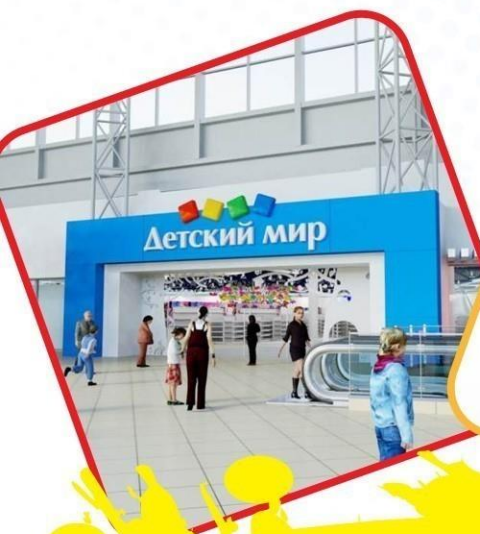




МАРКА №1  
В РОССИИ



  
**Детский мир**  
ГРУППА КОМПАНИЙ



# OJSC Detsky Mir: Financial results for 1H 2014

25 August 2014



Certain information herein may contain assumptions or projections regarding the future events at Detsky Mir Group. You may identify such projections by the use of such phrases as "expect," "believe," "foresee," "continue," "hope," "suggest," "will," "perhaps," "may" or "might", similar words in the negative form and other similar phrases. We would like to warn you that such statements are assumptions only and the actual course of events and their results may differ significantly from such statements. We do not intend to update such statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Numerous factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, market competition and many other risks specifically related to Detsky Mir Group and its operations.

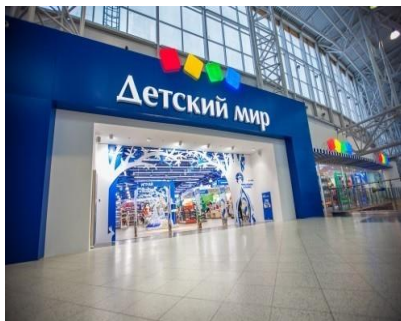
### **Foreign Currency Translation**

The Company follows a translation policy in accordance with ASC 830, Foreign Currency Matters. Management has determined that the functional currency of the Company and its Russian subsidiaries is the Russian Ruble ("RUB"). The functional currencies of the Company's German and Kazakhstan subsidiaries are the Euro and Tenge, respectively.

The Company has selected the US Dollars ("USD") as its presentation currency, utilizing period end exchange rates for assets and liabilities, corresponding average exchange rates for the period for income and expense items and historic rates for equity accounts. Resulting translation adjustments are reflected as a separate component of other comprehensive income.

The official rate of exchange, as determined by the Central Bank of the RF as at 30 June 2014 was RUB 33.63 to 1 USD, 31 December 2013 was RUB 32.73 and 30 June 2013 was 32.71. The average rate for the six months ended 30 June 2014 was RUB 34.90 to 1 USD. The average rate for the year ended 31 December 2013 and the average rate for the six months ended 30 June 2013: RUB 31,85 and RUB 31,02, respectively. The average rate for the twelve months ended 30 of June 2014 and the average rate for the twelve months ended June 2013 was RUB 33.81 and RUB 31.28, respectively.

# Key financial and operating results in 1H 2014



- **The total selling space grew by 8,400 sq m** from 319,900 sq m at the end of 2013 to 328,300 sq m at the end of 1H 2014 due to the opening of 14 new stores (9 Detsky Mir and 5 ELC stores)
  - 5 new stores opened in Moscow and the Moscow region and 9 in other regions
- **Revenue grew by 26.8% YoY:** from RUB 14.3bn in 1H 2013 to RUB 18.1bn in 1H 2014.
  - LFL<sup>1</sup> revenue for the Detsky Mir chain grew by 18.1% in 1H 2014 compared to 14.5% in 1H 2013
- **Gross Profit grew by 24.7% from a year before:** from RUB 5.1bn in 1H 2013 to RUB 6.3bn in 1H 2014
  - Gross margin declined slightly to 34.9% in 1H 2014 from 35.5% in 1H 2013
- **Selling, general and administrative expenses (SG&A)** (% of revenue) **went down** from 36.6% in 1H 2013 to 31.0% in 1H 2014 largely due to a reduction of personnel costs from 15.4% to 11.1% of revenue and decrease in rental costs from 15.4% to 14.5% of revenue.
- **OIBDA** was positive in 1H 2014: RUB 699m, as opposed to a negative result (-RUB 159m) in 1Q 2013.
  - LTM OIBDA<sup>3</sup> grew by 81,0% year-on-year.
- **Net loss in 1H 2014 was reduced by 44,7% from 1H 2013**
  - LTM Net income <sup>3</sup> grew by 86,8% year on year

## Notes:

<sup>1</sup> LFL parameters are calculated only on the basis of the Detsky Mir stores. Calculation of LFL parameters included only those Detsky Mir stores that had been functioning for full two years by the time of calculation. E.g. comparison of LFL retail sales in 1H 2013 and 1H 2014 includes revenue of stores that were opened in 2012 and worked throughout 2013 and the first half of 2014. LFL revenue is calculated based on the stores' revenue in roubles (inclusive of VAT, but not inclusive of return of merchandise).

<sup>2</sup> OIBDA was calculated based on the financial statement under US GAAP. It is calculated as a sum of revenue minus production costs and commercial and management expenses at the consolidated level for OJSC Detsky Mir.

<sup>3</sup> OIBDA LTM and Net income LTM are calculated for the last 12 months, which includes 3Q-4Q 2013 and 1Q-2Q 2014.

# Review of financial performance in 1H 2014

## Key unaudited financial and operating data in 1H 2014 against 1H 2013 (RUB m, unless specified otherwise)

	1H 2013	1H 2014	% change	1H 2013	1H 2014	% change
<b>Number of stores</b>	<b>224</b>	<b>265</b>	<b>18.3%</b>			
Detsky Mir stores <sup>1</sup>	202	233	15.3%			
ELC stores	22	32	45.5%			
<b>Selling space (K sq m)</b>	<b>293</b>	<b>328</b>	<b>12.1%</b>			
	In mln Rub			In mln USD		
<b>Revenue</b>	<b>14.291</b>	<b>18.115</b>	<b>26.8%</b>	<b>461</b>	<b>518</b>	<b>12.4%</b>
% of LFL sale growth <sup>2</sup>	14.5%	18.1%		14.5%	18.1%	
<b>Gross income</b>	<b>5.069</b>	<b>6.321</b>	<b>24.7%</b>	<b>163</b>	<b>181</b>	<b>10.6%</b>
Margin, %	35.5%	34.9%		35.5%	34.9%	
<b>SG&amp;A expenses</b>	<b>5.236</b>	<b>5.620</b>	<b>7.3%</b>	<b>169</b>	<b>161</b>	<b>-4.8%</b>
% of revenue	36.6%	31.0%		36.6%	31.0%	
<b>OIBDA<sup>3</sup></b>	<b>-159</b>	<b>699</b>	<b>-</b>	<b>-5</b>	<b>20</b>	
Margin, %	-1.1%	3.9%		-1.1%	3.9%	
<b>Net loss</b>	<b>-570</b>	<b>-315</b>	<b>-44.7%</b>	<b>-18</b>	<b>-9</b>	<b>-51.0%</b>
Margin, %	-4.0%	-1.7%		-4.0%	-1.7%	

## Key unaudited financials LTM<sup>4</sup>, June 2014 against June 2013 (RUB m, unless specified otherwise)

	LTM <sup>13</sup>	LTM <sup>14</sup>	% change	LTM <sup>13</sup>	LTM <sup>14</sup>	% change
<b>Number of stores</b>	<b>224</b>	<b>265</b>	<b>18.3%</b>			
Detsky Mir stores <sup>1</sup>	202	233	15.3%			
ELC stores	22	32	45.5%			
<b>Selling space (K sq m)</b>	<b>293</b>	<b>328</b>	<b>12.1%</b>			
	In mln Rub			In mln USD		
<b>Revenue</b>	<b>31.325</b>	<b>39.825</b>	<b>27.1%</b>	<b>1,001</b>	<b>1,178</b>	<b>17.6%</b>
<b>Gross income</b>	<b>12.260</b>	<b>15.161</b>	<b>23.7%</b>	<b>392</b>	<b>448</b>	<b>14.4%</b>
Margin, %	39.1%	38.1%		39.1%	38.1%	
<b>SG&amp;A expenses</b>	<b>10.283</b>	<b>11.539</b>	<b>12.2%</b>	<b>329</b>	<b>341</b>	<b>3.8%</b>
% of revenue	32.4%	29.0%		32.4%	29.0%	
<b>OIBDA<sup>3</sup></b>	<b>2.006</b>	<b>3.630</b>	<b>81.0%</b>	<b>64</b>	<b>107</b>	<b>67.4%</b>
Margin, %	6.4%	9.1%		6.4%	9.1%	
<b>Net income</b>	<b>753</b>	<b>1.408</b>	<b>86.8%</b>	<b>24</b>	<b>42</b>	<b>72.9%</b>
Margin, %	2.4%	3.5%		2.4%	3.5%	
<b>Net debt</b>	<b>2.226</b>	<b>7.652<sup>5</sup></b>	<b>213.5%</b>	<b>68</b>	<b>228</b>	
Margin, %	1.4x	2.1x		1.4x	2.1x	

Source: the company's audited financial statement under US GAAP for 1H 2014

<sup>1</sup> Calculation includes Detsky Mir stores and Yakimanka Children's Gallery as of 30.06.2014 and 30.06.2013

<sup>2</sup> LFL parameters are calculated only on the basis of the Detsky Mir stores. Calculation of LFL parameters included only those Detsky Mir stores that had been functioning for full two years by the time of calculation. E.g. comparison of LFL retail sales in 1H 2013 and 1H 2014 includes revenue of stores that were opened in 2012 and worked throughout 2013 and the first half of 2014. LFL revenue is calculated based on the stores' revenue in roubles (inclusive of VAT, but not inclusive of return of merchandise).

## Key Facts

### Chain growth + 14 stores

- In 1H 2014, the chain grew by 14 stores - 9 Detsky Mir stores and 5 ELC stores:

### Revenue growth +27%

- In 1H 2014, the 26.8% growth of revenue was ensured by:
  - growth of LFL sales by 18.1%
  - Increase of the work load of stores opened in 2012 and 2013

### OIBDA increase "+" in 1H 2014

- Personnel expenses fell from 15.4% of revenue to 11.1%;
- Lease expenses went down from 15.4% to 14.5%
- As a result, OIBDA was positive in 1H 2014, as opposed to a negative result in 1H 2013:
  - OIBDA margin grew by 5.0 p.p.

### Revenue growth +27%

- Growth of revenue in the last twelve months was contributed by:
  - High growth of LFL sales: 13.4% in 2013 and 18.1% in 1H 2014
  - Maturity of stores opened in 2012 and increasing traffic in stores opened in 2013

### OIBDA increase +87%

- OIBDA growth of 81% was due to the ongoing decrease of SG&A expenses as a % of revenue, mostly personnel and rental costs

### Net income growth +87%

- Growth of net income in the last twelve months was the result of the faster growth of LFL sales compared to growth of expenses, first of all, SG&A

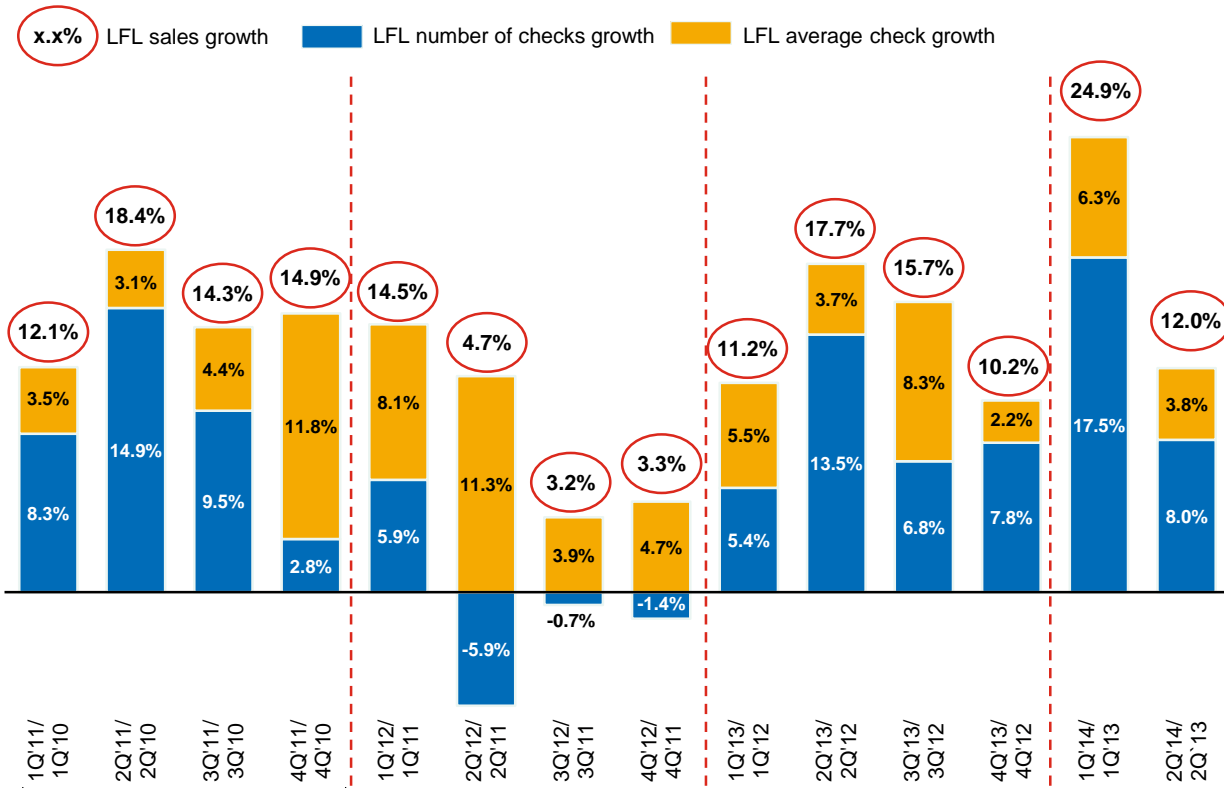
<sup>3</sup> OIBDA was calculated based on the financial statement under US GAAP. It is calculated as a sum of revenue minus production costs and commercial and management expenses at the consolidated level for OJSC Detsky Mir.

<sup>4</sup> OIBDA LTM and Net income LTM are calculated for the last 12 months, which includes 3Q-4Q 2013 and 1Q-2Q 2014.

<sup>5</sup> Increase of the net debt was caused by the buyback of 25% of OJSC Detsky Mir's shares from Sberbank. Without the transaction, net debt would have been RUB 2.4bn.

# Double-digit growth of LFL sales continues

## Growth of LFL sales in roubles



### LFL growth in 2011

Total	14.9%
Check	6.1%
Traffic	8.3%

### LFL growth in 2012

Total	5.6%
Check	6.4%
Traffic	(0.7%)

### LFL growth in 2013

Total	13.4%
Check	4.8%
Traffic	8.2%

### LFL growth in 1H 2013

Total	14.5%
Check	4.7%
Traffic	9.3%

### LFL growth in 1H 2014

Total	18.1%
Check	4.5%
Traffic	13.1%

## Comments

- Double-digit growth of LFL sales was achieved due to competitive prices and the suitable range of goods in our stores, which helped to attract customers to the stores
- The average check grew due to the increased purchase complexity
- Opening stores under a new concept, an attractive loyalty programme and competitive prices will allow maintaining high LFL results in the future

# Balance Sheet

	In mln RUB		In mln RUB		In USD mln		In USD mln	
	12/31/2012	12/31/2013	6/30/2013	6/30/2014	12/31/2012	12/31/2013	6/30/2013	6/30/2014
Cash and cash equivalents	1,631	860	486	848	54	26	15	25
<b>Total current assets</b>	<b>9,913</b>	<b>11,190</b>	<b>9,857</b>	<b>11,340</b>	<b>326</b>	<b>342</b>	<b>301</b>	<b>337</b>
<b>Total non-current assets</b>	<b>2,964</b>	<b>3,194</b>	<b>2,871</b>	<b>3,580</b>	<b>98</b>	<b>98</b>	<b>88</b>	<b>106</b>
<b>TOTAL ASSETS</b>	<b>12,876</b>	<b>14,383</b>	<b>12,728</b>	<b>14,920</b>	<b>424</b>	<b>439</b>	<b>389</b>	<b>444</b>
Trade payables	6,643	8,127	7,204	7,202	219	248	220	214
<b>Total current liabilities</b>	<b>9,136</b>	<b>12,043</b>	<b>10,822</b>	<b>14,672</b>	<b>301</b>	<b>368</b>	<b>331</b>	<b>436</b>
Long-term debt	1,998	4,350	1,150	3,200	66	133	35	95
<b>Total long-term liabilities</b>	<b>2,028</b>	<b>4,439</b>	<b>1,184</b>	<b>3,292</b>	<b>67</b>	<b>136</b>	<b>36</b>	<b>98</b>
<b>TOTAL LIABILITIES</b>	<b>11,164</b>	<b>16,481</b>	<b>12,006</b>	<b>17,964</b>	<b>368</b>	<b>504</b>	<b>367</b>	<b>534</b>
<b>SHAREHOLDERS' EQUITY:</b>	<b>1,712</b>	<b>-2,098</b>	<b>722</b>	<b>-3,043</b>	<b>56</b>	<b>-64</b>	<b>22</b>	<b>-90</b>
<b>Net debt</b>	<b>1,366</b>	<b>5,062</b>	<b>2,226</b>	<b>7,652</b>	<b>45</b>	<b>155</b>	<b>68</b>	<b>228</b>
<i>Net debt/LTM OIBDA</i>			<i>1.1x</i>	<i>2.1x</i>			<i>1.1x</i>	<i>2.1x</i>

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