**Q1 2018**	**Q1 2019**	**Q1 2018**
Profit for the period	**291**	**336**	**(164)**	**232**
Add / (deduct):				
Finance income	(2)	(1)	(4)	(1)
Finance expense	558	389	1,566	811
Profit from taking control in the subsidiary	-	-	-	-
Foreign exchange loss	182	(13)	182	(13)
Income tax expense	26	76	(88)	50
Depreciation and amortisation	592	508	2,444	2,262
EBITDA	**1,646**	**1,294**	**3,936**	**3,341**
Reverse effect of:				
Additional bonus accruals under the LTI program \ (Income received from partial termination of employees’ right to receive shares under the LTI program)	229	147	229	147
Adjusted EBITDA	**1,875**	**1,441**	**4,165**	**3,489**

Adjusted profit for the period of the first quarter can be reconciled to our consolidated statements of profit and loss as follows:

RUB mln	**IAS 17**		**IFRS 16**	
	Q1 2019	**Q1 2018**	**Q1 2019**	**Q1 2018**
Profit for the period	**291**	**336**	**(164)**	**232**
Reverse effect of:				
Additional bonus accruals under the LTI program \ (Income received from partial termination of employees’ right to receive shares under the LTI program) with related tax effects	183	118	183	118
Adjusted profit for the period	**474**	**453**	**19**	**350**