

M.VideoEldorado

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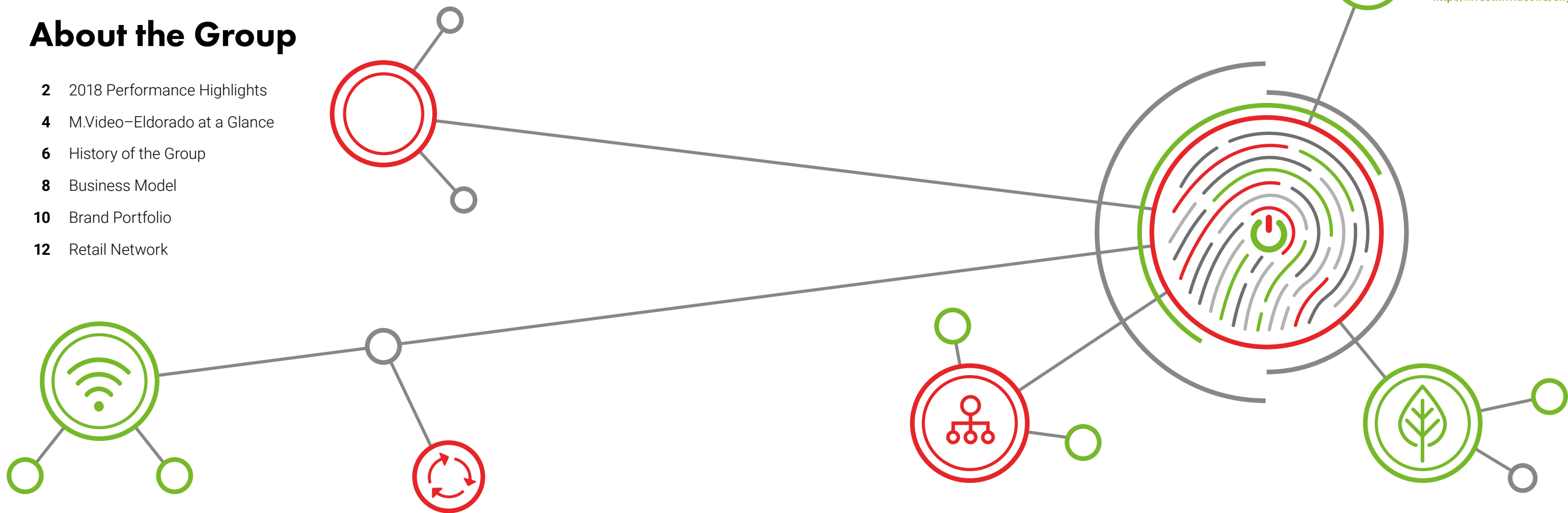
## **ACTIVATING** THE FUTURE

Annual Report  
2018

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The interactive version  
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## 2018 PERFORMANCE HIGHLIGHTS

### Unquestioned leadership and efficiency

M.VIDEO SUCCESSFULLY COMPLETED THE TWO LARGEST DEALS IN ITS HISTORY, I.E., THE ACQUISITIONS OF TWO MAJOR COMPETITORS: ELDORADO AND MEDIAMARKT'S RUSSIAN STORES. THIS RESULTED IN THE CREATION OF M.VIDEO-ELDORADO GROUP, THE UNDISPUTED LEADER IN THE CONSUMER ELECTRONICS MARKET AND THE LARGEST PUBLICLY TRADED ONLINE RETAILER IN RUSSIA.

The Group became one of the **10 largest** appliance and electronics retailers in the world

### Better-than-market growth

The Group became one of the **top 3** publicly traded retailers in terms of EBITDA margin

In parallel with their integration, the M.Video and Eldorado networks achieved strong growth in key indicators, increasing the Group's market share in Russia

to **25.6%**

Turnover of

**RUB 420 billion**

# About the Group M.VideoEldorado

#### SALES

Sales growth

**+17.7%**

Growth in LFL sales  
13.5%

Digital merchandise sales growth  
34.3%

#### STORES

Number of stores opened in 2018

**+102 stores<sup>1</sup>**

#### EBITDA

EBITDA growth

**+39%<sup>2</sup>**

EBITDA margin  
6.0%<sup>3</sup>

Increase in net profit

**+22%**

Synergistic impact on EBITDA resulting from M&A transactions in 2018

**RUB 6 billion**

### Excellent performance

### Online leadership

Share of online sales  
18%

Share of shoppers who use the Group's sites  
65%

Online sales growth  
31%

Increase in traffic to Group sites  
18%

Investment growth in IT and e-commerce

**+59%**

Share of online sales picked up by customers  
74%

Market share in online sales of household appliances and electronics  
21.6%

### Diversification of shareholder base

MediaMarktSaturn acquired a

**15%** stake in PJSC M.Video

<sup>1</sup> Net of closures.

<sup>2</sup> Pro forma indicator.

<sup>3</sup> Pro forma indicator.

# M.VIDEO-ELDORADO AT A GLANCE

M.VIDEO-ELDORADO GROUP IS RUSSIA'S LEADING RETAILER OF CONSUMER ELECTRONICS. COMBINING TWO LEADING RUSSIAN RETAIL BRANDS – M.VIDEO AND ELDORADO – WE MANAGE RUSSIA'S LARGEST ONLINE SALES PLATFORM FOR HOUSEHOLD APPLIANCES AND ELECTRONICS AND MORE THAN 940 STORES IN ALL REGIONS ACROSS THE COUNTRY. WE ARE ALSO DEVELOPING A NETWORK OF DIGITAL PRODUCT STORES UNDER THE M\_MOBILE BRAND AND THE GOODS.RU MARKETPLACE.

In the new reality of online-driven retail, we strive to be the undisputed leader in innovation and digital business transformation. We are creating new mobile web-based experiences for customers, and we offer user-friendly ways to make purchases along with a unified service experience both in our physical stores and online.

## OUR MISSION: #ACTIVATEFUTURE

By bringing technology to the world, we give people time and inspiration to create a future we can all take pride in.

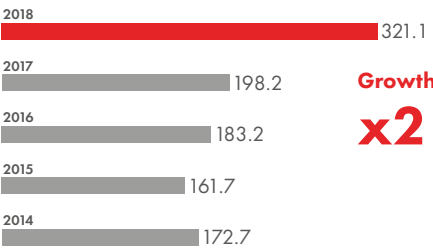
### OUR VALUES

- Responsibility for the future**  
We ensure that responsibility to the company, the industry and society lie at the heart of our decisions and business planning.
- Courage in innovation**  
We relentlessly seek out and implement new technologies to grow the market and affirm our leadership.
- Teamwork and collaboration**  
We are firmly convinced that trust, mutual support and respect for all are essential for our success.
- Openness to change**  
We view change as an opportunity to improve and achieve our full potential.
- Concern for everything we do**  
We believe in our power to make the world a better place.

### TOP 10 GLOBAL CONSUMER ELECTRONICS RETAILERS

Owing to both M&A activity and organic growth, the Group has been able to ensure strong earnings growth and in 2018 ranked among the 10 largest publicly traded retailers in its segment globally, with revenue of USD 5.6 billion.

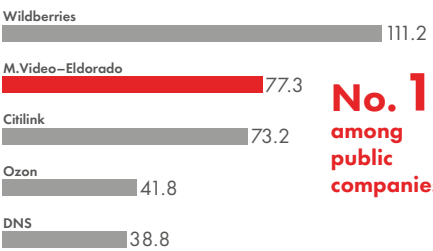
#### Group revenue: twofold growth since 2014, RUB billion<sup>1</sup>



### ONE OF RUSSIA'S LARGEST ONLINE RETAILERS

Based on 2018 performance results, the Group was one of Russia's leading e-commerce players generally and the largest publicly traded online retailer in the country.

#### Largest online retailers by sales volume in 2018<sup>2</sup>, RUB billion



<sup>1</sup> Indicators prior to 2018 include consolidated results for PJSC M.video only.  
<sup>2</sup> Based on Data Insight rating by volume of online sales in 2018 (incl. VAT).

### GROWTH STRATEGY AND FULL BUSINESS DIGITISATION BASED ON TWO LEADING BRANDS

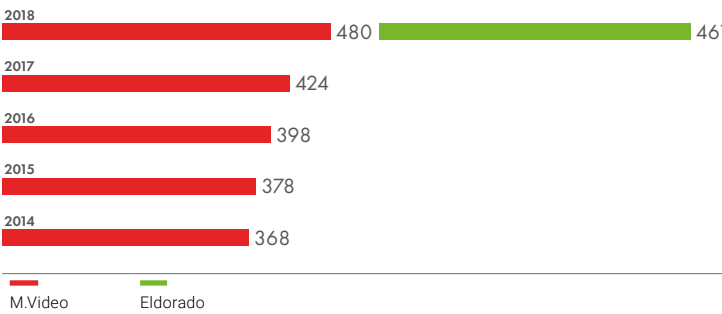
The Group's renewed growth strategy to 2022 establishes the goals of leadership in the Russian market with a share exceeding 30%, maintaining a stable EBITDA margin at above 6% and achieving the best customer experience by implementing the ONE RETAIL concept, which implies the complete digitisation of business processes involved in the customer experience and the blurring of boundaries between online and offline sales.

See 'The Group's strategy', p. 41-49

### EXTENSIVE RETAIL NETWORK ACROSS RUSSIA

At the end of 2018, the Group managed 941 stores in 220 cities across Russia. This extensive retail network is the key element of the consumer experience and an important driver of online business growth.

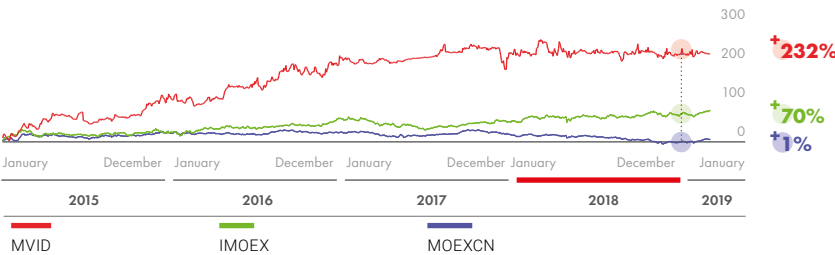
#### Growth of the Group's retail network from 2014 to 2018, number of stores



### COMMITMENT TO VALUE CREATION

The main goal of the Group's operations is the steady growth of its capitalisation in the interests of all shareholders.

#### M.Video share price: threefold growth, outperforming the market



>28 thousand employees

M.Video-Eldorado is a team of professionals characterised by unique consumer electronics expertise. According to HeadHunter's 2018 rating of Russian employers, M.Video is the best retail employer in the country.

For more, see p. 128

>25 years in the Russian market

The first M.Video store opened in Moscow in 1993.

For more, see p. 6

RUB 421 billion in sales (incl. VAT) based on 2018 performance

1,845 thousand square metres of total Group retail space

>30 SKUs in the Group's cumulative product mix

12.9 million purchases through the mvideo.ru and eldorado.ru online stores in 2018

≈100 transactions are completed every second by the Group's online and offline stores

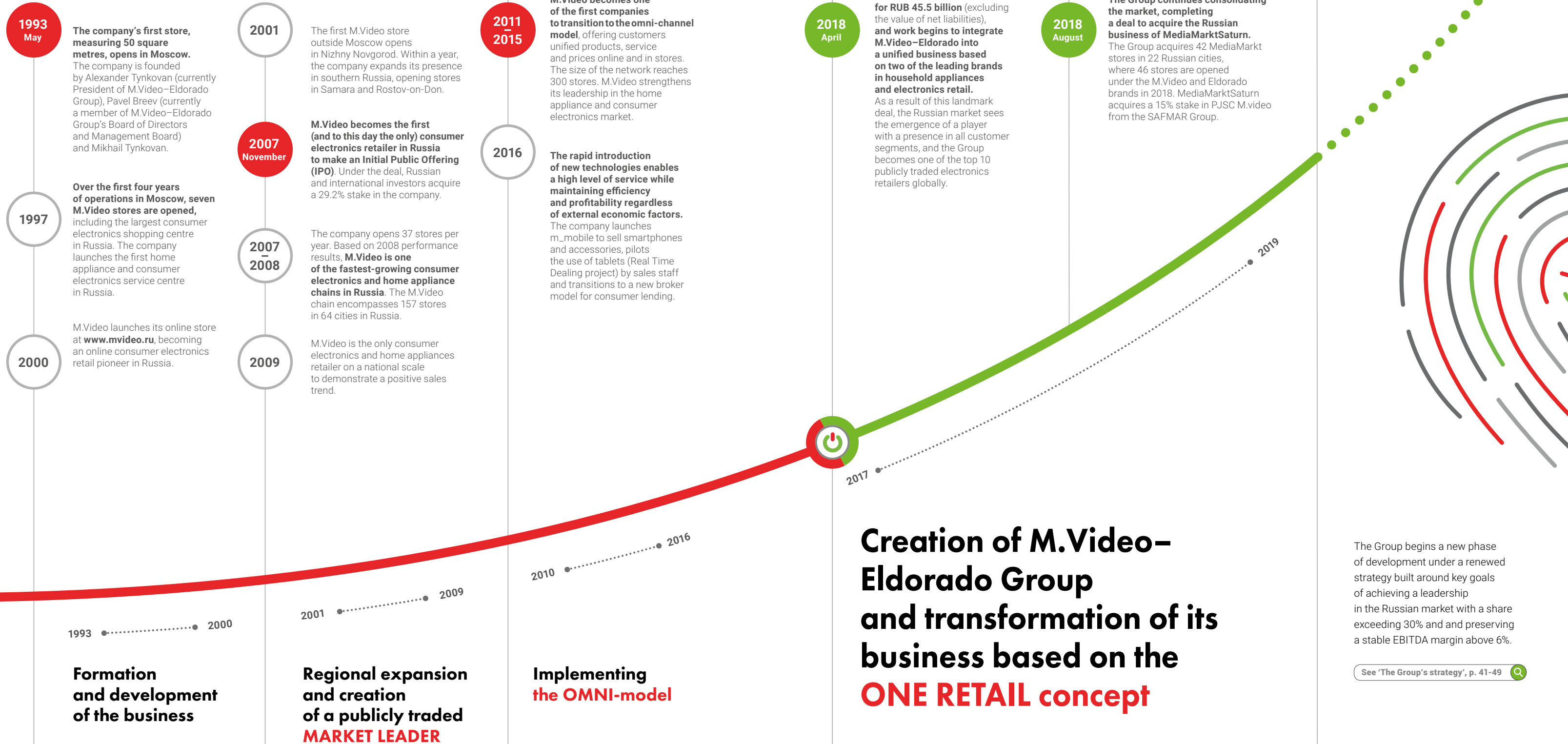
Top-5 M.Video ranks among the five most valuable retail brands in the Russian Federation according to Brand Finance in 2018

<30% employee turnover rate at M.Video in 2018, one of the lowest rates in the industry



# HISTORY OF THE GROUP

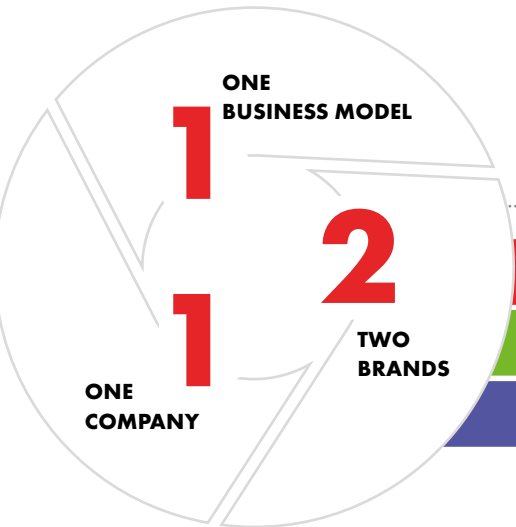
FOR MORE THAN 25 YEARS SINCE ITS FOUNDATION, THE COMPANY HAS GONE FROM BEING A SMALL STORE IN MOSCOW TO THE LARGEST PLAYER IN ITS INDUSTRY, BRINGING TOGETHER TWO LEADING BRANDS IN THE FIELD OF HOME APPLIANCES AND CONSUMER ELECTRONICS IN RUSSIA.



BUSINESS MODEL

A FLEXIBLE BUSINESS MODEL CREATES THE BASIS FOR THE GROUP'S DEVELOPMENT STRATEGY, WHICH SEES ITSELF AS THE STRONGEST, MOST INNOVATIVE AND MOST EFFICIENT PLAYER IN THE RUSSIAN HOUSEHOLD APPLIANCES AND CONSUMER ELECTRONICS MARKET.

The principle of 'One Company - One Business Model - Two Brands' ensures a highly efficient operating model, making it possible to fully realize the effects of scale and synergies from the merger of M.Video and Eldorado



- 2012
- 2014
- 2018 – 2022
- Multichannel
- Expansion of the traditional retail network through an online store and call centre;
  - An increase in the geography of the online business and the development of online service.
- Omni-channel
- Alignment of the product range, prices and sales approaches online and offline;
  - Development of online marketing.

ONE RETAIL

- A single digital retail environment with seamless transition between sales channels;
- A single customer view throughout all points of interaction with buyers;
- Solutions based on mobile Internet, data analysis, machine learning, VR and AR technologies.

BRANDS AND AUDIENCE

Brands

Two leading brands openly competing in the market

26% total market share of 25.6% for the Group

Customers

1 billion customer contacts per year

From mass retail to the premium segment

FULL AUDIENCE – ALL CUSTOMER AND PRICE SEGMENTS

BEST CUSTOMER EXPERIENCE TECHNOLOGIES

Technologies

service personalization through the m\_RTD platform

mobile access to credit

Competitive advantages

- UNIQUE SERVICE AND MARKET POSITIONING
- High level of brand awareness;
  - The only player with coverage of all customer segments and retail formats;
  - The best service experience in Russia.

customer satisfaction of up to 76% according to NPS

Strategic initiatives

TWO-BRAND STRATEGY

- M.Video strengthens positions in the upper price segments; Eldorado focuses on the budget segment and remote regions;
- development of efficient new formats in the premium segment (M. Video, m\_mobile) and mass retail (Eldorado 600).

RETAIL ENVIRONMENT

Online platform

1 million unique visitors per day

65% percentage of customers who use the Internet

22% market share in online sales

Retail network

941 stores in Russia

1,845 thousand m² of retail space

FULL COVERAGE – ALL FORMATS AND REGIONS

Technologies

solutions based on data analysis, machine learning, AR/VR technologies both online and in stores

- OMNI-CHANNEL APPROACH AND EFFICIENCY
- omni-channel approach and seamless service online and offline;
  - the most popular sites in the household appliances segment;
  - the only online credit platform in the market;
  - stores – an instrument for online sales;
  - an asset-light model.

>74% of online orders are picked up in stores

>90% of stores hold a long-term lease

ONE RETAIL CONCEPT AND NETWORK DEVELOPMENT

- complete digitalization of customer journey;
- development of strategic projects and services: m\_RTD service, mobile applications, credit platform, etc.

FULL DIGITALIZATION OF BUSINESS MODEL

PARTNERS AND INFRASTRUCTURE

Suppliers

>300 suppliers from around the world

Localization of all purchases in Russia

Logistics system

>420 thousand m³ of merchandise

Central distribution warehouses capacity

2.6 million m³ annual shipments of merchandise

GROUP STRATEGIC OBJECTIVES UNTIL 2022

Market share >30%

EBITDA margin >6%

Best customer experience



BRAND PORTFOLIO

M.VIDEO

BRAND

Year founded	1993	Number of visitors to mvideo.ru per year, millions	384
Net turnover with VAT, RUB billion	279.8	Number of stores	475
Share in the Group's net turnover, %	66.4	Retail area, ths m²	758
Average check, RUB	8,512		

\* Operational indicators are provided for 2018 and year-end 2018.

ELDORADO

BRAND

Year founded	1994	Number of visitors to eldorado.ru per year, millions	228
Net turnover with VAT, RUB billion	141.6	Number of stores	461
Share in the Group's net turnover, %	33.6	Retail area, ths m²	633
Average check, RUB	6,106		

m\_mobile

BRAND

Year founded	2016	Number of stores	5
Retail area, m²	1,405		



Customer value proposition

M.Video is developing as a universal retailer in the household appliances and electronics sector, providing an excellent customer experience, premium service and the best-possible combination of new products and leading electronics brands on one website or in ONE RETAIL network. The M.Video brand is meant to deliver a unique form of emotional engagement and to provide customers with an attractive offer while conveying the benefits associated with long-term loyalty. The ONE RETAIL concept, an integrated digital environment and service based on in-depth knowledge of customer needs, will be a key driver for M.Video's development in the years to come.

Strategy

The goal of M.Video's strategy is to strengthen its position as the Group's leading brand and as the best-known and most reliable retailer in the Russian market for household appliances, digital equipment and gaming devices. M.Video's market share will be increased by expanding its audience, developing its online business, providing a better product range in the mid-price and premium-class segments, as well as improving the quality of service through the introduction of digital technologies, ecosystems and implementing the ONE RETAIL concept.

The ONE RETAIL concept

an integrated digital environment and service based on in-depth knowledge of customer needs, will be a key driver for M.Video's development in the years to come.

BRAND RECOGNITION



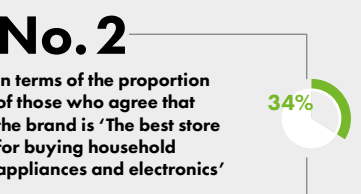
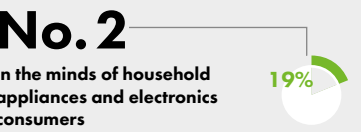
Customer value proposition

Eldorado is developing as an affordable retailer and a convenient universal online platform. The brand's key advantage for consumers is that it offers the best deals through promotions and an affordable range of consumer electronics and digital equipment. Simplicity and customer focus are key aspects of the brand's new approach to merchandising, with a single customer service centre inside stores. The brand's main values are its offer of the best deals, simplicity and proximity.

Strategy

Eldorado's strategy is to become an aggressive player in the consumer electronics market with strong expertise in digital equipment. Within the Group, Eldorado is a attacking, competing brand. The network uses a model of effective cost control, offering customers savings on hot deals with a basic set of services here and now both in proximity stores and through its omni-channel model.

BRAND RECOGNITION



Customer value proposition and brand strategy

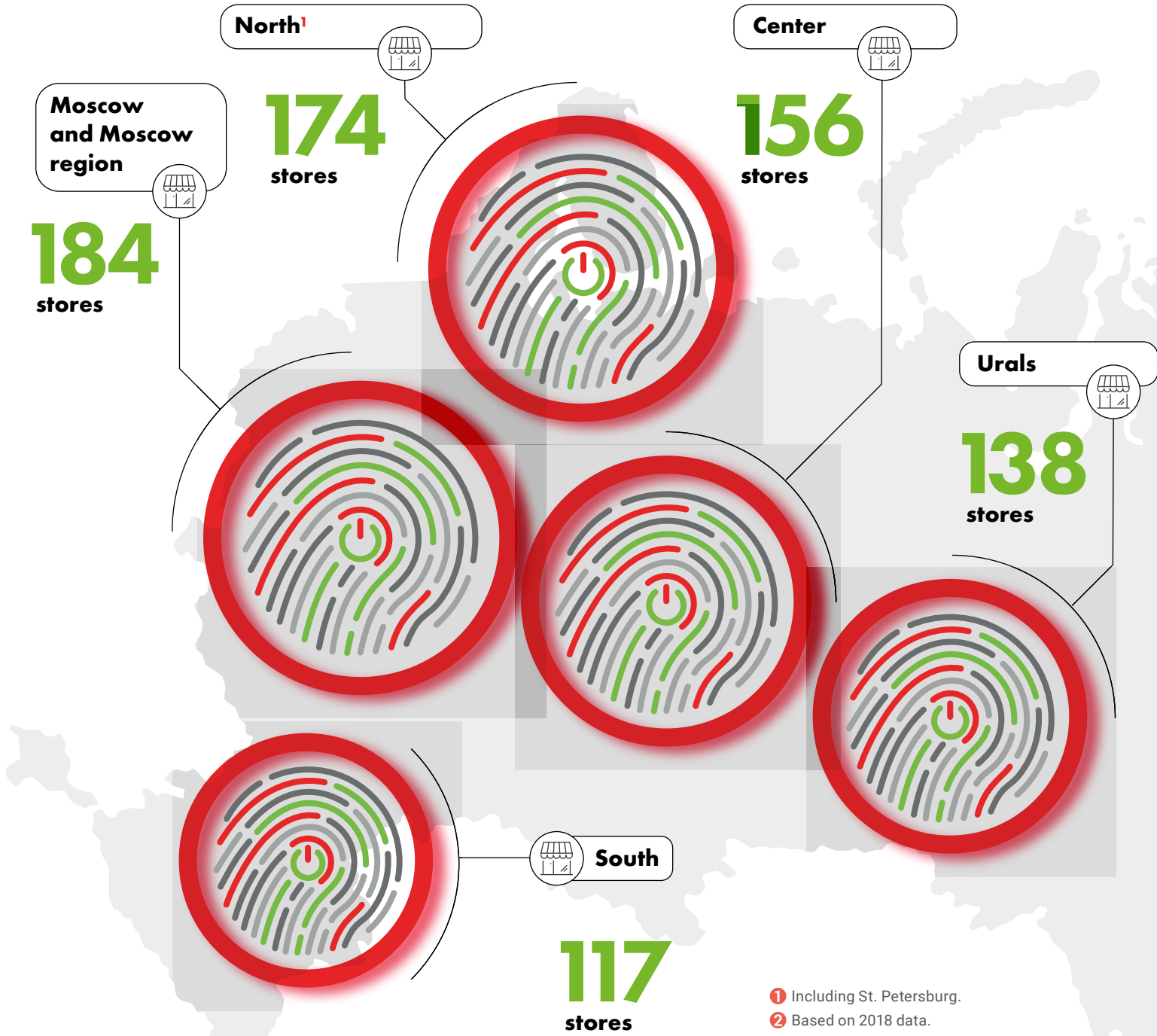
m\_mobile zones within the 'store within a store' format have been operating in M.Video retail stores since the end of 2016; the brand was launched in the format of individual stores in 2018.

m\_mobile – is a trendsetting brand in digital equipment retail. Stores offer premium service in the best locations and the best deals using a 'price plus value' formula for mobile devices. The network is a leader in the distribution of new products in the field of mobile devices, gadgets and accessories, while providing qualified, independent and personalised sales assistance.

The new m\_mobile sales points can be found in high-end, high-traffic locations and are managed cross-functionally within the framework of the M.Video business structure. Strategically, the Group sees potential to establish up to 150 m\_mobile stores in Russia.

# RETAIL NETWORK – THE GROUP’S KEY COMPETITIVE ADVANTAGE →

STORES ARE THE CORE OF THE GROUP’S ECOSYSTEM, THE BASIS FOR THE M.VIDEO AND ELDORADO GROWTH STRATEGY AS TWO LEADING BRANDS IN RUSSIA’S CONSUMER ELECTRONICS MARKET. STORES ARE THE CENTRE OF THE GROUP’S SUPERIOR CUSTOMER SERVICE, WHERE CUSTOMERS HAVE THE OPPORTUNITY TO PERSONALLY SEE PRODUCTS AND TRY THEM OUT, AS WELL AS TO ASK QUESTIONS OF SALES STAFF.



A diverse retail network is a key competitive advantage in developing M.Video–Eldorado’s online business and the basis for the Group’s transition to the ONE RETAIL model, which provides for the creation of a completely seamless customer experience at all points of the Group’s interaction with online and offline shoppers.

Around 74% of the Group’s customers who make purchases online prefer to pick them up in stores<sup>2</sup>. The opening of each new sales point increases traffic to our online platform in the area where it opens by 10–15%.

Moreover, each store serves to concentrate the Group’s merchandise inventory, supporting online sales in its region and enabling us to reduce delivery delays to consumers, thus increasing profitability from sales.

At all M.Video stores, customers have an opportunity to select and order products according to the ‘endless shelf’ principle. Using the sales assistant’s tablet, which is connected to the m\_RTD system, customers can gain access to goods not only in the Group’s stores or warehouses but also in suppliers’ warehouses, which greatly expands the product range and is one of the tools used to erase the boundaries between online and offline sales channels.

The Group is striving to ensure full geographic coverage of the Russian market and is planning to grow its retail network to more than 1,100 stores by the end of 2022. Today, our network includes 941 stores, including 480 M.Video stores (including five m\_mobile stores) and 461 Eldorado stores in 220 Russian cities. The distance between the easternmost store owned by the Group in Petropavlovsk-Kamchatsky and our westernmost point in Kaliningrad spans more than 7,420 kilometres.

For more, see p. 24



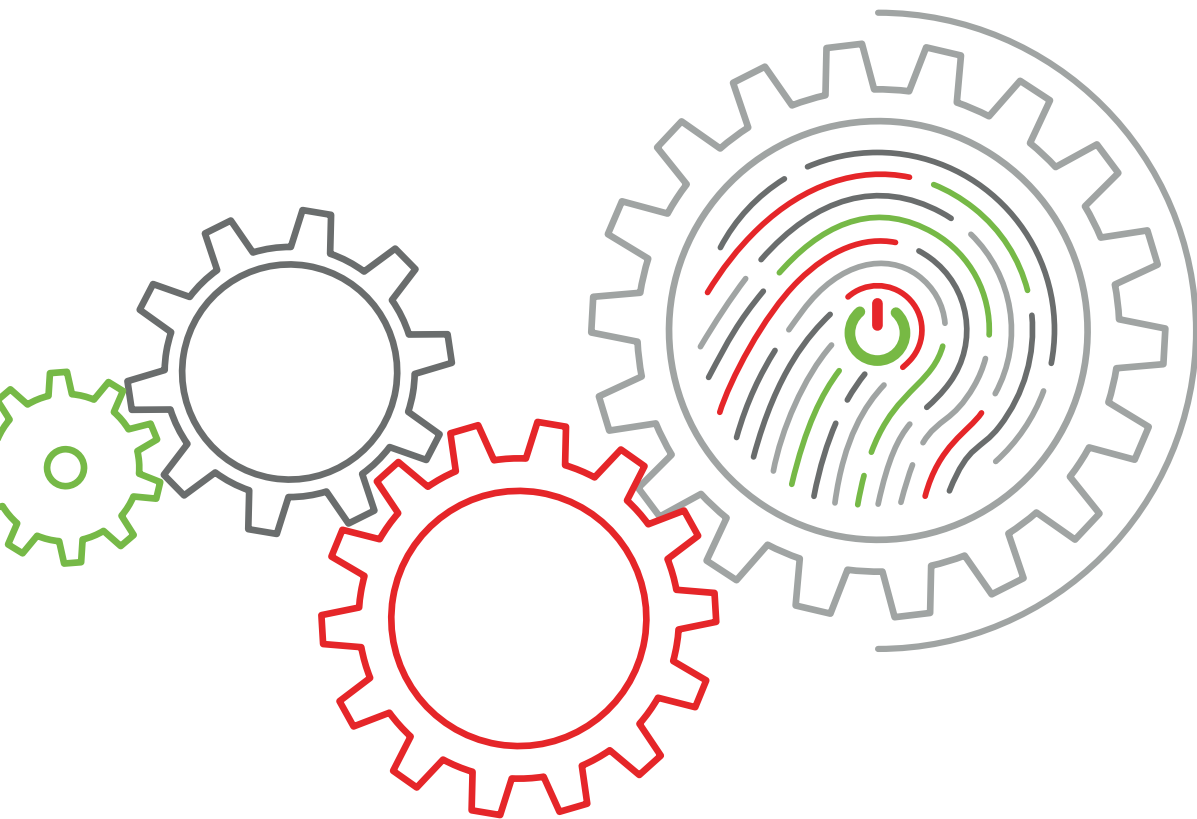
Online coverage in cities of presence

The opening of each new sales point increases traffic to our online platform in the area where it opens by

**100%** **+10-15%**



We are creating the retail  
of the future based on digital  
technologies and leading  
retail brands



**Strategic  
Report**





Note from the Chairman of the Board of Directors →

## DEAR SHAREHOLDERS AND PARTNERS,

2018 marked the beginning of a new era not only in the history of M.Video but for the entire Russian consumer electronics market. Following the acquisition of Eldorado, we created the M.Video–Eldorado Group, now one of the 10 largest consumer electronics retailers in the world and an undisputed leader in Russia, successfully consolidating more than 25% of the domestic market and demonstrating significant potential for further growth.

**Said  
GUTSERIEV**

Chairman of the Board of Directors  
of PJSC M.video

In 2018, the Board of Directors approved the Group's renewed strategy to 2022, which aims to maximise the potential of the M.Video and Eldorado brands in a new environment where e-commerce is a key driver. The strategy sets three primary objectives:

- achieving a market share exceeding 30%, in comparison with 25.6% in 2018;
- preserving a stable EBITDA margin above 6%;
- implementing the ONE RETAIL concept to create a fully uniform customer experience across all sales channels – online stores, mobile apps and traditional sales points.

Accounting for these challenges, we will continue expanding the Group's network of stores in 2019, as well as the widescale digital transformation of its business by implementing state-of-the-art solutions and services based on mobile internet technology, machine learning and data science.

I am confident that the Group has what it takes to achieve our strategic goals and grow shareholder value in the future.

Today, M.Video-Eldorado is developing as a stable, long-term business that remains committed to high standards of corporate governance. When the Group acquired MediaMarkt's Russian stores in 2018, M.Video-Eldorado became a major shareholder with a 15% stake in the group

controlled by Ceconomy MS CE Retail GmbH, which is one of the largest global retailers in the consumer electronics segment. We welcome the diversification of M.Video's shareholder base and are pleased that Andreas Blase, Vice President of M&A and Portfolio Management of Ceconomy Retail GmbH and Chief Investment Officer of MediaMarktSaturn Retail Group, has joined the Board of Directors.

I would like to thank the M.Video-Eldorado team and the Board of Directors for all they have done to develop the Group's business in the interests of our shareholders and other stakeholders, guided by best international practice. I would also like to express my gratitude to all of our investors and partners for what we achieved together in 2018.

I am convinced that our collaborative work will produce outstanding results for all parties that have an interest in the Group's development both in 2019 and beyond.

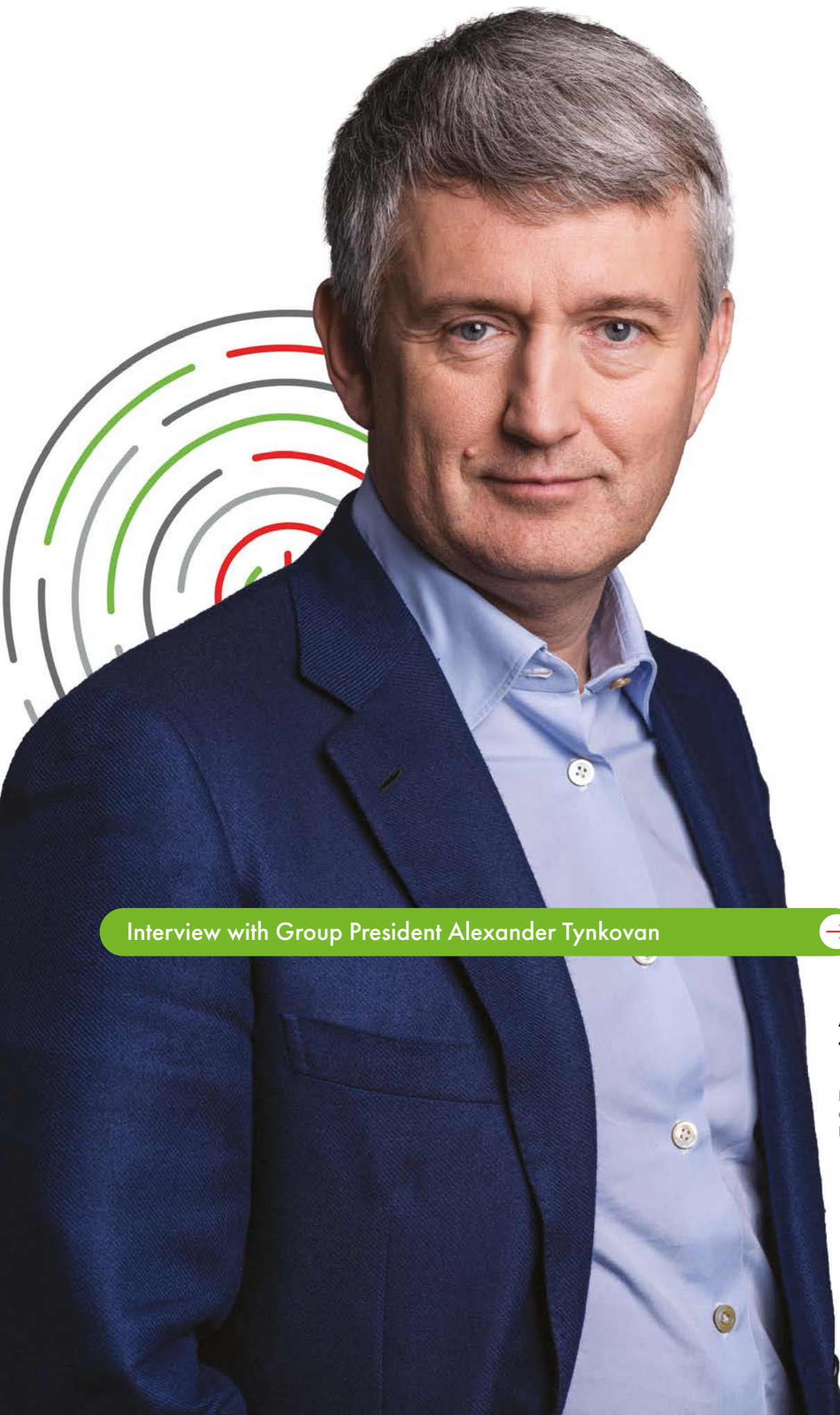
**Achieving a market share**

**>30%**  
by 2022

**Preserving a stable EBITDA margin above**

**>6%**  
since 2019





## Interview with Group President Alexander Tynkovan



### Alexander TYNKOVAN

President, Chairman  
of the Management Board  
PJSC M.Video

### Mr Tynkovan, could you please tell us about the Group's primary performance results in 2018?

For us, this past year was marked by the merger of PJSC M.Video and LLC Eldorado, which once again demonstrated the quality of our business model and leadership in the industry. After just a few months, the M.Video–Eldorado Group team managed to create an effectively managed business that quickly showed strong operating and financial performance and strengthened its position in Russia's highly competitive market.

Based on our 2018 results, the Group's sales increased by 17.7% to RUB 421.4 billion, exceeding the market as a whole, which grew by 16.6%. At the same time, in a very active fourth quarter, both M.Video and Eldorado showed growth rates that were significantly higher than the market average, increasing sales by 20.2% and 23.2%, respectively. It is important that the strong performance of both networks was ensured primarily as a result of the precise positioning of the M.Video and Eldorado brands, the expansion of the customer base, the positive impact of the relaunch of Eldorado's business model, and the development of the product range and services. Speaking to this, in particular, are the unprecedentedly high like-for-like (LFL) sales of both brands' stores, including Eldorado's record growth in LFL sales of 20.7% in the fourth quarter.

### What was the strategic value of the Eldorado acquisition for M.Video?

In recent years, we felt that, as the undisputed market leader, the M.Video brand was somewhat limited in its potential to grow in the lower price segments. It was very difficult to be a premium market player and a mass market player at the same time without creating a risk for our brand. The acquisition of Eldorado completely closed this niche for us. The combination of two leading and recognisable brands gives us an opportunity to work with all customer segments in Russia and to enjoy complete geographical coverage, including in both major metropolitan areas and the small cities in regions where the Group did not have a presence before the acquisition of Eldorado.

Moreover, the combination of two large, highly complementary companies creates significant synergies and economies of scale. By combining the back-office functionality of M.Video and Eldorado, we were able to obtain additional synergies in 2018 in the amount of RUB 6 billion at the EBITDA level, i.e., 50% more than what we expected at the deal's planning stage. As a result, the Group's EBITDA margin increased to 6%, which is one of the best results globally in the home appliances and electronics market.



**Given that the Group now relies on two brands, what is the key focus of its development?**

Today, as the technological revolution advances, we aim to be one of the retail leaders of the future, where digital technologies and information play a key role. Whereas we were once a large offline retailer developing a website as an additional sales channel, M.Video-Eldorado is now quickly turning into an online company that manages Russia's largest network of traditional stores that are fully integrated with online platforms. At the end of last year, our online sales grew by 31.0% to RUB 77.3 billion, even though online business growth temporarily slowed down in annual terms as part of the transition to the omni-channel model and optimisation of the Eldorado product range. In the fourth quarter, however, both M.Video and Eldorado showed a considerable increase in online sales of 26.2% and 22.9%, respectively.

Full digitisation of the business and the creation of a uniform customer experience both in online channels and in traditional stores are key elements of our strategy, which we call the ONE RETAIL concept. This initiative provides for a digital approach at all levels of the business structure, both in the back office and at points where we interact with customers. This transformation will be the main focus of our investments in the coming years.

**What is the Group planning to achieve in terms of financial performance in 2019 and longer-term as part of this strategy?**

In 2019, we will continue strengthening our position in the market in line with our strategy. As part of our three-year strategic plan, we expect that market conditions and our development initiatives will increase revenue to more than RUB 500 billion and will allow us to occupy more than 30% of the market in 2022, while maintaining an EBITDA margin at more than 6%.

**Do you expect Russia's market for home appliances and electronics to continue consolidating? How is the Group planning to increase its market share?**

Consolidation will certainly continue. The Russian market is becoming even more competitive, which means that efficiency, ease of manufacture, ability to change and the introduction of best practices are becoming increasingly important factors. At the same time, there are inefficient players that will gradually exit the game. And as a result, the share of market leaders will grow. We expect real competition to unfold between the top five players, and this will move the entire market forward. At the same time, online platforms, including marketplaces, will play an increasingly important role in the market, and M.Video-Eldorado Group, as one of the largest online retailers in Russia, intends to strengthen its position in this segment.

**What role does sustainable development play in the Group's strategy? What are the key projects you're implementing in this area?**

For many years, we have been developing our strategy around the challenge of building a long-term, sustainable, customer-focused organisation. In recent years, the M.Video-Eldorado Group has become a systemically important player for the Russian market. That is why we always remember our responsibility to the ecosystem in which we work and strive to use our experience and scale for positive changes in the industry and the world, with a focus on our customers, employees and partners. In particular, we are implementing a range of training and incentive programmes for the Group's employees with the aim of creating the most comfortable conditions for our personnel to realise their potential and further improve their skills.

Having an active social position is also an invariable principle of our operations, including as it relates to environmental protection. Historically, we were the first major retailer in the Russian market to stop using plastic bags. We actively support and promote the idea of switching to energy-saving technologies among our employees and customers; we also encourage the return and disposal of hazardous waste. For example, the Group launched a programme to accept old batteries in stores; this will allow us to collect about 100 tonnes of used batteries per year. We are also working on a system for collecting, recording and disposing of old household appliances, which will significantly reduce the volume of waste associated with the use of electronics in Russia.

At the beginning of the year, we elaborated the corporate mission of the new M.Video-Eldorado Group, declaring our key values to be concern for everything we do, responsibility for the future, courage in innovation, openness to change, and teamwork and collaboration. I am confident that these values will provide a solid basis for the Group's sustainable development in the interests of its shareholders, customers, the industry and Russia's entire economy.





Interview with Group CEO Enrique Fernandez



Enrique  
**FERNANDEZ**

Chief Executive Officer  
of PJSC M.video

**Mr Fernandez, how has the integration of the Eldorado network gone within the merged company, and what are the results of the process?**

The main strategic goal of our acquisition of Eldorado is to create value for consumers and for all Group stakeholders. This deal enabled us to gain full coverage of the entire customer range and all segments of the Russian market. Therefore, the key objective in integrating M.Video and Eldorado is to strengthen the competitive advantages created as a result of the deal and to realise our long-term growth potential.

Eldorado is one of the strongest and most recognisable brands in the Russian market. Therefore, for the purposes of integration, we chose what we call the ‘one-one-two’ approach: one company, one business model and two brands. We began by combining the key support functions of M.Video and Eldorado, including procurement, inventory and product mix management, as well as all logistics, while maintaining two independent retail chains and two competing brands. We essentially restarted Eldorado’s operating model based on the M.Video business model, retaining all the best that Eldorado had before the merger. At the same time, strategic projects that have proven to be effective at M.Video were successfully implemented within Eldorado. These include dedicated areas of digital goods (m\_mobile project), a credit platform in both online and offline formats (m\_credit project) and many others. We see that the transition to a single company and business model is creating significant synergies and economies of scale in relation to rental costs, procurement efficiency, logistics, business costs and others. But the main thing is that both networks continue to grow and attract new customers thanks to our dual brand development strategy.

**What are some of the key differences in brand positioning within the Group and in the market as part of the strategy? Do you give either of the brands a priority?**

Strategically, both brands are equally important for the Group, because our strategy for further growth is based on their complementarity. At the same time, M.Video retains its role as industry leader, aiming to maximise its market presence. Eldorado plays the role of a tactical brand, targeting those customer segments where the M.Video brand and formats are less competitive.

In terms of external positioning, M.Video targets consumers who are prepared to pay for an outstanding customer experience. In turn, Eldorado focuses on those who are looking for the best bargain here and now, a combination of simplicity and store accessibility. To improve performance in this segment, we expanded Eldorado’s retail concept by launching the Eldorado 600 format, which involves stores with a sales area of up to 600 square metres that operate on the ‘neighbourhood store’ principle, including in small towns with populations of over 50,000 people. The project has been successful. In 2018, we launched 16 stores in this format, and we plan to increase the number to 25–30 in 2019.



**What changes have taken place in Eldorado’s product mix? To what extent do M.Video and Eldorado differ in this area?**

We have done quite a bit of work to optimise Eldorado’s product mix, clearing it of non-core categories and placing significant emphasis on digital products, which is the fastest-growing segment in the Russian market. This optimisation, along with the development of the m\_mobile format at M.Video, has made it possible to increase sales of the Group’s digital products by 34.3% year-on-year, as compared with average market growth of 17.3%.

Now the M.Video and Eldorado product lines overlap by about 70–80%, which is an important element in economies of scale. At the end of 2018, we increased our EBITDA margin by almost 1 percentage point by expanding gross margins. The main drivers of this were more efficient inventory and procurement management.

**If the range of products is so similar, then what is the difference in what each brand offers its customers?**

The difference in the M.Video and Eldorado approaches is how they sell their product mix. For M.Video, the priority is to create a long-term relationship with customers, which will ultimately benefit customers. M.Video is building an ecosystem that offers customers a loyalty programme and additional personalised services that include warranties, insurance and digital content. For example, the Sony PlayStation gaming system is sold by all major retailers, but M.Video holds about 40% of the market in this segment because we have built an ecosystem for gamers, which is a very specific customer audience. M.Video is looking to introduce this approach in all product categories. Eldorado, on the other hand, is more focused on products for everyday needs, although we are introducing elements of the ecosystem approach in this network as well.

**The M.Video–Eldorado Group is developing as a digital retailer. What steps are you taking in relation to digitisation?**

Our main goal is to move from the current omni-channel approach to the ONE RETAIL model, which means the complete digitisation of customer experience, erasing all boundaries between online and offline sales channels. To achieve this goal, we are solving the problem of building a state-of-the-art organisation based on data, introducing digital technologies into all of the Company’s business processes and personalising customer relations to the maximum extent possible. For us, ONE RETAIL is an opportunity for every customer to create their own retail ecosystem.

In terms of specific steps, M.Video has, in the past two years, successfully launched its m\_RTD project, which is an internal web app that allows our sales staff to identify customers, help them choose a product and make the most advantageous personal offer based on each customer’s relationship history with our network. This year, we will be even closer to our customers thanks to the launch of a state-of-the-art mobile app with a full set of personalised services.

Our next steps will be to completely centralise purchasing data and introduce advanced systems based on machine learning and data analysis technology. In 2018, we created a special division called the Digital Retail Data Science Centre, which is responsible for introducing mathematical algorithms into all of our business processes and switching to automated smart services in marketing, online sales, logistics, HR management and other areas of our business. As part of our efforts to implement data-based approaches, M.Video switched, at the end of last year, to a new technology for self-delivery of online orders in stores using machine learning and a chatbot that connects customers with sales staff. Results include reduced waiting time for receipt of orders and a process that is more convenient and personalised for our customers. We believe that this is the future, and we plan to continue investing in innovative development.

**If the M.Video–Eldorado Group is a digital company, then why are you investing in such an expansive network of stores? What are your plans for growing this network in the future?**

First, stores are the centre of the customer experience, something that cannot be provided in an online format. People who purchase equipment like to touch or test a product and speak with a sales assistant regardless if they are making a purchase online or offline. While about 65% of our customers use the Internet in one way or another to make a purchase, only around 5% of our customers do not visit our stores at all, relying on the website and courier delivery instead. The rest of our client base prefer to pick up their purchases in-store. Thus, stores and retail personnel play a key role in the transition to the ONE RETAIL model. Moreover, stores are an essential element of our logistics system, which makes it possible to significantly reduce the costs of delivering goods to customers.

The conclusion from this is obvious: our network is a decisive competitive advantage over retailers that operate exclusively online, and it serves as an important basis for the development of our online business. Last year, the Group’s acquisition of 42 MediaMarkt stores in 22 Russian cities was a strategic project to expand our network. At the end of 2018, M.Video and Eldorado stores opened in place of the majority of them. With the opening of 10 additional stores, the complete transformation of the MediaMarkt chain will be completed in 2019. In general, as a result of both M&A activity and organic growth, the Group had opened a record number of stores by the end of the year, increasing its network by 102 sales points to 941 stores. This year, we are planning to open about 100 new stores, with an emphasis on strengthening the network of individual m\_mobile stores, which have proven themselves as a state-of-the-art digital retailer. I am certain that effectively growing our network is the key to success for the Group as a digital business in a world where online and offline will be a single retail space. It will be a world in which the only retailers that will be competitive are those that can provide a service in any format that is convenient for customers.



# M&A PROJECTS: ESTABLISHMENT OF M.VIDEO–ELDORADO GROUP

IN 2018, M.VIDEO CLOSED THE LARGEST M&A DEAL IN ITS HISTORY WITH THE ACQUISITION OF ONE OF ITS KEY COMPETITORS, ELDORADO. THE EFFECTIVE INTEGRATION OF THE LATTER AND THE CREATION OF M.VIDEO–ELDORADO GROUP ON THE BASIS OF A COMPLEX TRANSFORMATION PLAN WAS AN UNPRECEDENTED PROJECT NOT ONLY FOR RUSSIA BUT ALSO FOR THE GLOBAL CONSUMER ELECTRONICS INDUSTRY. LATER IN THE YEAR, THE GROUP ACQUIRED THE RUSSIAN BUSINESS OF MEDIAMARKT, INCLUDING ITS 40+ STORES IN EXCELLENT LOCATIONS IN MOSCOW AND OTHER PARTS OF THE COUNTRY. AS A RESULT OF THESE STRATEGIC M&A DEALS, AS WELL AS CONTINUED ORGANIC GROWTH, THE GROUP’S REVENUE INCREASED BY 60% BY THE END OF THE YEAR, WHILE EBITDA WAS UP BY NEARLY 80%, AND THE RUSSIAN MARKET WELCOMED FOR THE FIRST TIME A TOP-10 GLOBAL PLAYER AMONG PUBLICLY TRADED COMPANIES IN TERMS OF REVENUE AND THAT IS AMONG THE TOP THREE IN TERMS OF EBITDA MARGIN.

## ACQUISITION OF ELDORADO

In April 2018, PJSC M.video announced the completion of a transaction for the purchase, by its subsidiary LLC M.video Management (currently LLC MVM), of a 100% stake in ELDORADO LLC. The deal was a landmark event for the entire Russian consumer electronics market, marking the beginning of the deepest wave of consolidation in its history. As a result of the transaction, M.Video–Eldorado Group was created, uniting the two most recognisable brands in Russia in their segment and becoming the undisputed market leader with a share of 25.6% in net turnover and one of the 10 largest publicly traded retailers in the world in the household appliances and consumer electronics sector in terms of revenue and operating margin.

### Key parameters of the transaction

The acquisition of ELDORADO LLC was valued at RUB 45.5 billion – not including its debt – which corresponded to a fair market estimate on the basis of discounted cash flows as conducted by a Big Four auditor. In order to finance the deal, LLC MVM borrowed approximately RUB 40 billion from VTB Bank and used about RUB 5.5 billion of its own funds.

As part of the transaction, the Group fulfilled all the necessary requirements and received permits in strict accordance with Russian legislation and best corporate governance practices. On 16 April 2018, the terms of the transaction were approved by an extraordinary general meeting of shareholders of PJSC M.video. The meeting also approved security measures

on the loan taken out by LLC MVM for the transaction in the form of a guarantee, a pledge of shares in the capital of LLC MVM and a pledge of exclusive rights to trademarks. The decision was approved by 89.8% of the votes of all shareholders who took part in the meeting and by 72.2% of the votes of shareholders who were not interested in the transaction and who took part in the meeting<sup>1</sup>.

### Strategic significance of the transaction

The merger of M.Video and Eldorado allowed us to create a new large-scale organisation with a sustainable business model and to establish a market leader, while also increasing customer reach in terms of price segmentation, product categories and regional coverage, and realising significant synergies from the merger of large competing companies and brands.

Key objectives of the acquisition:

- creation of an undisputed market leader with an attractive investment history and strong growth prospects;
- expansion of the Group’s presence in all client segments, including the mass market segment;
- providing the best-possible degree of operational efficiency as a result of economies of scale and the creation of positive synergies;
- creation of a large-scale company with a sustainable business model that establishes the best business standards in the industry and sets market trends.

<sup>1</sup> In accordance with the laws of the Russian Federation, minority shareholders of PJSC M.video who did not vote for the transaction received the right to have their shares repurchased within 45 days from the date of the extraordinary general meetings of shareholders at a price of RUB 401 per share. The buyback price was determined by the Board of Directors on the basis of a report from an independent appraiser and is close to the weighted average closing price of PJSC M.video shares on the Moscow Exchange for the 12 months preceding the transaction.

## Principles of integration

The key principles of the integration of M.Video and Eldorado are: two brands, one company, one business model.

Key principle	Characteristic
Two brands	<ul style="list-style-type: none"><li>• Group presence in all market segments and regions of Russia</li><li>• Successful brand competition in traditional retail and online</li></ul>
One company	<ul style="list-style-type: none"><li>• Synergies and economies of scale</li><li>• Management efficiency</li></ul>
One business model	<ul style="list-style-type: none"><li>• Application of M.Video’s successful operating model for the Eldorado brand, restart of Eldorado’s business model</li><li>• Sharing of best practices that benefit both brands</li></ul>

The merged company has created consolidated functions for the two brands, including commercial procurement, personnel management, logistics, administrative and business issues, IT and finance. In addition, each brand is managed by a separate team responsible for operational management, retail and marketing. The new organisational structure enabled the Group to improve the efficiency of its functions, share experience and expertise and conduct joint competitive negotiations concerning the choice of partners. As a result, the M.Video and Eldorado networks have the opportunity to direct more resources to improving the quality of retail operations and customer service.

The formation of a unified IT system and the process of the legal merger of M.Video and Eldorado was completed in February 2019 on the basis of the Group’s main operating company, LLC MVM.

### The Group’s revenue increased by

**+60%**  
by the end of the year

### More than

**RUB 6 billion**  
in EBITDA synergies in 2018

### Eldorado restart

As part of the integration of Eldorado, the Group restarted the Eldorado business by carrying out the following key projects:

- transition to an omni-channel model (unified offer, prices and approach to online and offline sales);
- the removal of non-core product categories from Eldorado’s offer;
- increasing the focus on the range of digital products;
- renewal of the brand, website design and advertising;
- significant expansion of the functionality of the eldorado.ru website;
- optimisation of retail formats, the creation of a new format called Eldorado 600

See ‘Customer experience’, p. 58

The first results of the combined M.Video–Eldorado Group showed the effectiveness of the chosen integration model. The common business model shared by both retail chains, combined with competition in customer service, promotions and price offers, allowed the two brands to outpace the market in sales in both Q4 2018 and Q1 2019. At the same time, as a result of synergies between M.Video, Eldorado and MediaMarkt stores, the Group received over RUB 6 billion in additional EBITDA in 2018, which greatly exceeded management’s original expectations.

Growth rate of the merged business, %

Indicator	M.Video	Eldorado	Group	Market
Net turnover				
2018	19.6	14.1	17.7	16.6
Q4 2018	20.2	23.2	21.2	16.1
Like-for-like sales				
2018	12.9	14.8	13.5	–
Q4 2018	11.6	20.7	14.6	–

ACQUISITION OF MEDIAMARKT

In August 2018, M.Video–Eldorado Group continued to consolidate the Russian consumer electronics market, completing a deal to acquire a 100% stake in Media-Saturn-Russland LLC, the Russian business of MediaMarktSaturn. As a result of the transaction, the Group took control of 42 MediaMarkt stores in 22 Russian cities. At the same time, MediaMarktSaturn acquired a 15% stake in PJSC M.video.

Strategic significance of the transaction

As a result of the transaction, the Group acquired control of stores with excellent locations mainly in class A shopping centres and greatly increased its presence in a number of cities and regions: Moscow, St. Petersburg and southern Russia. The acquisition enabled the Group to quickly implement plans to expand its M.Video and Eldorado networks by opening dynamic and profitable sales outlets in the locations that were obtained, with a turnover per square metre approximately one third higher than the Group average.

Strategic advantages of the transaction

Advantage	Characteristic
Expansion of the network through high-performance stores	<ul style="list-style-type: none"><li>Continued market consolidation and growth in the Group's market share</li><li>Owing to the quality of the locations and the Group's business model, the sales from new points per square metre correspond to the best M.Video and Eldorado stores</li></ul>
Generating additional revenue and EBITDA	<ul style="list-style-type: none"><li>As expected, the deal will make it possible to receive up to an additional RUB 110 billion in revenue and up to an additional RUB 11 billion in EBITDA over four years</li></ul>
Further improvement of corporate governance	<ul style="list-style-type: none"><li>Diversification of the Group's shareholder base thanks to MediaMarktSaturn's purchase of a 15% stake in the Group</li><li>In 2019, Andreas Blase, Chief Investment Director of MediaMarktSaturn Retail Group, joined the Board of Directors of PJSC M.video</li></ul>
Access to the expertise of a global player	<ul style="list-style-type: none"><li>Opportunities for the management of the Group and of MediaMarktSaturn – a leading international retailer in the household appliances and consumer electronics sector – to exchange experiences and knowledge</li></ul>

According to Group estimates, the integration of MediaMarkt's stores will enable the Group to greatly improve their economic model and receive up to an additional RUB 110 billion in revenue and up to an additional RUB 11 billion in EBITDA over four years.

Integration of MediaMarkt stores

MediaMarkt stores were closed for rebranding and refurbishing from 1 September 2018. In 2018, the Group opened 22 M.Video stores and 24 Eldorado stores in these locations. In 2019, 10 more stores will open in former MediaMarkt locations. Following the transaction, the M.Video network also assumed obligations under current legislation on the exchange, return and warranty repair of equipment previously purchased at MediaMarkt stores throughout Russia – MediaMarkt shoppers can contact any M.Video store for information. The Company also retained bonus points accumulated under the MediaMarkt loyalty programme and made it possible to exchange gift cards previously acquired at MediaMarkt for M.Video cards.

In 2018 the Group acquired

42 MediaMarkt stores  
22 Russian cities

It is expected that the deal will enable the Group to receive up to an additional

RUB 110 billion in revenue and up to an additional

RUB 11 billion in EBITDA over four years.

Contribution of the acquisition of MediaMarkt stores to the growth of the retail network

THE GROUP SIGNIFICANTLY INCREASED ITS TOTAL NUMBER OF STORES BY REFURBISHING THOSE ACQUIRED FROM MEDIAMARKT

Increase in the number of stores in 2018, by region

1 Moscow and Moscow region



2 Centre



3 North<sup>1</sup>



4 South



5 Urals

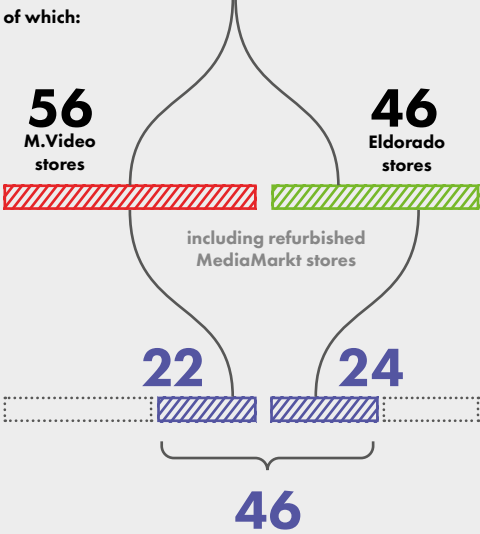


6 Siberia and Far East



<sup>1</sup> Including St. Petersburg.

+102 new stores opened in 2018







Pavel  
Breev

Ekaterina  
Sokolova

Bilan  
Uzhakhov

Natalya  
Maleeva



Alexander  
Tynkovan

Andrey  
Gubanov

Steve  
Lewis

Sergey  
Li

Valeriy  
Simanov

Irina  
Ivanova

Alexey  
Sukhov



Enrique  
Fernandez

Oleg  
Muraviev

Irina  
Dementieva



# M.VIDEO-ELDORADO GROUP MANAGEMENT

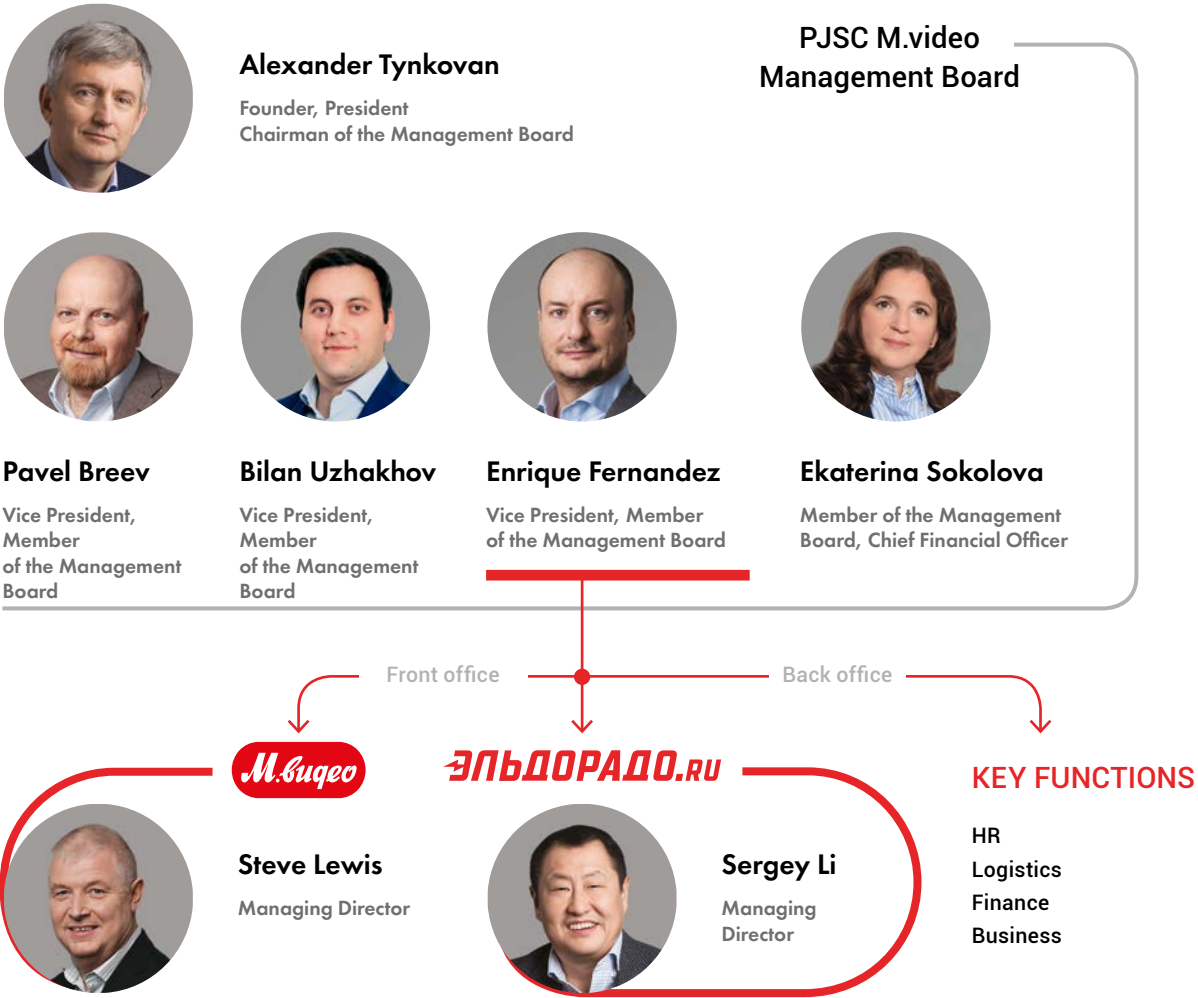
THE INTEGRATED BUSINESS OF M.VIDEO-ELDORADO IS MANAGED BY AN EXPERIENCED TEAM OF TOP EXECUTIVES HEADED BY GROUP PRESIDENT ALEXANDER TYNKOVAN AND GROUP CEO ENRIQUE FERNANDEZ. MR TYNKOVAN IS RESPONSIBLE FOR STRATEGY AND SUSTAINABLE DEVELOPMENT; MR FERNANDEZ IS RESPONSIBLE FOR THE OPERATIONAL MANAGEMENT OF THE GROUP'S ENTIRE BUSINESS.

## Management structure of M.Video-Eldorado Group

Key business decisions on the part of Group operating companies are made at the level of the executive bodies of PJSC M.video, in particular the Company's Management Board and sole executive bodies.

See 'Corporate governance', p. 112-114

As part of the Group's two-brand management strategy, M.Video's operating retail business is headed by Managing Director Stephen Lewis, while Eldorado's business is headed by Managing Director Sergey Li. The managing directors of both networks are directly subordinate to the Group's Chief Executive Officer Enrique Fernandez.



## Alexander Tynkovan

**President, Chairman of the Management Board of PJSC M.video**

Founder of M.Video. In 1992, he graduated from the Moscow Power Engineering Institute; in 1993, he and his partners opened their first store and created the M.Video brand and company. From 1993 to 2017, he remained the unwavering leader of the company's growing business. Under Mr Tynkovan, the company held an IPO in 2007. He has been a member of the Board of Directors of PJSC M.video since 2007. From 2013 to 2017, he was CEO of PJSC M.video. From 2008 to 2015, he was a member of the Supervisory Board of X5 Retail Group N.V. He has been Chairman of the Management Board of PJSC M.video since June 2017 and President of M.Video-Eldorado Group since 2018.

## Pavel Breev

**Member of the Management Board of PJSC M.video**

One of the founders of M.Video Group. In 1986, he graduated from the S. K. Tumansky Moscow Aviation Engine-Building Technical College. He has been a member of the Board of Directors of PJSC M.video since 2006. From 2013 to 2017, he was CEO of LLC M.video Management. He has been an executive director of PJSC M.video since 2013 and a member of the Management Board of PJSC M.video since June 2017. From July 2017 to February 2019, he was a member of the Board of Directors and a member of the Management Board of LLC ELDORADO. He has been Vice President of LLC MVM since August 2017.

## Bilan Uzhakhov

**Chief Executive Officer, member of the Management Board of PJSC M.video**

In 2010, he graduated from the University of Hamburg; in 2011, from the Plekhanov Russian University of Economics; in 2014, from the Higher School of Economics – National Research University; and, in 2017, from the Sberbank Corporate University in cooperation with the London Business School (programme for senior executives). From November 2010 to October 2012, he worked at OJSC NK RussNeft, where he specialised in lending and headed the Loans and Capital Markets Department. From July 2013 to July 2017, he was CEO of JSC Russian Coal. He has been a member of the Board of Directors of JSC Russian Coal since 2013 and a member of the Management Board of PJSC M.video since June 2017. From March 2017 to February 2019, he was a member of the Board of Directors of PJSC M.video since August 2017. He has been CEO of LLC MVM and CEO of PJSC M.video since 2017. He was CEO of LLC ELDORADO from January 2018 to February 2019 and a member of the Management Board of LLC ELDORADO from July 2018 to February 2019.

## Enrique Fernandez

**Chief Executive Officer of M.Video-Eldorado Group, member of the Management Board of PJSC M.video**

Mr Fernandez has more than 15 years of experience in the consumer electronics market in both manufacturing companies and in retail. Before moving to the retail consumer electronics industry, he held sales and marketing positions at Whirlpool Europe. From 2003 to 2007, Mr Fernandez held various management positions at Media-Saturn Holding GmbH. In his last position at Media-Saturn Holding, he was responsible for procurement for the MediaMarkt and Saturn brands. From 2007 to 2009, he served as Vice President for Procurement for Eldorado. Mr Fernandez joined M.Video in 2009 as a commercial director, and he became CEO of the company in 2016. Following the merger of M.Video and Eldorado in 2018, Mr Fernandez became the CEO of M.Video-Eldorado Group.

## Ekaterina Sokolova

**Chief Financial Officer, member of the Management Board of PJSC M.video**

Ms Sokolova has 20 years of experience in finance. She began her career at Deloitte, where she spent eight years working in various departments. In 2004, she moved to TNK-BP during the merger of TNK and BP, where she headed up the financial service for the retail business. After six years, she became the head of the finance function for the processing and trading unit. As a result of TNK-BP's merger with Rosneft, Ms Sokolova took a similar position in 2013 as the head of finance for the processing and trading unit. She joined M.Video in 2016 as finance director. She holds an MBA from California State University, ACCA (Association of Chartered Certified Accountants) professional certification, as well as certificates of participation in INSEAD programmes in France and Singapore and at the Kellogg School of Management in the United States. She is currently the Chief Financial Officer of M.Video-Eldorado Group.

### Steve Lewis

#### Managing Director of M.Video

Mr Lewis has been working in the field of electronics and household appliances for more than 18 years; he spent more than 15 years working for Britain's largest retail chain, Dixons International, including as director of retail sales from 1997 to 2001. He was also operations director for the British companies Woolworths and Entertainment UK. Mr Lewis is a graduate of the Wharton School at the University of Pennsylvania (USA). He joined M.Video in 2010 as retail sales director; he has been the Managing Director of M.Video since 2018.

### Sergey Li

#### Managing Director of Eldorado

Mr Li has held managerial positions in household appliances and consumer electronics companies for over 15 years. Before moving to Eldorado, he worked as director of the Consumer Electronics Division of M.Video. From 2004 to 2008, he held the positions of manager and executive director of Eldorado and Sulpak (Kazakhstan); from 2001 to 2004, he was responsible for business development at the Philips Consumer Electronics Export representative office in Russia. He graduated from the Moscow Technical University of Communications and Informatics. On 1 January 2018, Mr Li was appointed Managing Director of Eldorado, where he is responsible for operational management of the company, retail and marketing, and customer service.

### Oleg Muraviev

#### Commercial Director

Mr Muraviev has 21 years of experience in the area of consumer electronics and digital equipment. He came to M.video in 2009 as the head of the Audio-Video Division; he has been the head of the Commercial Division since 2016. He previously held various management positions at LG Electronics Rus and BSH Hausgeräte (the Bosch/Siemens representative office in Russia). Mr Muraviev has expertise in the areas of management and marketing, with higher degrees in two specialisations: the first in management (MAMI) and the second in marketing (MIRBIS). In 2005, he also received an MBA in marketing (MIRBIS).

### Irina Ivanova

#### Chief Operating Officer

From 1996 to 2006, Ms Ivanova was the Supply Chain Manager for the Ice Cream & Food Division of Nestle in Russia. From 2004 to 2005, she was the project manager for the implementation of best global

practices in building and managing business processes for the Nestle production association in Russia, and also for the unified information system for manufacturing enterprises and business units. In 2006, she joined M.Video as a project director in order to establish the supply chain function; in 2008, she became the head of the Supply Management, Distribution and Logistics Division. She became responsible for the Information Technologies and Projects Divisions in 2014 and later for the Administrative and Business Division as well. She was appointed Chief Operating Officer of M.Video in 2015. In 2017, she led the transformation involved in the merger of M.Video and Eldorado. Ms Ivanova is currently the Chief Operating Officer of M.Video–Eldorado Group. She holds an Executive MBA from the State University of Management and certificates from the INSEAD business school for the Leading Digital Transformation and Innovation programme and the Artificial Intelligence for Business programme.

### Irina Dementieva

#### Head of the Supply, Distribution and Logistics Department

Ms Dementieva has been working for M.Video since 1996. She has extensive experience in various areas of distribution and logistics: strategic modelling, warehousing and transport logistics, customs clearance and import, fulfilment of online sales, as well as procurement and inventory management. For the last four years, she has been the head of Supply, Distribution and Logistics at M.Video, and she has been in charge of this function in the consolidated M.Video–Eldorado Group since 2018. Ms Dementieva is among the top five logistics and supply chain directors in her segment, according to the Top 1,000 Russian Managers rating by the Russian Managers Association. She holds an Executive MBA from the Moscow School of Management SKOLKOVO.

### Natalya Maleeva

#### Human Resources Director

Natalya Maleeva's professional experience counts almost 20 years of HR-managment in leading foreign and Russian companies. Natalya graduated from Moscow State University with a degree in Psychology, is a Candidate of Psychological Sciences, has a university degree in economics. Received an MBA degree from Thunderbird School of Global Management. In 2017, Natalia studied at the Skolkovo Moscow School of Management ("Managing a Company in the Context of Digital Transformation"), has a certificate from INSEAD Business School for the Leading Digital Transformation Program.

Natalia's professional career began at Troika Dialog, one of the leading Russian investment companies. Subsequently, Natalya led the personnel management divisions in a number of large Russian and international corporations, including Mary Kay, Karo-Film, Provident Financial PLC and IFD Kapital. Prior to joining M.Video in 2010 as a Director of Human Resources, Natalya led the work of the Human Resources Department at Detsky Mir. Since 2018, she has been heading the combined HR function of the M.Video-Eldorado Group.

### Valeriy Simanov

#### Group Retail Expansion Officer

Mr Simanov graduated from the Riga Higher Military Aviation Engineering School and completed postgraduate studies at the N.E. Zhukovsky Air Force Engineering Academy. He holds a PhD in Technical Sciences. In 2003, he graduated from the Russian Presidential Academy of National Economy and Public Administration (Russian–German Higher School of Management) with a specialisation in economics and enterprise management. He holds an MBA. He has 21 years of experience in retail. He started his career at Sportmaster as a store manager, and then worked as the retail manager at Pan sportsmen and as the sales director at Tvoe. In 2006, he moved to M.Video as the regional expansion director for Siberia before later becoming the Operating Director for Expansion. He has been the Retail Expansion Director for M.Video–Eldorado Group since 2018.

### Andrey Gubanov

#### Managing Director of m\_mobile

Mr Gubanov has more than 20 years of experience in digital electronics sales. From 2004 to 2006, as the Business Development Director, he headed the Computer Hardware Department at R&K. From 2006 to 2009, he held the positions of Computer Hardware Director and Commercial Director for Digital Equipment at Eldorado. In 2009, he joined the M.Video team as head of the Digital Equipment Department, and he was responsible for the procurement and promotion of the company's entire range of digital equipment. In 2016, as director of the digital stream, he headed up an m\_mobile project focused on sales of smartphones and other digital equipment within M.Video. Sales in the company's digital categories have increased at twice the market rate in the last year. In 2018, M.Video–Eldorado Group began developing stand-alone stores under the m\_mobile brand, spinning off the project as a separate retail line headed

by Mr Gubanov as Managing Director. He graduated from the Moscow Engineering Physics Institute with a degree in experimental nuclear physics and from the Russian Presidential Academy of National Economy and Public Administration with a degree in marketing management. He holds an Executive MBA from IE Business School, one of the world's leading business schools.

### Alexey Sukhov

#### Corporate and Legal Relations Director

Mr Sukhov graduated from the Peoples' Friendship University of Russia with a degree in law, and he has an LLM degree. He began his professional career at Transmashholding, a leader in the Russian transport engineering market. His professional activities have included numerous mergers and acquisitions, including JSC Metrovagonmash, PJSC Luganskteplovoz (Ukraine), JSC REZ (Latvia), JSC Lisichanskaya soda (Ukraine), LLC Russian Coal–Kuzbass, LLC ELDORADO and others. Since 2008, Mr Sukhov has headed up various departments in the companies of Safmar Group; since February 2011, he has been the Deputy CEO for Corporate and Property Relations of JSC Russian Coal. In May 2017, he became Vice President for Corporate and Legal Relations of Eldorado. Since 2018, he has been the head of the Corporate and Legal Relations Division of M.Video–Eldorado Group.

### Denis Golyshev

#### Security Director

In 1996, Mr Golyshev graduated from the Institute of the Federal Security Service of Russia; in 2003, from the Academy of the Federal Security Service of Russia; and, in 2008, from the Russian Civil Service Academy under the President of the Russian Federation. From 1994 to 2009, he served in the Federal Security Service of Russia. He is a lieutenant-colonel in the reserves. From 2009 to 2016, he worked in senior positions at KIN Group, where he oversaw the safety of production and commercial processes, as well as the security of tangible and intangible assets. In 2017, he was appointed Deputy CEO of Eldorado, and he has been the Security Director for M.Video–Eldorado Group since 2018.



MARKET REVIEW ➡

Russia’s economy in 2018: accelerated economic growth amid strong consumer demand



In 2018, Russia’s economy saw further acceleration of economic growth rates, with a 2.3% increase in GDP, the highest recorded since 2012. This trend was largely due to non-recurrent factors, including the performance of the oil and gas industry and a recovery in consumer demand against the backdrop of expectations regarding increased inflation.

- The following key macroeconomic trends impacted the Group’s business in 2018:
- depreciation of the rouble against the US dollar by 20.6% as a result of geopolitical and other factors;
  - acceleration of inflation to 4.3% against the backdrop of a weakening rouble and the expected increase in VAT from 18% to 20% as of 1 January 2019;
  - growth in real wages by 6.8% year-on-year due, in large part, to increased salaries in the public sector;
  - a 22.4% increase for the year in retail lending by banks, including increased mortgage lending;
  - a reduction in real wages in connection with falling income from bank deposits and increased tax and loan payments.

Consumption growth, which strengthened in the second half of the year, contributed to a 2.6% increase in retail sales for 2018 (after growth of 1.3% the previous year), mostly due to increased demand for durable goods, including consumer electronics.

Consumer electronics market in 2018: growth exceeded expectations

As of the end of 2018, the volume of Russia’s consumer electronics market had increased by 16.6% year-on-year, significantly outstripping the expectations of market participants and exceeding RUB 1.47 trillion<sup>1</sup>. This growth was supported both by an increase in the average purchase amount and growth in the number of purchases.

Market growth accelerated due to a number of factors, including stronger investment interest among Russians in high-priced tech segments, technological development and, as a result, the emergence of quality offerings in mid-range price segments, such as smartphones and televisions. The rouble’s volatility during the year and the expectation of an increase in the VAT rate were also drivers stimulating demand for durable goods.

<sup>1</sup> According to GfK.

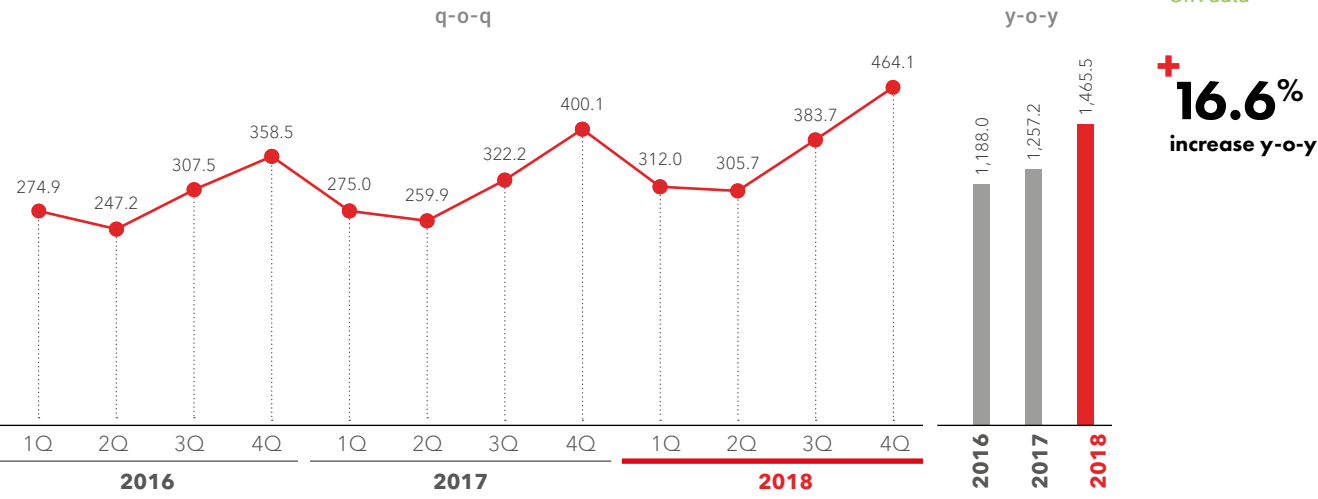
Key macroeconomic performance indicators, % (unless indicated otherwise)

Indicator	2018	2017	Change, p. p.
GDP growth	2.3	1.6	0.7
Consumer price index	4.3	2.5	1.8
RUB to USD exchange rate (year-end)	69.5	57.6	20.6%
Retail sales revenue	2.6	-4.6	7.2
Real wages	6.8	2.9	3.9
Real disposable income	-0.2	-1.2	1.0
Unemployment	4.8	5.2	-0.4
Loans to individuals, RUB trillion	14.9	12.2	22.4%

Sources:  
Russian Federal State Statistics Service, Ministry of Economic Development, Bank of Russia

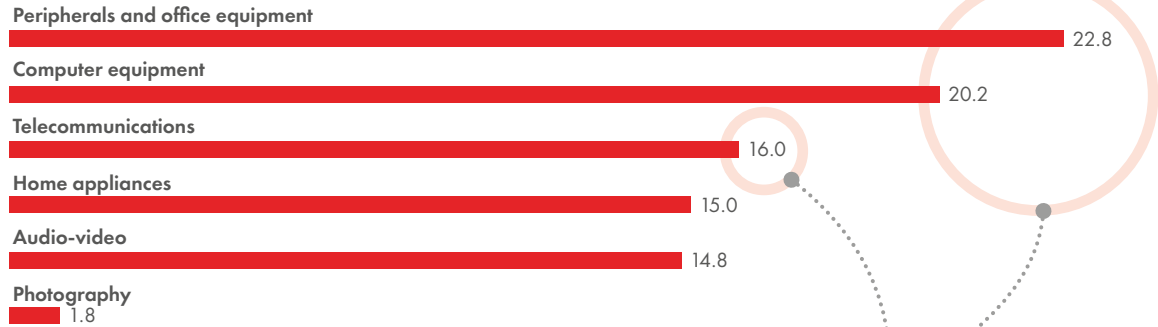
Retail market for home appliances and electronics, RUB billion

Source:  
GfK data

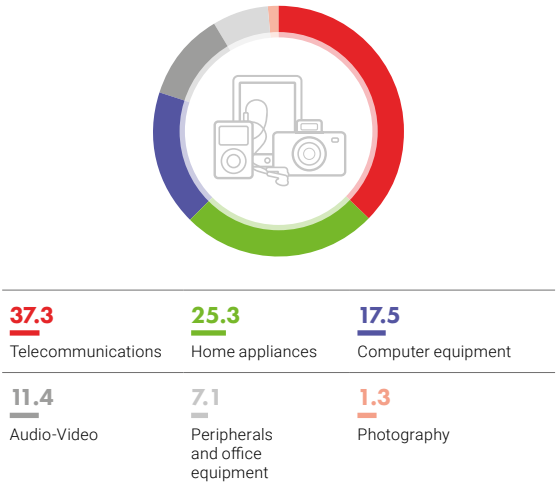


Sales turnover dynamics of Russia’s home appliance and electronics market by key categories in 2018, %

Source:  
Russian Federal State Statistics Service



Sales turnover structure of Russia’s home appliance and electronics market by key categories in 2018, %



AS OF THE END OF THE YEAR, PRODUCTS IN THE FOLLOWING CATEGORIES WERE GROWTH LEADERS

- +22.8% Peripherals and office equipment
- +20.2% Computer equipment
- +16.0% Telecommunications

Telecommunications



As of the end of the year, products in the following categories were growth leaders: telecommunications (+16.0%), computer equipment (+20.2%), peripheral and office equipment (+22.8%). Telecom products made up the better part of market turnover (37%).

Smartphone sales reached a record level in 2018, with approximately 29.6 million units sold and revenue exceeding RUB 465 billion, outstripping 2017 results by 3% and 20%, respectively. While the market is becoming saturated by volume, sales are growing significantly in revenue terms, largely due to a shift in demand to the medium and upper price segments. The average sales price for a smartphone increased by 17% over 2017 to reach RUB 15,700. The market is also witnessing growing demand for quality due to an expanded product line in the medium and upper price segments and the growing popularity of deferred payment and trade-in programmes.

Customers continue to prefer Chinese brands given the optimal price-to-quality ratio. When buying smartphones customers above all consider screen size, camera resolution, 4G and NFC support. Online sales grew faster than the market average and added 30% in terms of units sold and 50% in terms of revenue.

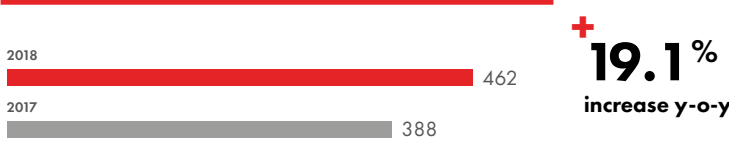
Household appliances



Sales of household appliances increased by 17% year-on-year, including due to an increase in the number of residential real estate purchases (amid expanded mortgage lending) and growing demand for new devices among apartment buyers. Innovative household products saw significant growth, including for steamers and robotic vacuum cleaners.

One of the strongest areas of growth in the telecom segment were core wearables (smart watches, fitness trackers, etc.). Consumer lending also remained an important driver in the telecom sector.

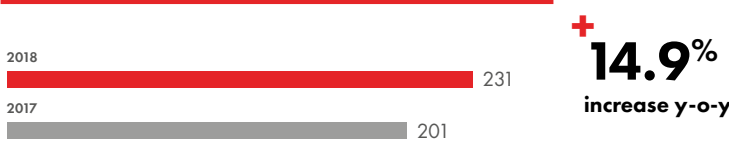
Smartphone sales, RUB billion



Sales of wearable electronics, RUB billion



Sales of major appliances, RUB billion



Computer equipment



Development of the computer equipment segment was largely due to explosive growth in sales of powerful gaming laptops (+65% year-on-year, according to analysis by M.Video–Eldorado Group). Demand for gaming models has reached 220,000 units per year, with turnover in this segment amounting to RUB 15 billion. Overall growth in the popularity of gaming and the development of e-sports are contributing to this dynamic (at M.Video and Eldorado, sales in this category grew faster than the market: +80% by both revenue and volume). In 2018, general sales of laptops in Russia increased by 8% in terms of units and 21% in revenue terms to 2.8 million units and RUB 97 billion, respectively. These are the highest rates of sales growth for laptops since 2012.

Audio-video



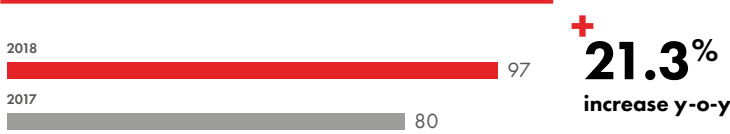
In the audio-video segment, sales increased by 13% year-on-year, due, in large part, due to Russia's hosting of the World Cup, which stimulated growth in TV sales. According to an analysis by the M.Video–Eldorado Group, demand for smart TVs and models with Ultra HD (4K) resolution were key trends in this category.

E-commerce – a key market driver

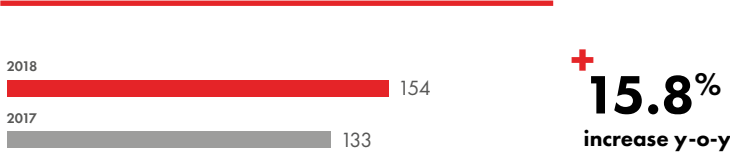


Online sales remain a key growth driver for Russia's home appliance and electronics market. Based on analysis by the M.Video–Eldorado Group, the volume of this market reached RUB 325 billion in 2018, an increase of 34% year-on-year.

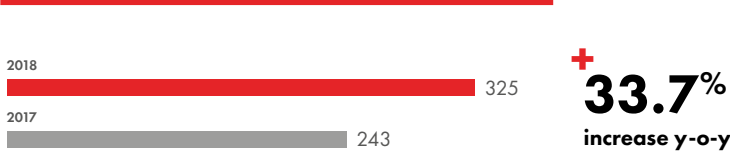
Sales of notebooks, RUB billion



Television sales, RUB billion



Online sales of household appliances and electronics, RUB billion



High demand in the telecom and computer equipment segments is behind the Group's strategy to further increase the share of digital products in total revenue faster than planned.

See 'Strategy', p. 41-49



THE GROUP’S STRATEGY:

GROWTH AND DIGITALIZATION  
BACKED BY TWO LEADING BRANDS ➡

Enrique Fernandez, M.Video–Eldorado Group  
Chief Executive Officer

“ The core of our Strategy to 2022 is the transition from an omni-channel approach to the ONE RETAIL model by fully digitising the customer experience, erasing all boundaries between the retail environment and online and offline sales channels. To achieve this goal, we are taking on the challenge of building a state-of-the-art organisation based on data, introducing digital technologies into all of the company’s business processes and personalising customer relations to the maximum extent possible. We are striving to digitise every point of interaction with customers and to create an opportunity for every one of our customers to create their own retail ecosystem.

‘The Group’s strategic development is based on the principle of one company, one business model, two brands. We are focusing on the final value of the merger of M.Video and Eldorado as a key factor in our success. This merger gives us the opportunity to realize all the advantages of our business model within a single company, drawing on two leading retail brands that together cover all customer segments – from mass market to premium.



Alexander Tynkovan, M.Video–Eldorado  
Group President

“ Over the past few years, we have created a solid foundation for our development as a leader and a pioneer in the market under conditions of a new reality for retail based on online technologies. M.Video–Eldorado Group has become a strategic player in Russia. Therefore, our strategic priority is to implement an ecosystem approach as part of building a long-term sustainable organisation focused on our customers, employees and partners. We remember our responsibility for the ecosystem in which we operate, and we strive to use our experience and our size for positive changes in the industry and the world. We integrate our social initiatives into everything we do, combining the goals of profitable business growth and sustainable development and ensuring the creation of long-term value for all stakeholders of M.Video–Eldorado Group.



THE M.VIDEO–ELDORADO GROUP:  
strengthening industry leadership



Following the creation of the M.Video–Eldorado Group in 2018, the Russian consumer electronics market had, for the first time ever, a player that occupied more than 25% of the market and ranked among the world’s 10 largest publicly traded retailers of consumer electronics. Today, the Group is the undisputed Russian retail leader in its sector in terms of sales, technological development and customer experience. The Group enjoys a presence in all price segments and has full geographical coverage across Russia.

Thanks to the growth in sales by M.Video, which have outpaced the market (+20% year-on-year), and the strong growth of Eldorado (+14% year-on-year), the Group strengthened its position in the Russian market in 2018. According to GfK, M.Video–Eldorado’s total market share at the end of the year was 25.6%<sup>1</sup>, up from 25.3% at the end of 2017. The strong performance of both M.Video and Eldorado did not come from the opening of new stores, most of which were opened in December, but rather from precise brand positioning, expanding the market audience and attracting new customers, as well as developing the range of products and services and growing overall retail efficiency.

The Group has been strengthening its position in the e-commerce segment: according to a rating by Data Insight based on 2018 results, the Group is Russia’s largest public e-commerce retailer and the largest online player in the electronics and appliances category both by the volume of online sales (RUB 77.3 billion) and by the number of online purchases (RUB 7.84 million).

The Group’s brand portfolio includes two leading highly recognizable brand names in the Russian home appliances and electronics market. In 2018, M.Video became Russia’s only consumer electronics retailer to enter the rating of Russia’s most valuable brands according to Brand Finance (fifth among Russia’s most valuable retail brands). In the second half of 2018, Eldorado refreshed its brand, advertising strategy and store format, which allowed the Group to expand its market audience and have a positive impact on the network’s performance.

ЭЛЬДОРАДО.RU

<sup>1</sup> GfK panel for M.Video and Eldorado from 2019.





As a result of synergies between M.Video, Eldorado and MediaMarkt stores, the Group received over

RUB **6** billion  
in additional EBITDA in 2018

Acquisition of LLC ELDORADO in 2018 led to a profound transformation of Russia’s consumer electronics market, marking the beginning of its consolidation. As a result of the creation of the M.Video–Eldorado Group, a Russian player entered the 10 largest global publicly traded retailers in the consumer electronics segment for the first time ever. In August 2018, the Group continued consolidating the market by acquiring the Russian business of MediaMarkt.

The effective integration of the two leading brands in the market was the key strategic and management objective of the past year. To achieve this goal, the company formulated an approach based on three key principles:

- creation of a single legal entity managing the two networks;
- application of best practices based on a single M.Video business model;
- preservation and development of M.Video and Eldorado as two leading brands in the Russian market.

Our renewed Strategy to 2022, adopted in June 2018, describes the Group’s strategic objectives regarding its new market positioning and competitive advantages.

- By 2022, the Group intends to deliver on the following strategic objectives:
- achieving a market share above 30%;
  - maintaining a stable EBITDA margin above 6%;
  - providing the best customer experience in the consumer electronics and digital equipment sector by implementing the ONE RETAIL concept.

The combined company’s initial results demonstrate the effectiveness of the chosen integration strategy. As of the end of 2018, the Group had increased sales by 18% year-on-year, with both M.Video and Eldorado outpacing the market’s growth rate and Eldorado showing record growth in like-for-like sales at 14.8%.

See 'Operating and financial performance', p. 88-91

In 2019–2020, the synergy effect is expected to be

RUB **7** billion  
per year

Strategy goals

>**30%**  
Market share

>**6%**  
EBITDA margin

Digital transformation and implementation of the ONE RETAIL concept

Strategy tools

Single company

Single operating business model

Business digitisation programme

Single company

In February 2019, the Group completed the legal incorporation of the M.Video and Eldorado businesses. We carried out the centralization of key commercial functions, as well as all support functions, while maintaining two independent retail chains that were still competing.

In 2018, the Group obtained additional synergies in the amount of RUB 6 billion at the EBITDA level, achieved with Eldorado and MediaMarkt stores. In 2019–2020, the synergy effect is expected to be RUB 7 billion per year.

Single business model

The Group’s priority is to further apply to Eldorado M.Video’s successful business model and best practices in the areas of inventory and product line management, as well as relations with suppliers, lessors and other counterparties.

In 2018, the Group carried out a restart of Eldorado’s operating business model on the basis of a single company. In particular, Eldorado’s product line was reduced through the removal of non-core categories that are not related to household appliances and electronics, the expansion of digital product offerings and a project to transition Eldorado to an omni-channel model (unifying the product line, marketing and pricing both online and offline, and website development) based on M.Video’s experience. In addition, a loan broker platform was launched under Eldorado, which is analogous to the m\_credit platform operating at M.Video. As a result, Eldorado has benefited from the exchange of best practices with a competitor, which is also true for M.Video.

Two brands

The Group is the only retailer in Russia’s consumer electronics market with a portfolio that includes two leading brands. The strategy to develop the two M.Video and Eldorado brands ensures the Group’s presence in all market segments and regions across Russia. Both brands are competing successfully in traditional retail and online, ensuring an expanding customer base and full realization of economies of scale.

Two-brand strategy

For more than 25 years, M.Video grew successfully as the leading brand in the middle and premium customer segments, although its presence in the mass market segment was limited. The acquisition of Eldorado created an opportunity for the Group to achieve full geographic coverage in Russia and gain access to the widest-possible customer base, as well as to all store formats in all segments ranging from mass market to premium.

Strategic role of the M.Video and Eldorado brands

**M.Video** is the primary brand and market leader, which sets trends and best practices. The Group will aim to maximize the brand’s market presence. Profitability remains a key priority for M.Video.

**Eldorado** plays the role of an attacking, competing brand and occupies smaller markets where the M.Video brand is less competitive. Eldorado’s primary objective is to secure sufficient revenue to deliver on the Group’s competitive objectives. Operating efficiency is supported by tight control over operating costs.

Both brands adhere to state-of-the-art business practices by using an omni-channel business model, offering customers a seamless transition between the website and the store, as well as uniform prices, product lines and services. The Group links the future of its business with the omni-channel model’s evolution into ONE RETAIL – the further integration of online and offline platforms, the personalization of offers and the development of procurement management, logistics and marketing based on data analytics and mobile technologies.

The principle of a single company allows us to maintain maximum efficiency in inventory and product line management while reducing management costs and obtaining maximum economies of scale. The Group’s positioning as an even more significant player in the Russian market allowed for a decrease in the cost of purchases and leasing costs, which had a positive effect on operating expenses.

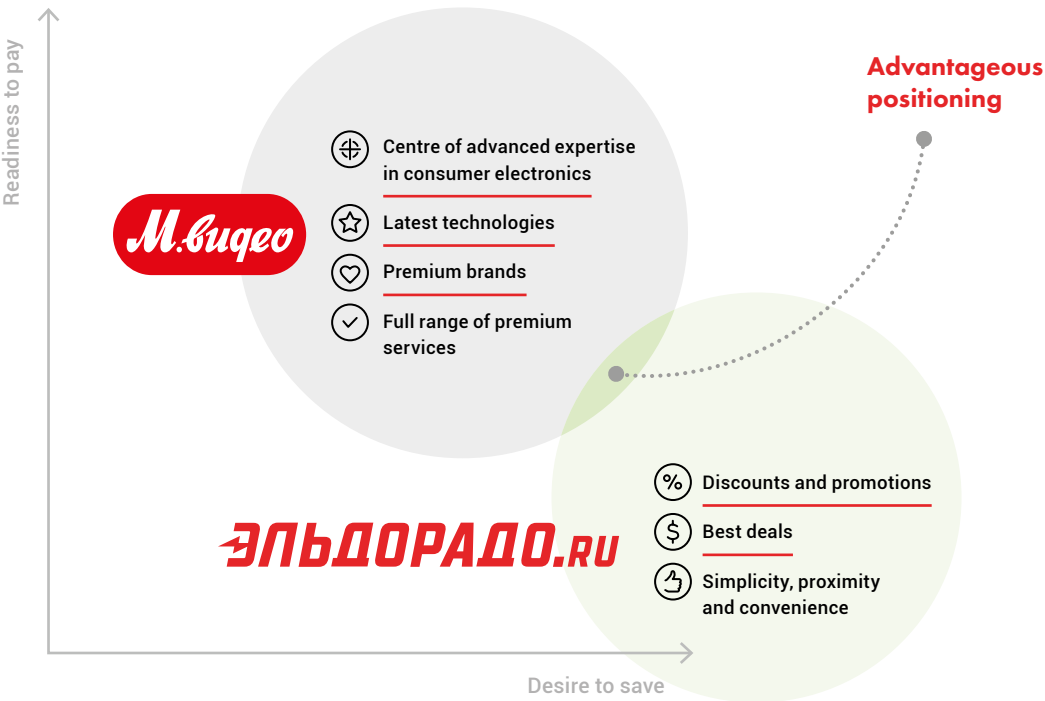
See 'Operating and financial performance', p. 88-91

Two-brand strategy: full market coverage and audience

	M.Video	Eldorado
Target audience	<ul style="list-style-type: none"><li>Medium and premium price segments</li><li>Willingness to pay for an outstanding customer experience</li><li>High value of technology and quality of service</li></ul>	<ul style="list-style-type: none"><li>Mass market and medium price segments</li><li>Desire to save</li><li>Optimum price-to-quality ratio</li><li>Simplicity and proximity to the customer</li></ul>
Network and store format	<ul style="list-style-type: none"><li>Large cities</li><li>First-class location, key shopping centres</li><li>Large stores with a premium design</li></ul>	<ul style="list-style-type: none"><li>Cities with populations above 50,000</li><li>Class B shopping centres (or Class A next to M.Video), neighbourhood stores</li><li>Simple design, Eldorado 600 format</li></ul>
Average check <sup>1</sup>	<b>RUB 8,500</b>	<b>RUB 6,100</b>
Service offer and customer loyalty	<ul style="list-style-type: none"><li>Long-term relationships and an ecosystem approach</li><li>Realization of full product potential</li><li>Successful long-term loyalty programme</li></ul>	<ul style="list-style-type: none"><li>Simple services at a base cost</li><li>Attractive short-term offers</li></ul>
Strategic projects	<ul style="list-style-type: none"><li>ONE RETAIL</li><li>Real Time Dealing (m_RTD)</li><li>m_mobile</li></ul>	<ul style="list-style-type: none"><li>Restarting the business model, transition to an omnichannel model</li><li>Customer lending</li><li>Eldorado 600 format</li></ul>

<sup>1</sup> The average LFL check with VAT as of the end of 2018.

Positioning the Group’s brands



Business development within the ONE RETAIL concept

ONE RETAIL – The result of the OMNI-model's evolution



- + SINGLE AUDIENCE**  
We don't divide customers by brands
- + SINGLE SPACE**  
We don't separate online and offline
- + DIGITISATION OF OUR BUSINESS**  
Data-based business processes

The combination of the highly recognizable M.Video and Eldorado brands in the Group’s portfolio involves a detailed elaboration of the positioning and retail formats for each of the networks.

The two brands are located on opposite ends of the spectrum of consumer spending attitudes and represent both sides of consumers’ approach to the use of technology. Such positioning creates maximum coverage of the market audience, with a partial overlap in the medium price segment, and ensures long-term business success. It supports a natural flow of customers from one brand to another as consumers’ incomes and personal preferences grow and evolve.

**M.Video** is continuing its traditions and fulfilling its mission ‘to be the best place for people and consumer electronics to come together’. M.Video focuses on state-of-the-art products and technology, leading consumer brands and services that create value and simplify customers’ lives. M.Video customers look to invest in a high quality of life with the support of technology and consider the brand to be a reliable place for an advanced customer experience.

**Eldorado** concentrates on lower price segments and relatively affordable product lines. The focus on successful purchases and the best deals in specific categories ‘here and now’ attracts customers who attach high value to product price, as well as those who want to take advantage of state-of-the-art technologies and control their spending.



The Group is a pioneer of online retail in Russia. M.Video’s first online store was opened in 2001, and the company began introducing an omni-channel business model in 2014, implementing a unified approach to the product line, pricing and services in stores and online.

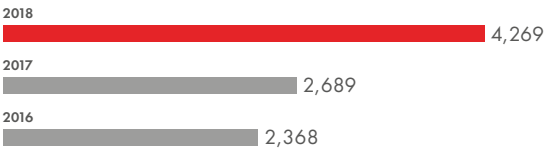
At the end of 2018, the Group’s online sales increased by 31% to RUB 77.3 billion, and the share of online sales out of total turnover reached 18% (it was more than 20% in Moscow and St. Petersburg).

The ONE RETAIL concept represents the next step in the digital transformation of our business, which aims to create a unified experience for purchasing consumer electronics at all points of contact between the Group and the customer – on the website, on the mobile app and in stores – with the most personalized service.

The boundaries between traditional retail and online sales are disappearing. Approximately 65% of the Group’s customers use the [www.mvideo.ru](http://www.mvideo.ru) and [www.eldorado.ru](http://www.eldorado.ru) platforms in one way or another when making purchases (learning about products, obtaining other information and placing orders). Online customers, in turn, are becoming more mobile by using devices to shop 24/7 at home, at work, while commuting or directly at store shelves where products are kept. The ONE RETAIL concept is designed to strengthen the Group’s leadership in today’s new reality where e-commerce is at the forefront. With this strategy, M.Video is the pioneer in implementing the ONE RETAIL concept, and Eldorado continues to strengthen its position as an omni-channel company.

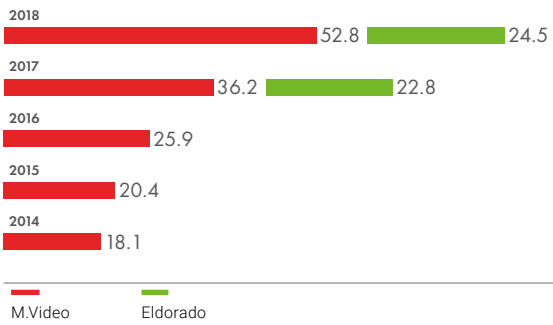
- The Group has identified three key elements of the ONE RETAIL concept:
- Single space: creating a unified retail environment that provides full-format service regardless of the sales channel or means of communication
  - Single audience: treating customers as a single audience, regardless of the sales channel, throughout the entire interaction cycle – from initial contact to sales and after-sales service
  - Business digitisation: digital transformation of both the front and back office, which aims to grow revenue and optimize internal processes in order to reduce operating costs

The Group’s investments in IT and online business development<sup>1</sup>, RUB million



<sup>1</sup> Before 2018, the figure includes only M.Video results.

Online sales of the M.Video–Eldorado Group, 2014–2018, RUB billion



Front-office digitisation

Our priority is to create a better and more consistent customer experience across all sales channels. In 2017, M.Video launched the m\_RTD project, whereby sales staff in stores began serving customers using smartphones and tablets equipped with software in order to significantly increase the personalization of service.

See 'Customer experience', p. 58

The m\_RTD project has led to a significant increase in the number of regular customers at M.Video and sales conversion, which allows us to offer customers a **quality of service that is unique in the Russian market**. At the end of 2018, 475 M.Video stores (99%) were connected to the m\_RTD platform.

In 2019–2021, M.Video’s key projects in the digitisation of customer interaction will be the introduction of an advanced mobile app as a new sales and communication channel, an upgrade of the CRM system and the Customer 360 project, which foresees the creation of a single customer vision in all sales channels.

Customisation of service is an important element of the ONE RETAIL concept. In this regard, M.Video aims to centralize all necessary data about customers in order to offer them individually selected products and services at all stages of their contact with us as a seller. The customer experience of the future will allow people to visit our stores, where sales staff will be waiting to quickly complete product selection and purchases that take into account individual offers generated online.

The Group intends to introduce m\_RTD technologies to the Eldorado network that account for the specific positioning of this brand, launch a mobile app for customers and continue improving the website and other elements of the front office.

Digitisation of back-office processes

- The Group plans to carry out the following initiatives in order to optimize internal processes:
- Development of transaction support processes, including the introduction of advanced automation tools and the use of robots;
  - Implementation of a programme to develop the introduction of data analysis and machine learning technologies, smart services based on predictive algorithms, etc.;
  - Introduction of a digital workplace – an approach and technology that support employee mobility and the availability of IT services in any place and on any device;
  - Automation of planning and budgeting processes.

Focus on digital products: the m\_mobile project

A strategic priority for the Group is to increase the share of high-margin digital products in total sales in line with market trends. Key projects in this area have involved expanding this category of products in the Eldorado product matrix, where large household appliances

Forecast for development of the retail network until 2022, stores



are traditionally widely represented, as well as developing digital zones and stores under the m\_mobile brand.

M\_mobile is designed for consumers of high-tech gadgets and aims to provide a unique service that will emphasize M.Video’s leadership in the mobile device and smart consumer electronics categories. In February 2018, the Group opened its first stand-alone m\_mobile store in Moscow in the Afimall City shopping and entertainment centre. As it continues to deliver on this strategy, the Group plans to open up to 150 m\_mobile stores in Russia (five stores were opened in 2018). The new m\_mobile outlets will be located in high-end, high-traffic locations and will be managed cross-functionally under the M.Video business structure.

Network expansion strategy

The M.Video–Eldorado Group believes that its extensive retail network is a key competitive advantage in building a business based on the ONE RETAIL strategy. The Group is focused exclusively on the Russian consumer electronics market and aims to offer its services both online and in traditional stores throughout Russia. Moreover, the Russian Far East is one of the key development zones of the retail network for both the M.Video and Eldorado brands. By the end of 2022, the Group plans to expand its retail network to more than 1,100 stores, compared with 941 at the end of 2018.

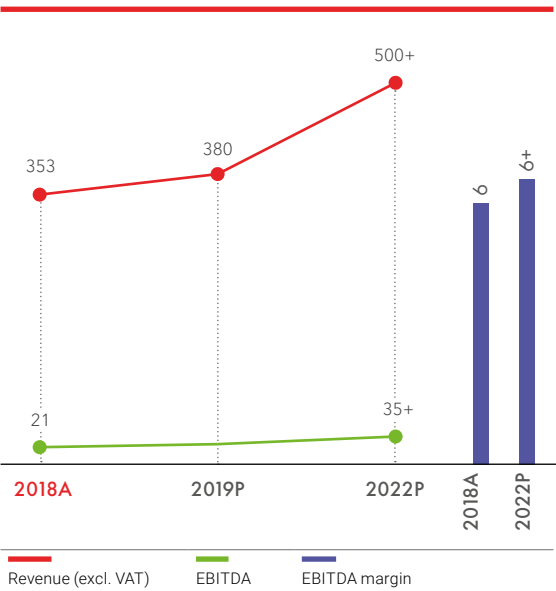


Target financial performance

The M.Video–Eldorado Group expects that its strong market position and the implementation of key strategic initiatives will support average annual revenue growth to 2022 of more than 7%, against an average annual growth forecast for the consumer electronics market of 5%. The Group’s target revenue in 2022 is more than RUB 500 billion compared to RUB 321.1 billion for 2018. The increase in the Group’s market share is expected to occur against the backdrop of further market consolidation due to the weakening position of small retailers and the contraction of the so-called shadow market segment.

As of the end of 2018, the Group demonstrated a record EBITDA margin of 6.0% (pro forma), which is one of the best results among global retailers of home appliances and electronics. The synergies from the integration of Eldorado and MediaMarkt stores were an important factor in EBITDA margin growth. The Group estimates that the impact of these synergies on EBITDA in 2018 was approximately RUB 6 billion (compared to the pro forma basis of 2017); in 2019 and 2020, this is expected to be RUB 7 billion per year.

Target revenue and EBITDA until 2022<sup>1</sup>, RUB billion



<sup>1</sup> Revenue and EBITDA for 2018 are pro forma indicators.

In particular, the EBITDA margin of MediaMarkt stores after rebranding in the M.Video and Eldorado networks is expected to increase by more than tenfold to above 9%.

See 'Mergers and acquisitions', p. 26-29

Along with the increase in revenue and control over operating expenses, this synergy effect will provide an average annual EBITDA growth rate of over 13%. The Group’s target EBITDA for 2022 is more than RUB 35 billion compared to RUB 20.8 billion for 2018. As part of its strategy, the Group intends to maintain an EBITDA margin of more than 6%.

The Group continues to follow a conservative debt portfolio management strategy. At the end of 2018, the ratio of net debt to EBITDA for the Group was 1.6x. Under the current debt repayment schedule, the Group expects the continued consistent reduction of its debt burden.

The Group’s target revenue in 2022 is more than

RUB **500** billion

The Group’s target EBITDA for 2022 is more than

RUB **35** billion



# RISK MANAGEMENT

IN ADDRESSING ISSUES RELATED TO VALUE CREATION FOR SHAREHOLDERS, THE GROUP HAS TO MAKE MANAGEMENT DECISIONS THAT TAKE INTO ACCOUNT DIVERGENT FACTORS THAT COULD HAVE EITHER A POSITIVE OR NEGATIVE IMPACT ON THE ACHIEVEMENT OF ITS GOALS. ONE WAY OF REDUCING THE UNCERTAINTY CAUSED BY SUCH FACTORS IS TO INCREASE AWARENESS ON THE PART OF THE GROUP'S SHAREHOLDERS, EXECUTIVES AND EMPLOYEES OF THOSE FACTORS THAT CAN AFFECT THE ACHIEVEMENT OF GOALS AND TO ASSESS THE POTENTIAL DAMAGE THEY CAN CAUSE.

THE OBJECTIVES OF THE RISK MANAGEMENT PROCESS ARE TO IDENTIFY, IN A TIMELY MANNER, ALL MATERIAL RISKS; TO ASSESS THE LIKELIHOOD OF THE OCCURRENCE OF SUCH RISKS, AS WELL AS THE MATERIALITY AND CONSEQUENCES SHOULD THEY OCCUR; AND TO CREATE SYSTEMS AND TAKE MEASURES THAT MINIMISE THE NEGATIVE AND MAXIMISE THE POSITIVE IMPACT OF THE OCCURRENCE OF SUCH RISKS.

## Risk Management System

Within the M.Video–Eldorado Group, risk management is centralised at the level of the holding company, PJSC M.video, and is governed by the Company's Risk Management Policy. The objectives of this policy are to introduce and maintain an effective risk management system (RMS) that is commensurate to the scale and complexity of the Company's business and that facilitates the achievement of key corporate objectives.

- As part of the strategic management of the Company, the RMS involves a comprehensive set of measures and interrelated processes aimed at:
- development of risk management as a constant cyclical process of corporate management;
  - integration of risk management principles and instruments into the Company's routine ongoing processes;
  - development of risk management as a key management competency; and
  - development of risk management as an integral part of the Company's corporate culture and all its business processes.

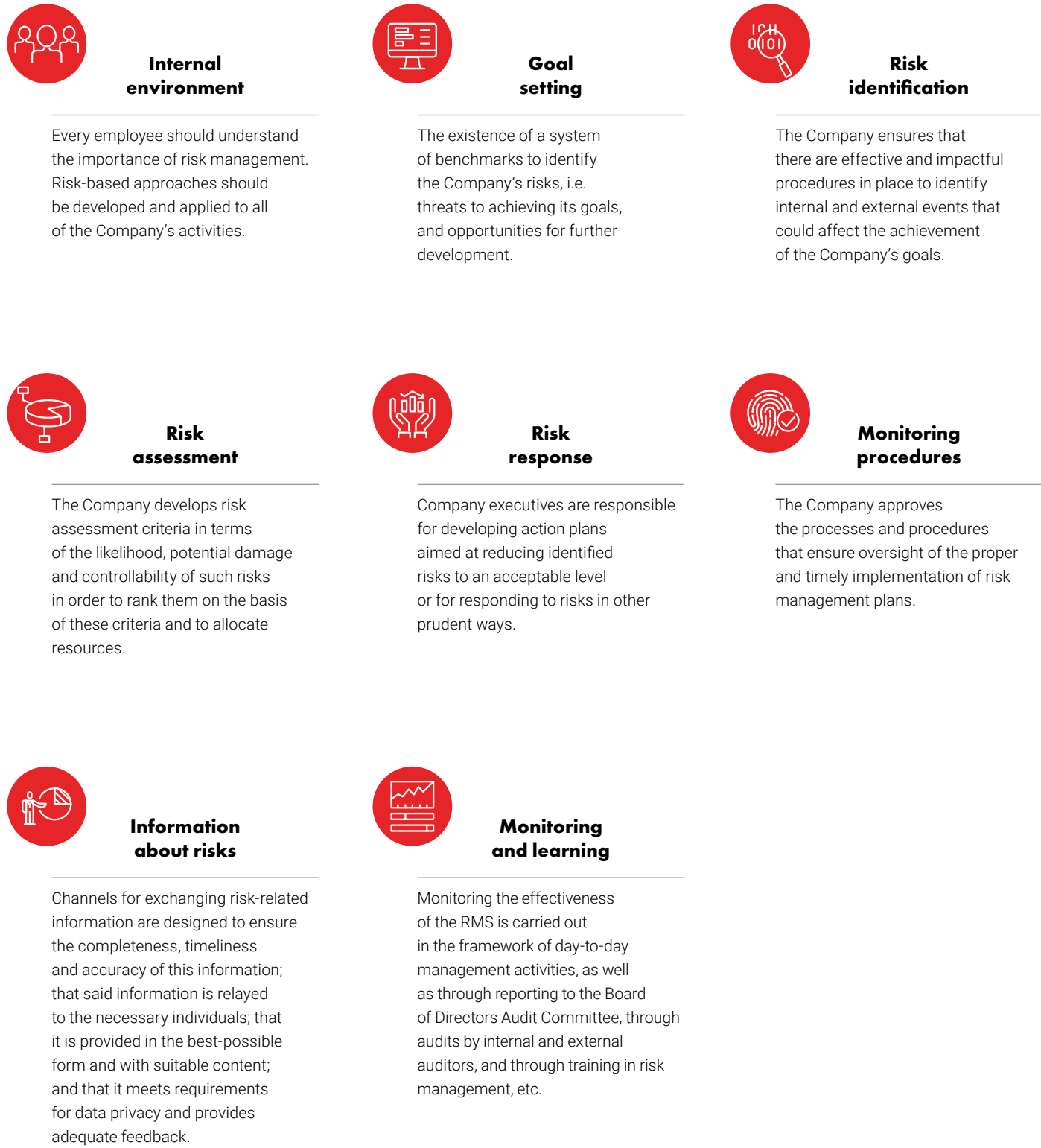
## Risk management system

Stages of risk management	Board of Directors	Senior management	Internal Control and Risk Management Department	Internal audit
Internal environment (philosophy and risk management policy)	Corporate governance and ethical values.	Leadership role in the Company, creating a positive internal environment. Establishment of the tone at the top.	Organisation and coordination of the structure of the RMS. Methodology for risk assessment and for determining risk appetite and the acceptable risk level in individual functional areas.	Promoting the ideas behind the RMS. Consulting support. Assessment of the methods for determining risk appetite and the acceptable risk level.
Goal setting	Setting strategic goals and developing a plan to achieve them.	Establishing objectives in the framework of achieving strategic goals. Breakdown of strategic goals into operational goals.	Analysis of operational goals for compliance with the strategy. Analysis of the compliance of key performance indicators (KPIs) with operational goals.	Audit of strategic goals, analysis of operational goals for compliance with the strategy (within the framework of the plan).

Stages of risk management	Board of Directors	Senior management	Internal Control and Risk Management Department	Internal audit
Identification of potential events and risks	Approval of the risk register.	Identification of risks at the level of setting strategic goals and their breakdown into operational goals. Identification of risks in key processes.	Risk identification methodology. Analysis of impact factors, key processes, key risk indicators and thresholds. Maintaining the risk register.	Assessment of the risk identification methodology at the stage of annual planning and during individual audits.
Risk assessment	Approval of assessment results. Approval of the risk map and risk appetite.	Risk assessment. Determination of the Company's risk appetite.	Risk assessment methodology. Determination and analysis of the assessment methodology. Maintaining the risk register and risk matrix.	Risk assessment at the stage of annual planning and during individual audits.
Risk response	Approval of risk responses (avoidance, transfer, reduction, acceptance).	Identification of risk responses.	Analysis of a response in terms of compliance with the relevant risk assessment and acceptable risk levels. Cost-benefit analysis.	Assessment of the risk response methodology and its application during audits.
Internal control system (ICS) and control procedures	Approval of a risk management action plan.	Documenting the implementation of control procedures. Keeping the ICS up to date. Determination of a risk management action plan.	Formulation of activities or consultation on the formulation thereof. Analysis of the adequacy of the selected activities and monitoring their implementation. Development of an assessment methodology/approach and assessment of the ICS.	Analysis of the adequacy of selected activities and their implementation during audits. Recommendations for improvement of the ICS.
Information and communication	Obtaining information about the most significant risks and measures taken by management in relation to such risks.	Cooperation procedures in the framework of the RMS. Establishing and maintaining communication channels.	Cooperation within the framework of the RMS at all levels of the hierarchy and between all Company divisions.	Preparation of independent reporting on the performance of the RMS.
Monitoring	Knowledge of the extent to which senior management has implemented effective risk management within the Company.	Establishment of ongoing monitoring in the course of ordinary management activities (for example, KPI analysis, plan/actual, etc.).	Monitoring and verification. Preparation of reports on the performance of risk management. Implementation of measures to improve risk management. Monitoring the implementation of measures. Preparation of reports on the internal control and risk management system.	Assessment of the RMS process. Monitoring the implementation of measures.

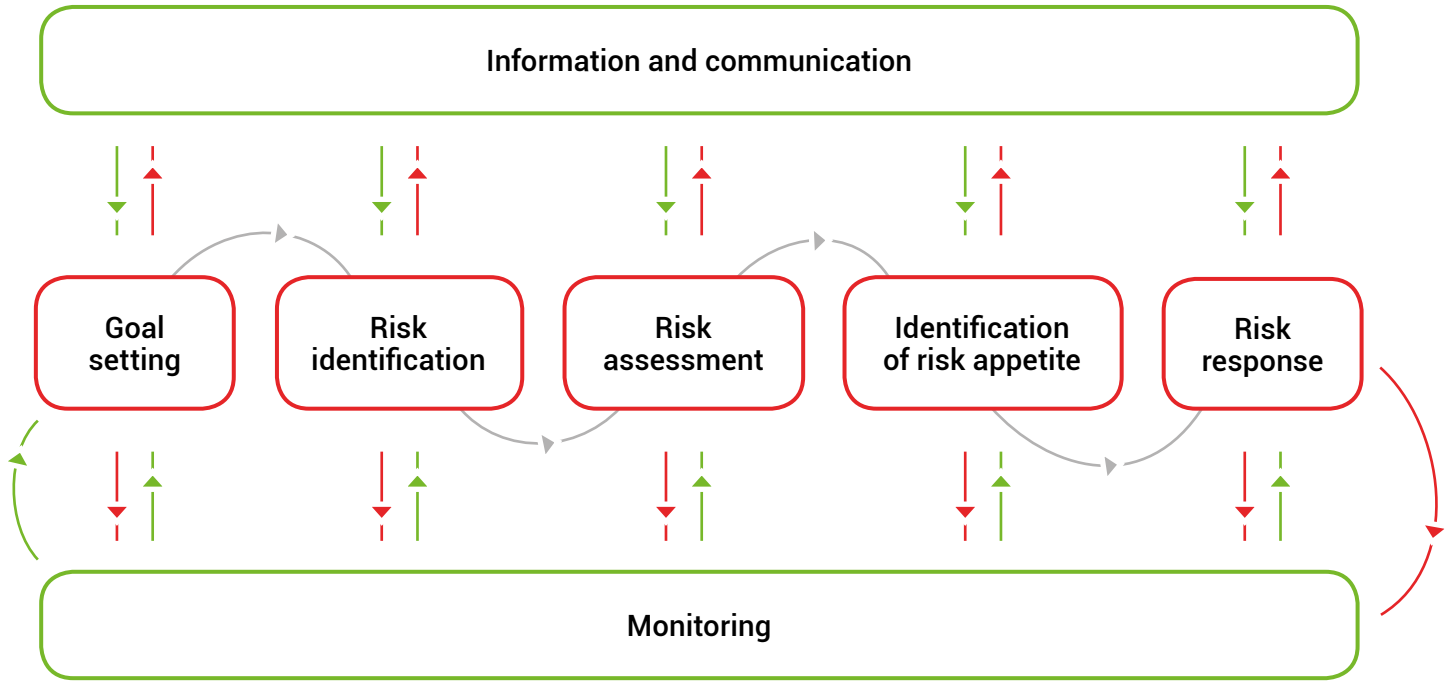


The risk management system consists of eight interrelated elements



Risk management process

THE COMPANY'S RISK MANAGEMENT PROCESS IS CYCLICAL AND CONTINUOUS; IT COVERS ALL OF THE COMPANY'S BUSINESS PROCESSES AND PROJECTS.



For the purposes of building an effective RMS, the Company divides all risks into the following categories:

- **Strategic risks** – risks that affect the Company's strategic long-term goals and its activities, namely issues related to the performance of corporate governance, political risks, natural risks, risks related to legislative changes or changes in the consumer market, etc.
- **Operational risks** – events in the Company's business processes that are unregulated, that are caused by internal and external factors and that result in operational losses. This group also includes risks related to the preparation of financial statements.
- **Financial risks:** – risks that could potentially have a negative impact in terms of managing the Company's finances. Financial risks include credit, interest-rate, currency and liquidity risks, etc.

In assessing its risks, the Company performs both qualitative and quantitative assessments. Within the assessment system, each risk is given a score and is categorised as a low, medium or high risk. Depending on the risk category, elimination and/or mitigation measures should be taken. For low risks, action must be taken within 12 months after an assessment; for medium risks, within six to nine months after an assessment; and for high risks, within six months of a risk assessment.

KEY RISKS

Risk	Description	Change in risk assessment in 2018
Strategic risks		
Negative macroeconomic situation	Risk of new economic sanctions, increase in interest rates, decrease in consumption	↑
Loss of supplier and pressure on commercial margin	Risk of the closure of major suppliers in Russia	→
Change in the competitive environment and loss of market share	Risk of the strengthening of major competitors, the entry of new online players, alliances, parallel import legalisation, cross-border trade	↑
Loss of reputation	Risk of negative campaigns in traditional/social media, loss of customer loyalty, decrease in investor interest and confidence in the Company	→
Force majeure	Risk of fire at a store or warehouse, loss or theft of goods being transported	↑
Violation of antimonopoly, advertising and other legislation	Risk of violation of antimonopoly legislation in commercial purchases/retail pricing	→
E-commerce project risk	Risk of increased competition in online sales on the part of both domestic and international players	↗
Integration risk	Potential risk related to the compatibility of IT systems and a lack of resources for ongoing integration projects	↓
Operational risks		
Supply chain failure	Risk of the loss of a key logistics provider and/or transport company	↗
Failure of IT systems	Risk of the inaccessibility of critical IT services used in daily operations	↗
Loss of inventory	Risk of inaccuracy of inventory records, fraud	→
Risk of increased staff turnover	Risk of the loss of the most competent staff, including those with unique knowledge about the Company	↑
Operational health and safety (OHS) risk	Risk of non-compliance with OHS standards, risk of store closure	↗
Risk of data leakage	Risk of leakage of clients' personal data, theft of loyalty points and/or confidential data	↑
Financial risks		
Liquidity risk	Potential risk related to liquidity and refinancing	↑
Exchange risk	Risk related to changes in exchange rates	→
Risk of ineffective internal control	Risk of deficiencies in the system to combat fraud and other misconduct	↓
Legal and tax risk	Risks associated with a weak regulatory framework and changes in tax regulations	↑

Risk response

The Company applies the following risk response strategies:

- **Risk transfer.** The strategy of risk transfer eliminates risk by transferring to a third party a risk's potential negative consequences and the onus for responding to the risk. Risk transfer usually involves the payment of a risk premium to the party taking on the risk and responsibility for the management thereof. For IT projects, a third-party consulting company could be responsible for risk management. This is applied when the residual risk (after transfer) is assessed as acceptable.
- **Risk acceptance.** No action is taken to reduce the likelihood of, or potential damage from, an event. Applied when the current level of risk is within acceptable levels.
- **Risk reduction.** This strategy involves efforts to reduce to an acceptable level the likelihood and/or consequences of a risk. A risk reduction strategy involves the inclusion of additional oversight procedures in the Company's activities that are performed regardless of risk occurrence, such as conducting additional testing of the functionality of the information system, conducting regular reconciliations, delineating authority, etc. This is applied if it is possible to carry out measures aimed at reducing the likelihood of the occurrence of a threat or to increasing the likelihood of the occurrence of opportunities.
- **Risk avoidance.** Termination of the activities causing the risk. Risk avoidance may include closing a facility, refusing to enter new geographic markets, or deciding to sell a unit. This strategy is applied if a risk threatens the continuity of the Company's operations.
- **Combined events.** This strategy may include any combination of the above measures.

Exit plan in case of adverse events.

This strategy assumes that the Company is unable to influence a risk, but it must have an exit plan in case such a risk occurs. This strategy is applicable to global risks with zero controllability, such as natural risks, political risks, etc.

The choice of strategy in relation to an identified risk is the responsibility of the risk owner, i.e. the Company employee who, by virtue of his or her authority and duties, can and should manage this risk. The choice of strategy must, without fail, be agreed with the Department of Internal Control and Risk Management.

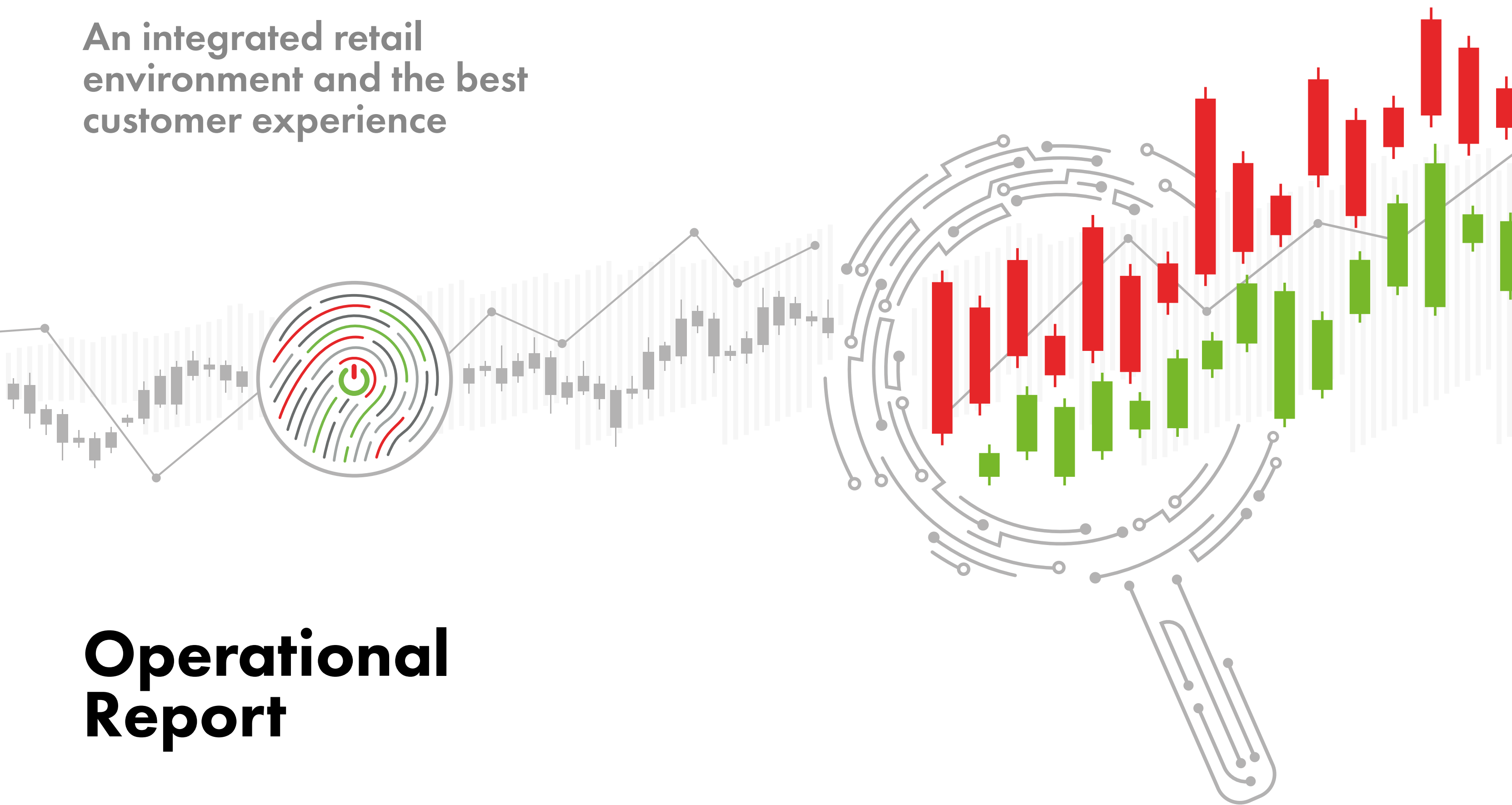
Risk management as part of the Company's corporate culture

The Company recognises risk management as an integral part of its corporate culture, strives to increase awareness on the part of employees of the RMS and to encourage every employee to see risk management as an element of their day-to-day activities. The Company considers the participation of employees in risk management, including the identification and assessment thereof, to be a valuable and mandatory contribution on the part of employees to the Company's continued development.

↑ Increased ↗ Slightly increased → Unchanged ↓ Decreased



An integrated retail  
environment and the best  
customer experience





# SHOPPING EXPERIENCE

Three questions for Steve Lewis,  
Managing Director of M.Video 

**What is the main difference between M.Video and its competitors in terms of the customer experience?**

What mainly sets M.Video apart are technologies and the way we interact with customers. We have several points of contact with the customer: stores, our website, a mobile app and sales assistants, and we strive to ensure that communication and service are completely homogeneous and equally effective at all these points. We call this approach ONE RETAIL.

The modern consumer appreciates speed and information. How are we responding to these demands? At all M.Video stores, sales assistants work with an additional tool, i.e., a smartphone connected to our m\_RTD information system. Using this system, sales assistants can tell shoppers much more about a product, compare several models, check how many bonus points a customer has available, see the customer's history and much more. Nobody works this way in Russia.

**What is the function of traditional stores in the era of mobile Internet?**

Despite the availability of technology, we can see that traffic hasn't decreased within our network, i.e., people still love to visit stores. Approximately 70% of the Group's customers use the Internet in the selection process, but more than 90% of all transactions are completed at stores.

In Russia, shopping centres are not just a place for bargains; they are centres for recreation and experiences, where people spend their leisure time. Therefore, we are developing our stores as centres for a new experience where shoppers can learn about the latest technologies and get acquainted with our products: hold new gadgets in their hands, put on a virtual-reality helmet, play a new game. This experience makes us unique, because no online store or marketplace can offer it.

**How does M.Video measure the quality of customer experience and service?**

For me, the most important indicators are customer loyalty and employee loyalty. Business is always about people, and we want to be sure that both those making a purchase and those making a sale have a good experience at M.Video. We regularly measure our net promoter score (NPS), which indicates a customer's willingness to recommend us to someone else. M.Video's NPS last year was 76%. For retail, this is an excellent result that confirms that our efforts to develop our site and our stores and to accelerate all client operations are working. And the level of staff turnover at M.Video, on the contrary, is one of the lowest: about 30%. This means that our employees are also satisfied, and satisfied sales assistants are able to make customers feel satisfied.





Three questions for Sergey Li,  
Managing Director of Eldorado



**What has changed at Eldorado from the point of view of consumers since the merger with M.Video?**

Last year, we actually carried out a complete restart of Eldorado's business in three areas. First, Eldorado again became a specialised retailer of household appliances. Previously, the company pushed non-core categories, including products for children, which blurred the business focus and brand perception. We removed non-core categories from the product range and dramatically increased the digital electronics segment. In 2018, Eldorado's sales of digital goods increased by 50%, three times the market average, while sales of smartphones increased by 70%.

Second, we switched to an omni-channel model, balancing our product range, prices and services both online and offline, and we combined the philosophy of these two channels. Third, we updated our brand and our logo and launched a new concept for Eldorado 600 stores. This is a modern format with an average area of 650 square metres, which enables efficient performance on the basis of relatively small turnover.

**How does Eldorado's position differ from M.Video's? Who are your customers?**

Unlike M.Video, which focuses on premium technologies and the best service in the market, our values are simplicity, the best price and proximity to the customer. We focus on small stores near people's homes, an affordable product range and basic promotions such as EldoSale, i.e., sales of goods from leading brands at attractive prices.

Our customers are people who are looking for the best value for their money. At the same time, there are some intersections in Eldorado and M.Video's client bases. Someone might have a need that Eldorado is better placed to meet today, but tomorrow they'll go to M.Video to find something else they need.

Within the Group, Eldorado plays the role of an attacking brand. We have a presence not only in large cities and large shopping centres but also in smaller settlements and where M.Video will never open a store. Eldorado knows how to sell in a small format.

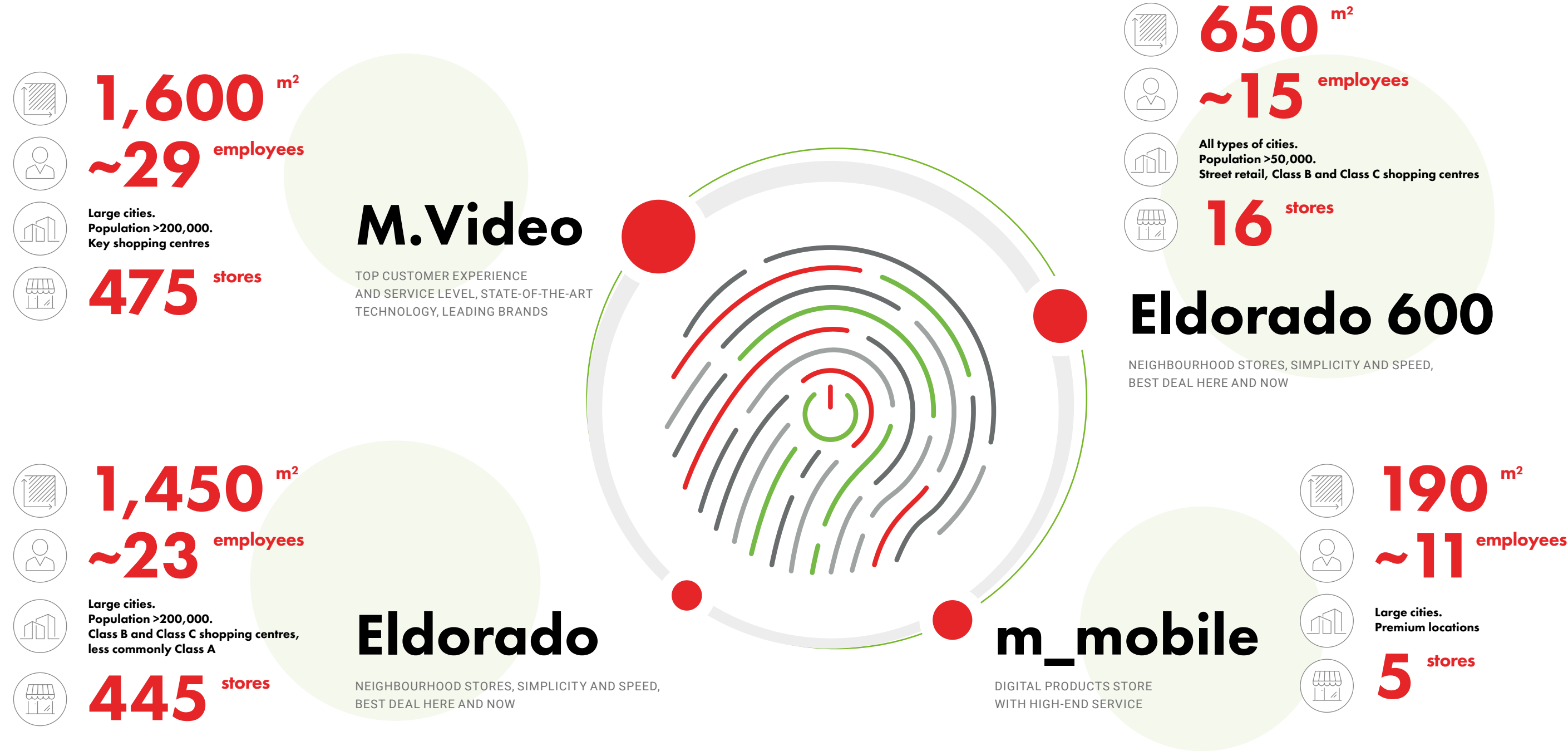
**How are Eldorado's online sales evolving?**

In 2018, we redesigned the eldorado.ru website and launched a comprehensive site update. We expanded the site's functionality, made the shopping basket easier to use, and we're going to double the speed of the site thanks to the introduction of Single-Page Application (SPA) technology. In total, we have to complete about 130 changes on the site this year, but we can already see that the transition to the omni-channel model is producing positive results: in Q1 2019, our online sales increased 24% year-on-year.



STORES –  
CENTRE OF THE CUSTOMER EXPERIENCE

STORE FORMATS  
as of 31 December 2018



Average sales area



Average number of employees



Locations



Stores



M.VIDEO STORES

M.Video stores are constantly developing their concept and format with advances in technology, changing customer preferences and the opportunities afforded by retail design. The current store concept was developed by the Group in collaboration with CampbellRigg, a well-known British agency.

The standard M.Video store format is represented by stores with an average sales area measuring 1,600 m² and a product grid of 5,000-7,000 SKUs on store shelves. M.Video stores also offer access to the Group's entire product range – more than 30,000 SKUs – through the m\_RTD information system

A store's retail space is divided into 13 zones according to primary product type and service: checkout, product pickup, service, and lending. Inventory storage is located alongside the sales area in each store.

Beginning in 2018, zones of new experience (experience-zones) have appeared in stores where visitors can learn about the latest technology, such as smart homes, virtual reality (VR), 3D printing, etc. These zones also feature demonstrations of M.Video's innovative products and give people the opportunity to try products out for themselves.

Along with M.Video's corporate design elements, an important component of the retail space design is dedicated vendor display areas, such as Apple, Samsung, Miele, Perenio Smart Home zone, and many others. At the end of 2018, areas approximately

11,800 vendor zones and demo-stands had been set up by vendors in the M.Video network. The costs of these vendor displays are co-financed by suppliers.

In 2019, M.Video launched a pilot navigation system in its stores based on augmented reality (AR) technology. Store visitors can use the M.Go app on their smartphones to quickly navigate large stores and be directed to the desired store zone. In the future, functionality will be expanded to include a button with a function to call sales staff to the zone where a customer needs help. Gamified marketing activities and personalised communications will also be introduced.

M.Video flagship store – a technology testing area

M.Video's flagship store at the Belaya Dacha shopping centre in Moscow region, with annual turnover of approximately RUB 3 billion, features a sales area measuring 4,800 m² and the company's largest product grid. The store's unique format was designed by the British agency Frazer. The Group uses the store as a testing area for innovative projects. In 2018, the store launched experience-zones where customers can try out new high-tech products, pick up online orders using a chat bot and experience a number of other new developments. As part of the store's gaming ecosystem zone, a gaming museum was installed, which showcases retro game consoles and accessories from Sony, Microsoft and Nintendo.

>30,000 SKUs

~11,800 vendor zones and demo-stands had been set up in the M.Video network

~ RUB 3 billion annual turnover of M.Video's flagship store

See p. 71

M.Video store zones

m_mobile	Digital products and accessories: smartphones and tablets, laptops, etc. The m_mobile zone has its own sales consultants and separate check-out area
Photo- & Videocamera	Photography and video products, including advanced SLR cameras. A photo expert works in the zone
M.Game	Products for gamers and anyone interested in video games. This zone includes both gaming consoles and computer-based video games
Kitchen	Kitchen appliances. This zone includes coffee products promising a good start and continuation of the day
Health & Beauty	Personal care products, divided by male and female products
Other zones	Computer equipment, televisions, built-in appliances, kitchen appliances (kitchen appliances and small appliances), home care equipment (kitchen appliances and small appliances), climate control equipment, Audio / Video / Car audio

Space for gamers

Starting in late 2017, M.Game zones have been opening at M.Video stores under the store-within-a-store format. M.Game zones feature game consoles, VR headsets, accessories and 4K monitors that can be tried out and used for eSports tournaments. M.Game features several thousand products for games, and people are welcome to try out the latest offerings right in a store. Moreover,

ELDORADO STORES

In 2018, the Eldorado network underwent a rebranding as part of the company's new business strategy and market positioning, updating the logo, advertising concept, and store design. The renewed brand's core principles are simplicity, convenience and proximity to customers.

A focus on plainness and minimalism in line with global trends became the basis of the Eldorado store design concept. Retail space is divided into two parts: traditional household appliances (the zone is structured as a warehouse showroom) and the entry zone, conceived as an open display of smartphones and tablets. The rebranding provides for the creation of customer service centres in all stores, which combine the sales and service functions in a single place, including online order pickup and customer lending.

Store zones correspond to key product categories: mobile devices, entertainment, photo and video,, home office, home theatre and audio, kitchen appliances, home, care and health & beauty. As part of the strategy to increase the share of digital product sales, digital zones are being

there is a wide range of digital content available: in-game currency, digital codes, subscriptions, add-ons and much else. The centre of the M.Game zones features dedicated check-out registers and customer service stations. In 2018, several dozen new M.Game zones opened in more than 10 Russian cities. The concept has strengthened the company's leading position on the market for gaming equipment, which is one of the fastest growing segments in the home appliance and electronics market.

created in all Eldorado stores. In 2018, such zones were opened in 130 stores, and in 2019, another 90 stores will feature digital zones.

At the end of 2018, more than 3,500 vendor dedicated areas had been installed in Eldorado stores.

Typically, Eldorado stores are located in Class B shopping centres. A key factor in choosing a store's location is its accessibility for mass-market consumers. At the same time, as part of the Group's two-brand strategy, a number of Eldorado stores are located in Class A shopping centres near M.Video stores. In these locations, Eldorado is successfully attracting buyers who are focused on the affordable price segment and standard set of services.

In 2019, Eldorado plans to open stores in two main formats:

- stores with an area measuring 1,000-1,200 m² where space not dedicated to sales is reduced and the range of products offered in the retail zone is increased;
- Eldorado 600 stores.

130 digital zones were opened in Eldorado stores in 2018

>3,500 vendor dedicated areas had been installed in Eldorado stores at the end of 2018





Eldorado 600 format

In 2018, the Eldorado network was expanded to include the new Eldorado 600 format, where stores have an average sales area of just over 600 square metres. These are small shops within walking distance and are mostly located outside shopping centres. The stores’ product range, which starts at 2,000 items, primarily includes household appliances and electronics models that have proven to be popular in Eldorado stores.

M\_MOBILE STORES

In 2018, M.Video launched stores in a unique format for the Russian market – m\_mobile (previously, the concept had been used successfully for selected zones in the M.Video network). m\_mobile stores, measuring 200 square metres, offer only digital products: a wide range of more than 200 smartphone models, smartwatches, laptops, tablets, smart home gadgets, as well as gaming devices and accessories.

The m\_mobile format is aimed at consumers interested in high-tech gadgets and a high level of service. All products are in open display, and any device can be held and tested (e.g., listening to music with headphones, measuring quality of a smartphone camera, etc). At the same time, customers can receive

Eldorado stores will be found either in cities or towns with populations of 50,000 or more. The introduction of this format will expand the company’s presence in priority regions, which will reduce the cost of opening stores. In 2018, the Group opened 16 Eldorado 600 stores, and in 2019, plans call for the number of such stores to increase to 25–30.

personalised expert advice on digital devices and mobile communications. Visitors have access to rate plans from any of Russia’s four mobile service providers.

m\_mobile stores offer services from the M.Credit loan broker, and stores also work as pickup points for small equipment, with customers having the ability to order smartphones, laptops small devices and accessories at mvideo.ru and collect them at the nearest m\_mobile store.

New m\_mobile stores are found in high-end locations with high traffic. The first store in this format was opened in Moscow on the first floor of the Afimall City shopping and entertainment centre.



In 2018 the Group opened

**16**  
Eldorado 600 stores

A product grid of more than

**2,000**  
SKUs on Eldorado 600 store shelves

ONLINE SHOPPING –  
A PRIMARY BUSINESS DRIVER

A key element of the Group’s business model is the mvideo.ru and eldorado.ru platforms. The Group aims to offer the widest range of products and services online across Russia without any obstacles for customers.

In 2014, M.Video, one of Russia’s first retailers, began a transition to a full omni-channel model, harmonising the product range, pricing and services in the retail network and online. In 2018, Eldorado began transitioning to an omni-channel model. The company began major upgrades to its website, including an improved navigation system, shopping carts, product banners, a means for taking advantage of promotions, etc. (more than 130 upgrades in total).

Today, e-commerce is the fastest growing part of our business. Over the last 5 years, the average rate of growth for M.Video’s online sales has been 40.8%, and the share of online sales in the Group’s net turnover grew from 5.5% in 2013 to 18.3% in 2018.

At the end of 2018, the M.Video–Eldorado Group became the second largest retailer on the Russian market by volume of online sales and the largest publicly traded e-commerce operator in Russia.

See ‘Group overview’, p. 2-13

WEBSITES –  
A KEY SALES TOOL

The Group’s websites are universally accessible and convenient sales tool for customers and one of the primary channels for communicating with them. According to the Yandex.Radar rating, mvideo.ru is Russia’s largest home appliance website, and eldorado.ru ranks third (during the busy season of November-December 2018, it ranked second).

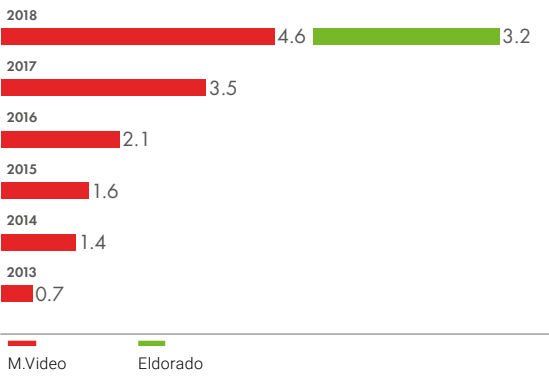
At the end of 2018, the number of visits to the Group’s websites was 612.6 million<sup>1</sup>, having increased by 18.2% over 2017. The number of purchases on the sites exceeded 7.8 million for the year.

<sup>1</sup> Pro forma result for mvideo.ru and eldorado.ru websites. Source: M.Video–Eldorado Group.

Share of online sales in the Group’s  
net turnover<sup>2</sup>, %

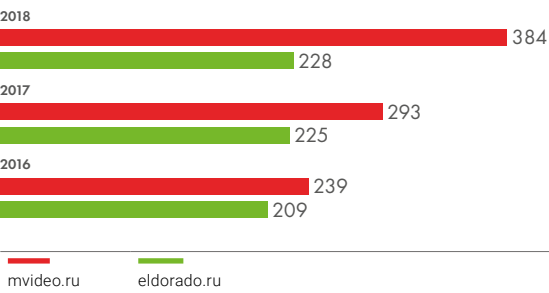


Number of online purchases in the Group<sup>2</sup>,  
million transactions



<sup>2</sup> Before 2018, the figure includes only M.Video results.

Number of visits to Group websites<sup>3</sup>, million



<sup>3</sup> Eldorado and the eldorado.ru website became part of the Group in 2018.



The websites' functionality is constantly expanding. Along with standard purchase and sale functions, including through promotions, the websites feature a smart search system, sections with personalised offers, and a personal account that gives customers full access to M.Video and Eldorado loyalty programmes. The personal account also gives users access to their bonus cards and the ability to make transactions using bonus points.

As part of its transition to the omni-channel business model, in January 2019, Eldorado significantly increased the functionality of the eldorado.ru website. Among the key innovations were a smart search function, increased page loading speed by a factor of 1.5, an improved interface, faster ordering, etc. In the first several weeks that the updated website was live, the purchase conversion rate increased by 10%, and the bounce rate decreased by 5%. Buyers also began viewing more products, with the average duration of sessions increasing by 7%. The mobile version was also optimised, since approximately 55% of sessions on eldorado.ru take place using smartphones and tablets.

The Group is developing web portals as a source of useful and interesting information on consumer electronics, technology and market innovation. One of the website's most popular services is a tool that can be used to compare the characteristics various similar equipment product. The site regularly publishes customer reviews of electronics, including those left by visitors to the site. Users are also given an opportunity to leave feedback and give public ratings for certain products.

CUSTOMER PICKUP –  
SYNERGY BETWEEN ONLINE PLATFORMS  
AND RETAIL STORES

Our extensive retail network of nearly 1,000 stores in Russia is significantly expanding our customers' opportunities to pick up online orders in store. When picking up a product in the store, customers can try out their new devices, choose required accessories or content, and consult with store managers. Given the favourable location of the Group's stores and new services, customer pickup remains the most popular way to receive purchases. By the end of 2018, its share of online sales was 74.4%. The high popularity of customer pickup gives the company the ability to effectively control logistics costs, as well as increase traffic and conversion in stores by generating additional sales.

The Group is constantly improving its online order process. In 2018, M.Video offered customers the opportunity to track the entire journey of an online purchase in their personal account on the website; it also improved its self-pickup service with the help of machine learning and a chat bot programme.

See p. 71

Share of customer pickup  
in the Group's online sales<sup>1</sup>, %



<sup>1</sup> Pro forma indicator of mvideo.ru and eldorado.ru performance. Source: M.Video–Eldorado Group.

Purchase conversion  
rate increases

by **10%**  
in the first several  
weeks that  
the updated website  
was live

The share of customer  
pickup in the Group's  
online sales achieve

**74.4%**

ONE RETAIL CONCEPT –  
RETAIL OF THE FUTURE

In 2018, the Group set for itself the challenge of achieving a new level of digital interaction with customers based on the ONE RETAIL concept. ONE RETAIL is a single retail space that provides a seamless customer experience both online and offline, as well as a fully personalised service based on the latest digital technologies. Transition to the ONE RETAIL model will strengthen the Group's leadership in a market environment where trade will almost completely turn into a mobile communication format and traditional stores will expand customers' contact with sellers, operating as centres of consumer experience based on the principles of the experience economy.

Regarding the consumer experience, the key tasks under the ONE RETAIL concept are:

- Single space – creation of a unified retail environment without division into online and offline channels;
- Single audience – work with customers as one audience at four points of contact (store, website, mobile app, and the m\_RTD system);
- Personalisation – providing individual service based on data analysis and machine learning.

Achieving these objectives requires the timely implementation of integrated technological solutions that enrich the customer experience at all points of interaction with the Group. The Group's full transition to the ONE RETAIL model is planned to occur before the end of 2022.



Enrique Fernandez, M.Video–Eldorado  
Group Chief Executive Officer

Given the trajectory of market and technology development, it is not enough to simply be a good online player, and it is not enough to be the best omni-channel example in the market. The Group's next step is the ONE RETAIL strategy. We intend to reach a new level of digitalisation of our business and customer experience, introduce digital technologies in all of the company's business processes, and achieve maximum personalisation in our relations with customers. This is a path that no one has taken before. The Group is ready to accept this challenge, which will open up new opportunities for development and demonstrate our leadership character time and again.

**Service personalisation:  
from the sales staff tablet  
to the mobile app**



Since 2017, M.Video has been developing a unique m\_RTD platform. m\_RTD allows store sales staff to use tablets and smartphones with special software integrated with the Group's ERP systems; this helps them to advise customers with a higher level of personalisation.

Using an m\_RTD tablet, a sales staff member can quickly select the equipment and accessories that are most suitable for the customer, compare M.Video prices in real-time with those of key competitors, offer the best price, update customers on their bonus point balance, and make the best offer that takes into account all current promotions and discounts. If a customer needs more time to think about a purchase, a seller can add the selected items to an online shopping cart and send the customer a link to the shopping cart by email. This functionality enables a significant increase in the probability of purchase: about 13% of customers who receive a link to the online shopping cart return to complete the payment.

At of the end of 2018, all M.Video stores were connected to the m\_RTD platform and all newly opened stores are immediately connected to the platform.

Last year, the Group decided to develop M.Video and Eldorado mobile apps taking into account the peculiarities of each brand's value proposition. At the end of the year, M.Video launched a beta version of the app, in which users can access online shopping, a product catalogue with a search function, information about new products, promotions, a map with locations of stores in their city, as well as access to a personal account with information about bonus points. The full version of the app is scheduled to launch in 2019.

**Service personalisation  
on the basis of machine learning**



Transition to the ONE RETAIL model involves a deep understanding of customers' needs and the effective use of data in all aspects of their contact with the Group – from finding and selecting a product to payment, delivery, and participation in loyalty programmes. This approach is possible only through the effective use of data analysis, machine learning algorithms and computer vision.

The Group has been actively developing in the area of Data Science over the past two years. In 2018, the Group created the Digital Retail Data Science Centre.

Advances in targeted marketing and optimisation of customer experience on the Group's websites are the key objectives being addressed by the centre. A number of developments in this area are now allowing us to increase service personalisation. The Group analyses customer behaviour both online and offline, including customers' purchase history and use of bonus points and other discounts, product views, abandoned shopping carts, and responses to marketing communications, SMS and emails.

See 'Innovation and Information Technologies', p. 85

**The number of M.Video site visitors using search  
increased by**

**25%**

**Smart search**



Smart search algorithms analyse all data on purchases and other visitor actions on the mvideo.ru and eldorado.ru websites and use them to provide the most appropriate sample of products. Customers also receive information about promotions that are likely to be of interest to them. If products are not available or delivery will take a considerable amount of time, the websites will offer alternative products with better delivery times. Customers also receive recommendations on the right accessories. When users leave a site without making a purchase, the system can continue interacting with them through targeted mailings, offering alternative products and informing them of price reductions or the availability of previously unavailable products. Smart search solutions have led to the number of M.Video site visitors using search increasing by 25%, and the conversion of search sessions into purchases has increased by 15%.

**Customer pickup using chat bot**



In 2018, M.Video launched a service whereby customers could pick up online orders in stores that used machine learning and a bot programme. At the store entry, buyers are met by a terminal in which they only need to indicate the order number received by SMS. Using the chat bot, the terminal sends a notification of the customer's arrival to a smartphone, and the first available sales staff member takes the order. Since the product has already been set aside, the store sales staff only needs to pick up accessories that are also recommended by the bot. The process of receiving a product at the story entry area where the terminal is located to exiting the store takes less than 7 minutes. In the future, the company expects to speed up the pickup process to 5 minutes. As of the end of 2018, more than 180 M.Video stores were operating under this new scheme. In the future, M.Video plans to enhance personalisation of the pickup process through closer integration with the m\_RTD system. As a result, store sales staff will immediately be able to see customers' history and the discounts and bonuses available to them.





Purchases made on credit



Customers are demonstrating considerable demand for opportunities to purchase consumer electronics on credit. One of the Group's competitive advantages is its consumer lending platform, which is unique on the Russian market. This platform allows customers to buy goods on credit both in the Group's stores and through the mvideo.ru and eldorado.ru websites.

The broker platform deployed across the M.Video and Eldorado networks provides customers with access to the lending programmes of partner banks. After choosing a product at a store, customers can contact representative of the broker platform and submit a loan application, which will be sent for consideration to partner banks.

Online lending is available through the Group's websites for products with a total value in the range of RUB 3,000-250,000. After placing goods in their online shopping cart, customers can fill out a form directly on the site and send an application to several banks. Review of applications takes less than 3 minutes, after which customers may receive several loan offers and choose the one that is most attractive to them. In the case of a loan through the website, loan documents are delivered to customers by the bank's courier, and the purchased goods are delivered by the store's courier. Customers can also receive products and sign documents in the store.

This service is significantly increasing the level of loan approvals. Approval on the broker platform exceeds 80% compared to 64% in cases where representatives of partner banks work only in stores. Additionally, the platform saves customers time and increases the likelihood of loans being issued by increasing the number of banks that process a single application simultaneously.

At the end of 2018, the number of partner banks taking part in the broker platform reached 11, including 5 banks that operate in the online lending service.

In 2018, the online lending platform was successfully deployed on the Eldorado network.



- Loan applications
- Consumer loans
- Bank commissions

>2 million Group customers purchased goods on credit in 2018.

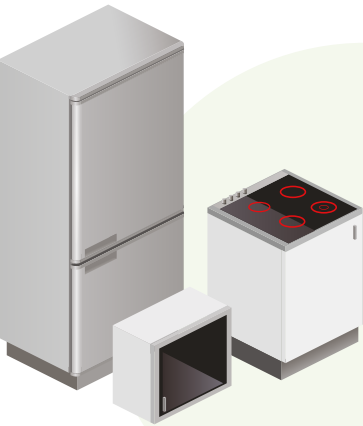


+0.5 PP y-o-y

Product range

The combined product range of the M.Video–Eldorado Group exceeds 30,000 items. The M.Video and Eldorado product lines are built on the basis of each of the brands' value proposition and in general consist of closely related

product ranges. The M.Video product line is oriented towards the mid-range and upper price segments, which also includes premium class products. Eldorado's product line is focused on the mid-range and mass market price segments, with products being relatively less profitable.



Kitchen appliances

M.Video

ЭЛЬДОРАДО.RU

M.VideoEldorado



7.7 thousand number of SKUs

8.6 thousand number of SKUs

13.6 thousand number of SKUs

>200 brands

>250 brands

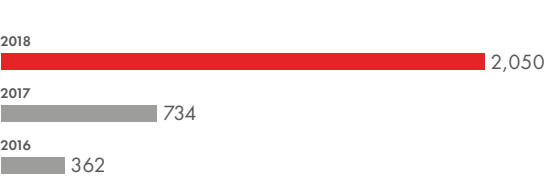
>300 brands

The Group’s product grids are formed on the basis of market analysis, demand trends, and price monitoring on the primary product categories. Results of the analysis are combined with the retail network’s cluster structure based on regional economic and geographic factors. This combination results in a final product grid for each store. The commercial manager is responsible for developing the product grid for each category of products.

**An infinite product shelf**  
Since 2016, M.Video has been developing a vendor catalogue service Vendor Catalog, which involves sales of products stored in suppliers’ warehouses. Using a sales team member’s m\_RTD tablet in the store or on the mvideo.ru website, customers can order products that are in stock at the warehouse of an accredited Group supplier. The service therefore

allows for a significant expansion of the available product range (i.e., ‘an infinite product line’) without increasing logistics costs. At the end of 2018, sales on the Vendor Catalog platform exceeded RUB 2 billion, it’s a 2.8 times increase over 2017.

Sales through vendor catalogue, RUB million



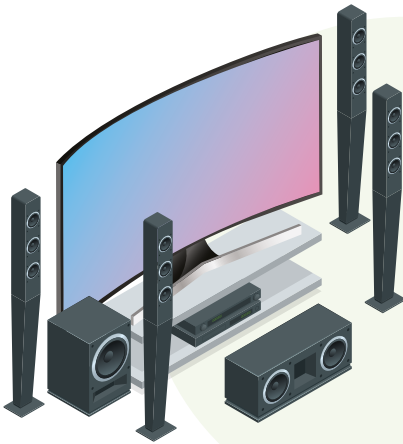
# Home care

## Health & beauty

M.Video

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# Home theatre

## and audio

M.Video

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Loyalty programmes and customer satisfaction

Loyalty programmes

M.Video and Eldorado aim to ensure long-term customer loyalty both through long-term programmes and investments in attractive short-term offers.

M.Video's main loyalty programme is M.Bonus, an effective shopping programme that helps customers make more advantageous purchases by returning part of the purchase amount to the bonus card and has uniform rules for reward accumulation. For each order in a retail store or on the mvideo.ru website, approximately 3% of the paid amount is credited to a customer's bonus

account after all discounts are applied. Customers can use accumulated bonus earnings to pay for future purchases. One bonus rouble equals one rouble.

At the end of 2018, there were a total of 24 million M.Bonus cardholders, an increase of 12% over the previous year. About 80% of active bonus

cardholders made between one and three purchases during the year, with the average purchase amount exceeding RUB 10,000, which is 9% more than a year earlier. The most popular products purchased using the M.Bonus card in 2018 were smartphones, televisions, refrigerators, washing machines as well as built-in equipment and computer equipment.



M.Video ЭЛЬДОРАДО.RU M.VideoEldorado



M.Video ЭЛЬДОРАДО.RU M.VideoEldorado



As a result of the m\_RTD project's implementation, customers can register for the loyalty programme while they are in the store. Statistics show that mobile consultation attracts 30% more new loyalty programme users.

For more information about m\_RTD project see section 'Service personalisation: from the sales staff tablet to the mobile app', p. 70



# Entertainment photo & video

M.Video

ЭЛЬДОРАДО.RU

M.VideoEldorado



Eldorado's bonus programme operates using a similar mechanism. Members of the club are awarded from 3% to 25% of the value of every purchased product or service as bonus points on their bonus accounts. Bonus points can be used to pay up to 50% of the cost of a new purchase in stores or on the eldorado.ru website. At the end of 2018, the number of programme users exceeded 30 million, having increased by 10% over the previous year. The average purchase of a regular customer at Eldorado at the end of 2018 totalled about RUB 9,000, active bonus club members make more than two purchases per year.

Customer satisfaction

Both M.Video and Eldorado are constantly working to improve customer satisfaction and measure relevant performance. The main customer satisfaction indicator used by the Group is the NPS index, which is the willingness of customers to recommend a place to purchase home appliances and electronics.

A marketing study conducted by Impacto between January and December 2018 showed that M.Video's NPS reached 76%, an increase of 3 percentage points

year-on-year. At the same time, M.Video maintains a high degree of customer satisfaction in all store operating parameters, ranging from 83% for "Ability to buy the latest product models" to 98% in "Overall satisfaction with sales staff" and "Speed of service at the M. Service zone".

The NPS for Eldorado is also high at 59%. Eldorado demonstrates high satisfaction in most parameters, the best of which are "Speed of service in the product pickup zone" (97%), "Speed of service in the service zone" (96%), and "Overall satisfaction with sales staff" (96%).

## SUPPLY SYSTEM AND SUPPLIER RELATIONS

ONE OF THE GROUP'S KEY BUSINESS PRIORITIES IS TO BUILD A LONG-TERM STRATEGIC PARTNERSHIP AND MUTUALLY BENEFICIAL RELATIONS WITH SUPPLIERS IN ORDER TO MAINTAIN THE STABILITY OF ITS BUSINESS AND SUSTAINABLE MARKET DEVELOPMENT.

Oleg Muraviev, Commercial Director of M.Video–Eldorado Group said: "It's important for us to see suppliers as partners focused on long-term relationships and development. The quality of our offer for customers depends on the kind of relationship we build with our counterparties. Therefore, we strive for mutually beneficial cooperation that both the Group and all its suppliers can benefit from."

In 2018, during the merger of M.Video and Eldorado, the Group centralised the commercial function of both retail chains. Both Group brands enjoy the advantages of combined commercial purchases, and suppliers have the opportunity to work with a larger player that is able to position their product in all market segments and for all audiences, to provide full geographic coverage in the Russian market. For many manufacturers, M.Video–Eldorado Group is the main channel of entry into the Russian market, since it can ensure the availability of goods for consumers throughout Russia, while also offering advice, service and after-sales support, as well as marketing tools. Thus, the M.Video network has become one of the first major retailers of Russian equipment made by Bork and products produced by the Chinese company Haier, having become a reliable long-term partner for the young brands.

The Group's regular suppliers number about 300 companies. Its largest vendors include global leaders in the household appliances and consumer electronics sector, such as Samsung, Apple, LG, Sony, Huawei, Bosch and others. About 75% of the Group's commercial purchases take place through direct contracts with manufacturers, and the Group buys part of its product range through distributors. As of the end of 2018, the 10 largest suppliers accounted for about 63% of commercial purchases.

The Commercial Division is constantly identifying promising new trademarks and products that could be of interest to Russian consumers and putting the Group in a profitable position in the market. For example, M.Video was the first nationwide retail chain to launch sales in the new fashion category of smart watches, and it is developing the categories of electric vehicles, drones and gadgets for smart homes.

Together with suppliers, the Group carries out dozens of promotions and projects every day. Joint projects are an important element in the development of the ecosystem approach to retail, in which the Group, in addition to its range of products, offers its clients a chance to take part in promotions and events, additional



services, accessories and content, thus greatly expanding the customer experience. In 2018, for example, M.Video became the first chain in Russia, in addition to its Apple shops, to open authorised Apple service centres in stores. The service centres use certified equipment, as well as hardware and spare parts received directly from Apple. In 2018, there were more than 100 Apple shops in M.Video stores, and M.Video–Eldorado Group had become the largest seller of Apple smartphones in Russia by the end of the year.

M.Video–Eldorado Group is also developing its sales of niche and rare items through the Vendor Catalog in its online resources and in stores. The retailer’s partners can exhibit their product offers through the store’s online storefront. In this case, the Group does not purchase these goods but can arrange their sale, delivery and all related services for buyers. This approach enables the Group’s customers to order any model of equipment, including rare or exclusive items; the retailer can thus expand its product range without additional risks to its working capital, and the manufacturer increases sales and can test customer demand for experimental models. Sales through the Vendor Catalog increased by 2.8 times in 2018.

Value creation for suppliers

Opportunities	Cases and results
<b>Promotion and information on the site</b>	
<ul style="list-style-type: none"><li>More than 612 million visits to the mvideo.ru and eldorado.ru sites per year</li><li>Flexible site architecture increases opportunities to conduct promotions</li></ul>	<ul style="list-style-type: none"><li>M.Video and Eldorado regularly hold partnership contests, promotions and sales – more than 100 projects a year</li></ul>
<b>Retail positioning</b>	
<ul style="list-style-type: none"><li>A network of ≈1,000 stores throughout Russia</li><li>11,800 vendor zones and demo stands in M.Video stores and 12,100 in Eldorado stores</li></ul>	<ul style="list-style-type: none"><li>Brand zones for large vendors (Apple, Samsung, etc.)</li><li>Thematic areas: kitchenware (Tefal, Tescona, etc.), beauty zones (SEB, Philips, etc.)</li></ul>
<b>Active marketing</b>	
<ul style="list-style-type: none"><li>A wide range of tools to increase user interest:<ul style="list-style-type: none"><li>online presentations of new products from Samsung, Apple, etc.</li><li>detailed materials about new products on Group sites</li></ul></li></ul>	<ul style="list-style-type: none"><li>Every year, M.Video broadcasts an exclusive presentation of new Apple smartphones on its website, along with simultaneous interpretation in real time. The broadcast gets tens of thousands of views annually</li><li>M.Video–Eldorado Group is a market leader in terms of arranging pre-orders and the launch of sales of devices from major vendors (Samsung, Apple, Huawei, etc.)</li></ul>
<b>Ecosystem-based approach</b>	
<ul style="list-style-type: none"><li>Offering additional services, warranty and insurance products, digital content</li><li>Opportunities for entertainment, free testing of gaming systems, VR stations, etc.</li></ul>	<ul style="list-style-type: none"><li>In February 2019, M.Video’s presentation as part of the early start of sales of the Metro: Exodus game, with the participation of writer Dmitry Glukhovsky, gathered several thousand participants, which contributed to high sales of the product</li><li>M.Video is the only retailer that creates unique streaming content for fans of games on popular social networks. The ecosystem created by the Group for gamers (gaming zones, online tournaments, etc.) has helped make the Group one of the market leaders in terms of the sale of game consoles (about 50%) and laptops (about 20%)</li></ul>

Source:



www.cnews.ru/news/line/2018-10-12\_mvideo\_otkryla\_v\_magazinah\_polnoformatnye

CHOICE OF SUPPLIERS

In order to minimise customs, tax and other types of risks, the Group conducts an internal audit of all suppliers. Auditors from the Finance Division, the Corporate and Legal Relations Division and the Security Division take part in the audit of every counterparty. As part of the creation of the consolidated M.Video–Eldorado Group in 2018, the Company conducted an audit of all of LLC ELDORADO’s counterparties.

- In assessing the business practices of counterparties, the following factors are analysed, among others:
- the justification for selecting the counterparty (including an assessment of the terms of the transaction);
  - business reputation, when the counterparty was established as a legal entity, the frequency of rotation of legal entities that were previously counterparties of Group companies;
  - the absence of evidence that the counterparty is artificially reducing its tax liabilities;

- the availability of qualified personnel;
- the availability of production capacity for business purposes (warehouse, office, fixed assets, etc.);
- chain of suppliers from the manufacturer/importer, price changes;
- payment of tax obligations;
- a financial sustainability assessment (no losses for three years);
- correctness of customs declarations.

Contracts with audited suppliers are concluded for a term of not more than three years.

The Group has a Committee for the Accreditation of Counterparties for Commercial Procurement that reviews difficult cases and approves important counterparties for which there are discrepancies in the auditors’ reports.

LOGISTICS

THE MAIN OBJECTIVE OF THE GROUP’S LOGISTICS FUNCTION IS TO ENSURE THE AVAILABILITY OF GOODS ON STORE SHELVES AND THE DELIVERY OF ORDERS, TAKING INTO ACCOUNT THE NEEDS OF CUSTOMERS IN EACH REGION. THE CONTINUOUS DEVELOPMENT AND OPTIMISATION OF INVENTORY AND TRANSPORTATION MANAGEMENT SYSTEMS IS A NECESSARY CONDITION FOR THE EFFECTIVE EXPANSION OF THE GROUP’S RETAIL NETWORK AND ONLINE BUSINESS IN ACCORDANCE WITH THE STRATEGY OF INCREASING ITS SHARE IN THE RUSSIAN MARKET.

See ‘The Group’s Strategy’, p. 41

M.Video–Eldorado Group’s strategic objective in 2018 was a deep restructuring of logistics systems and processes as part of the transition of the two chains into a single business model. The Group approved and implemented a new structure for the Supply, Distribution and Logistics Division, which, by the end of the year, proved to be effective in supporting the two brands.

Initially, the organisation of logistics at M.Video and Eldorado was based on different approaches: M.Video outsourced the majority of its processes, while Eldorado supported its own operations. Since the merger, the Group has been using a mixed logistics model of outsourcing and its own in-house operations. As part of the merger of M.Video and Eldorado, the Group retained the best practices of both networks and achieved significant synergies through the scaling and optimisation of operational processes and resources.

In 2018, the Group’s team implemented more than 150 changes. In particular, to support the sales of both brands, a centralised, unilevel distribution network was conceptualised; processes for combining central and regional warehouses, long-haul transportation and home deliveries to customers were launched; and uniform rules for receiving/shipping goods were introduced.

Some 150 new retail stores were integrated into the updated distribution network. These included, at the end of the Q4, 46 new stores stocked with goods for opening at former MediaMarkt properties (22 M.Video stores and 24 Eldorado stores).

As a result, the distribution network of stores and warehouses enables the Company to fulfil 90% of sales using stocks in the region, with a high level of customer service – customers can pick up goods themselves from stores 30 minutes after placing an order or receive delivery by courier within 24 hours of placing an order.



150new retail stores were integrated into the updated distribution network

Group distribution network as of 31 December 2018

Property	Description and functionality	Locations
<ul style="list-style-type: none"><li>9 central distribution warehouses</li><li>45% of inventory</li></ul>	<ul style="list-style-type: none"><li>Concentration of all goods purchased by the Group from over 300 suppliers in a total area of more than 250 thousand square metres</li><li>Distribution of goods to stores and regional multiplatforms</li><li>Processing of customer orders for delivery</li></ul>	Moscow (3), Novosibirsk, Kazan, Rostov-on-Don, Yekaterinburg, Nizhny Novgorod, Vladivostok
<ul style="list-style-type: none"><li>&gt;50 regional multiplatforms</li><li>8% of inventory</li></ul>	<ul style="list-style-type: none"><li>Storage of oversized equipment</li><li>Delivery of goods to stores and customers within a radius of 150-200 km</li></ul>	Large and medium-sized cities in various regions of Russia (Novorossiysk, Tyumen, Irkutsk, Ulyanovsk, Yakutsk, etc.)
<ul style="list-style-type: none"><li>941 stores in the M.Video, Eldorado and m_mobile chains</li><li>47% of inventory</li></ul>	<ul style="list-style-type: none"><li>Presentation of equipment samples in showcases, as well as storage of small-sized and digital equipment</li><li>Issuing orders to customers, including those who placed their order on the website</li></ul>	>200 cities in Russia

Key logistics transformation projects in 2018

Project	Main results in 2018
<b>Optimisation of the distribution network</b>	<ul style="list-style-type: none"><li>Conceptualisation of a distribution network to support sales by both brands</li><li>Implementation of the first stage of the unification of central warehouses and regional platforms</li><li>Increasing the operational efficiency of current capacity by 20%</li></ul>
<b>Logistics integration with MediaMarkt</b>	<ul style="list-style-type: none"><li>Takeover and optimisation of MediaMarkt's logistics assets</li><li>Opening and stocking 46 new stores at MediaMarkt properties in the shortest possible time during the high sales season</li></ul>
<b>Consolidation and acceleration of client deliveries</b>	<ul style="list-style-type: none"><li>Speeding up the delivery of client orders of digital products (M. Video for 127 cities, Eldorado for 113 cities)</li><li>Combining the delivery of client orders for the two brands in 53 cities in Russia (≈60% of the total)</li></ul>
<b>HiTechnic service: combined delivery and installation of equipment</b>	<ul style="list-style-type: none"><li>Pilot project for combined deliveries and installations at M.Video based on Eldorado's experience</li></ul>
<b>Optimisation of inventory management</b>	<ul style="list-style-type: none"><li>Ensuring the purchase of goods for both brands (using M.Video's methodology)</li><li>Achievement of targets in terms of the representation of the product line in stores during the high sales season</li></ul>

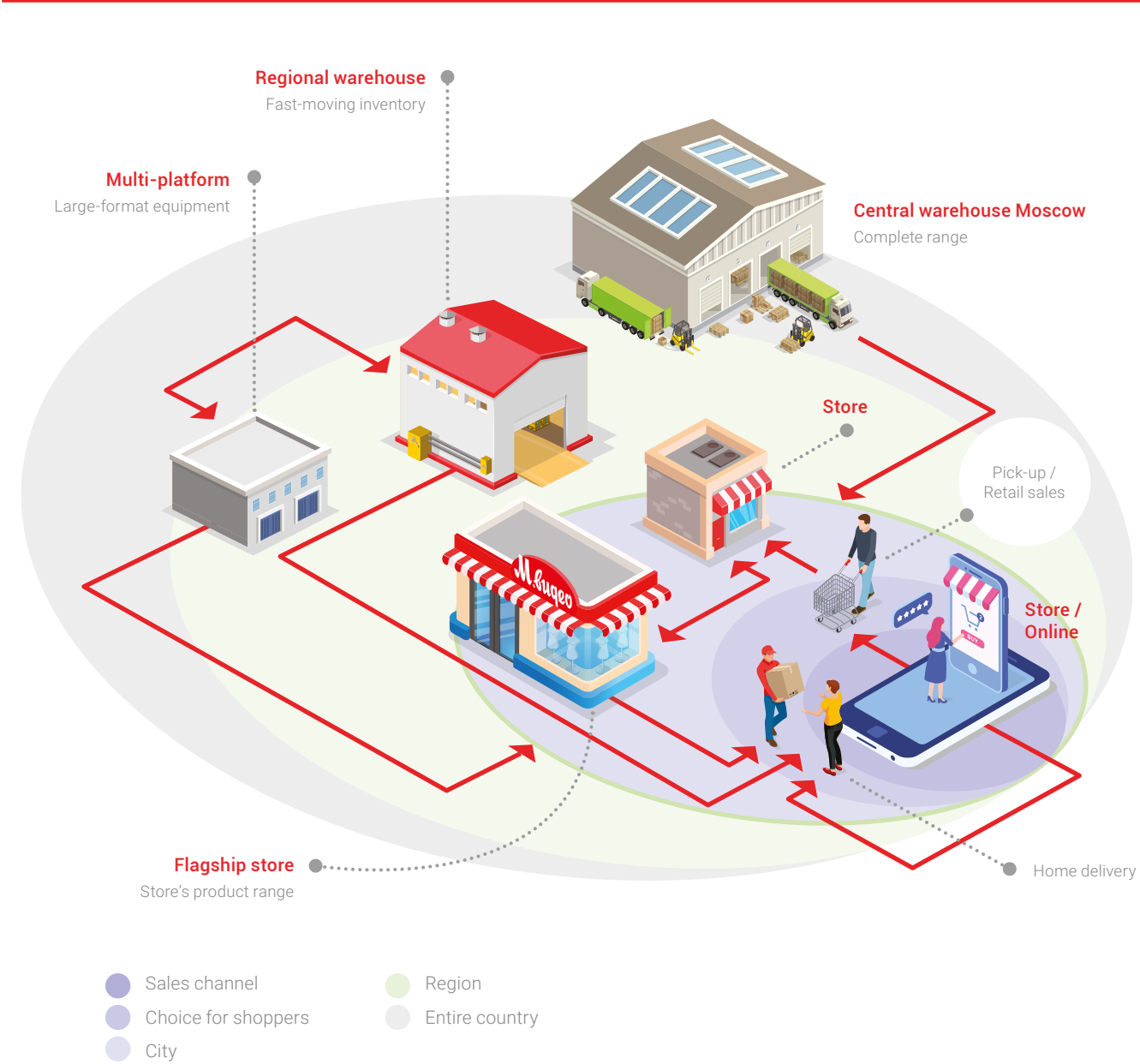
items is stored at the central warehouse in Moscow or at the supplier's warehouse (products are available through the Vendor Catalog service). For those goods that customers cannot receive as part of the service in a particular city, the Group uses a system of delivery upgrade of orders through less truck load shipping (LTL), cross-docking, express delivery by plane, etc.

Orders are delivered to customers by counterparties. As part of the service, high standards of customer service are maintained: urgent delivery, equipment carried up

to the relevant floor free of charge, acceptance of discount mechanisms at the delivery address, etc.

In addition to standard home delivery, a service offering combined delivery and installation of equipment is offered in a number of cities. In 2018, it was decided to develop this service for both Group networks under the HiTechnic brand. On-site service is supported both by partners (through outsourcing) and by HiTechnic's own delivery service using more than 150 branded vehicles.

Inventory restocking model



DELIVERY OF GOODS

In 2018, M.Video–Eldorado Group shipped more than 2.6 million cubic metres of goods, or about 50 thousand vehicles (7% more than in 2017).

All long-haul shipments are carried out by Group counterparties. The choice of transport service providers, including for long-haul transport and home delivery of goods to customers, is based on tender procedures.

The focus of the Group's transport logistics is the constant improvement of delivery times for the entire range of digital equipment and household appliances.

The standard matrix for one M.Video or Eldorado store is 5–7 thousand items depending on the size, geographical location and the specific features of each individual store (for cities with a large number of stores, 7–9 thousand items). A less popular range of more than 10 thousand



Order	Number of deliveries
Pick-up (order online for in-store pickup)	3,858,382
PPO (inspect an item at a store and order it from the warehouse)	1,593,769
Retail home delivery (in-store purchase with delivery to customer's address)	1,337,560
E-com home delivery (online purchase for delivery to customer's address)	699,367
Total number of orders	7,489,078

The number of deliveries in 2018 exceeded

7 million orders +25% y-o-y

DIGITAL TECHNOLOGIES IN LOGISTICS

Digital technologies are one of the key drivers for the development of the logistics platform and customer service. For many years, M.Video–Eldorado Group has been investing in state-of-the-art IT systems that support logistics (SAP ERP (enterprise resource planning), SAP TMS, Predictix, VeeRoute and others), for most of which the Group was a pioneer in the industry and a significant reference in the market.

In 2018, M.Video–Eldorado Group introduced a state-of-the-art system for managing consumer data and product technical specifications. This system makes it possible to pinpoint and correctly manage recommendations for accessories for basic products on the Group's sites; to create and edit SEO search results to simplify product searches; to create and highlight on the Group's sites data on differences in the technical specifications of goods (e.g., colour, memory size, etc.); and to speed up the viewing of product flypages. Reviews and ratings are also combined for the convenience of customers.

The Group is developing VeeRoute, a mobile application for delivery drivers that is integrated with order management and other systems that helps transfer information about the status of orders in real time, to quickly change drivers' electronic route list, etc. M.Video was one of the first to pilot this mobile solution, produced by a Russian startup, which made it possible to significantly improve the quality of last-mile delivery.

The Group has a process of end-to-end inventory planning from supplier to store. The planning system, based on Predictix technologies, uses various mathematical models to predict the optimal level of service at each stage in the supply chain for more than 20,000 active items, with the product line changing by 40% per year.

The Group uses paperless document flow in most transactional processes, which makes it possible to speed up the processing and sending of documentation and to monitor information exchange at all stages of the supply chain.

In 2018, electronic data interchange (EDI) was implemented with more than 100 key suppliers, which made it possible to optimise procurement processes.

An SAP SRM–based electronic tender platform makes the process of purchasing non-commercial services as transparent as possible.

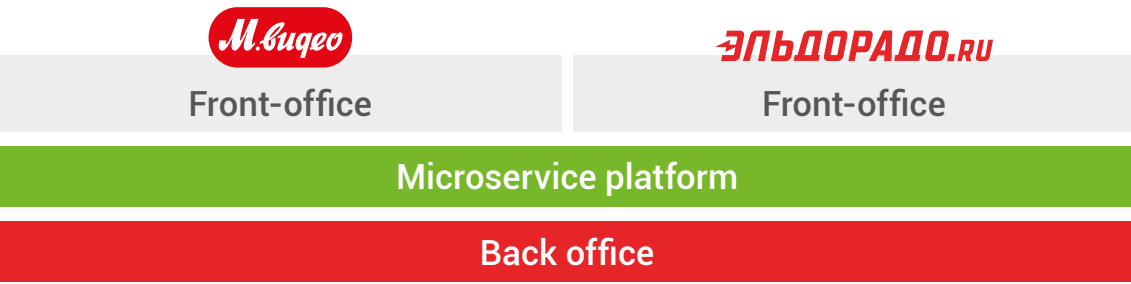
In February 2019, the Group completed its merger with Eldorado and the transition to a single SAP ERP system. The current logistics system successfully serves both brands in every region where they operate. The further integration of processes and the improvement of the distribution system and logistics for M.Video and Eldorado will continue in 2019–2020.

INNOVATION AND INFORMATION TECHNOLOGIES

RETAIL IS A HIGH-TECH INDUSTRY IN WHICH A HIGH RATE OF CHANGE AND INNOVATION IS A COMPETITIVE ADVANTAGE. THE INTERNET AND DIGITAL TECHNOLOGIES ARE BECOMING AN INCREASINGLY IMPORTANT DRIVER OF MARKET DEVELOPMENT. ACCORDING TO THE GROUP, THE TECHNOLOGICAL FUTURE OF TRADE IN CONSUMER ELECTRONICS IS ASSOCIATED WITH THE FURTHER INTEGRATION OF ONLINE AND OFFLINE CUSTOMER INTERACTION AND THE COMPLETE DIGITISATION OF PROCUREMENT AND LOGISTICS MANAGEMENT, MARKETING AND OTHER FUNCTIONS BASED ON MOBILE TECHNOLOGIES AND DATA ANALYTICS.

M.VIDEO–ELDORADO GROUP IS CONSTANTLY INTRODUCING INNOVATIONS AIMED AT STRENGTHENING THE COMPETITIVE ADVANTAGES OF ITS BUSINESS MODEL, AND IT USES A WIDE RANGE OF TECHNOLOGIES: FROM BLOCKCHAIN SOLUTIONS IN WORKING WITH SUPPLIERS TO MACHINE LEARNING IN FORECASTING SUPPLY CHAINS AND BIOMETRICS IN DETERMINING FLEXIBLE STAFFING SCHEDULES. THE GROUP IS STRIVING TO DEVELOP AS AN IT COMPANY AND A DIGITAL RETAILER WITH THE BEST INNOVATIVE CUSTOMER SERVICE IN THE RUSSIAN MARKET.

Target IT architecture: two brands, two front offices, combined back office



IT transformation of M.Video–Eldorado Group

In 2018, as part of the consolidation of M.Video and Eldorado into a single company, the Group team launched an unprecedented project to integrate the IT functions of both retail networks with different management models.

- The key tasks in building a unified IT infrastructure are:
- maintaining the independence of the M.Video and Eldorado brands in the development of front-end solutions
  - transferring Eldorado's back-office operations to the M.Video model
  - optimising costs and ensuring synergies from the merger.

In accordance with the development strategy for the two brands, the Group decided to continue the development of the front-office systems of both networks (websites, commercial systems, including the mobile application for m\_RTD employees and CRM systems). In this regard,

several new departments were created within the IT Division for the development of information systems for both the M.Video brand and the Eldorado brand.

The design of the architecture, the selection of the target model for the merger and the new organisational structure of the IT Division were carried out by the Group's transformation office together with consultants from McKinsey.

- In February 2019, the legal merger between the Group's main operating company, LLC MVM, and LLC ELDORADO and the transition to a single SAP ERP system took place. The key project results were as follows:
- The successful integration of back-end processes based on SAP ERP and an increase in productivity of the Group's systems (the number of operations conducted by the systems has approximately doubled);
  - The processing of about 300 thousand checks per day by the unified system;
  - An essential update of Eldorado's front-office systems;
  - Ensuring synergies: reducing the operating costs of IT and for staff in the IT Division.

Management of technological development

As of the end of 2018, the Group's IT team was supporting more than 100 IT systems, including both their own products and external services and solutions produced by Russian and foreign startups, such as Verme, VeeRoute, a credit broker system, etc.

Maintenance and development of the Group's IT systems and information services are the responsibility of the Information Technologies Division, which employs more than 460 people. The IT Division takes a classical approach to project management and also works in accordance with agile principles (flexible management within working groups), which makes it possible to optimise the speed and cost of implementing complex business solutions based on a specific task.

Within the Group, there is also a centralised Project Management Division, which represents a project office responsible for the complete cycle of portfolio

management and the implementation of strategic, business and IT projects. A centralised approach to the introduction of new solutions and common standards for evaluating and making investment decisions ensure timely support for the Group's priorities and impactful investments in further development. In 2018, the project office implemented more than 40 projects of various sizes in the fields of logistics, finance, retail sales and IT.

To effectively support the transition to the ONE RETAIL model, retail systems that have a direct impact on customer experience are being developed using a product approach. To this end, management forms product teams responsible for the continuous development of key IT products such as M.Video and Eldorado's websites, mobile applications, the order management system, etc.

Business digitisation programme

In 2019, the Group began work on a new large-scale programme to digitise front- and back-office processes in order to create a new customer experience, increase revenue and reduce operating costs.

See 'Strategy', p. 47

The programme includes large-scale projects in such areas as logistics, financial management, HR, etc., that were selected jointly with KPMG consultants. Scheduled for a period of up to three years, the programme includes plans for the implementation of up to 50 projects.

Digital workspace

The Group is introducing a flexible digital workspace for employees both at corporate headquarters and in retail stores. In particular, personal computers for more than 800 employees from corporate headquarters have been replaced by thin clients, a virtual machine integrated with cloud storage, i.e., with just laptop and Internet access, employees can access their work documents anywhere. This approach enables staff mobility and makes it possible to quickly assemble operational teams for specific tasks.

Data Science Centre

In 2018, M.Video–Eldorado Group created the Digital Retail Data Science Centre, which has expertise in the areas of data analytics and machine learning. The Centre's main function is the development and implementation of mathematical algorithms in the Group's business processes: marketing, online sales, logistics and personnel management. The Group expects that technologies based on data analysis will reduce operating costs and could bring in up to RUB 5 billion in additional turnover in the medium term.

In 2018, the Centre's team began piloting a number of services based on machine learning, including targeted marketing solutions and pickup of online orders using algorithms and a chat bot.

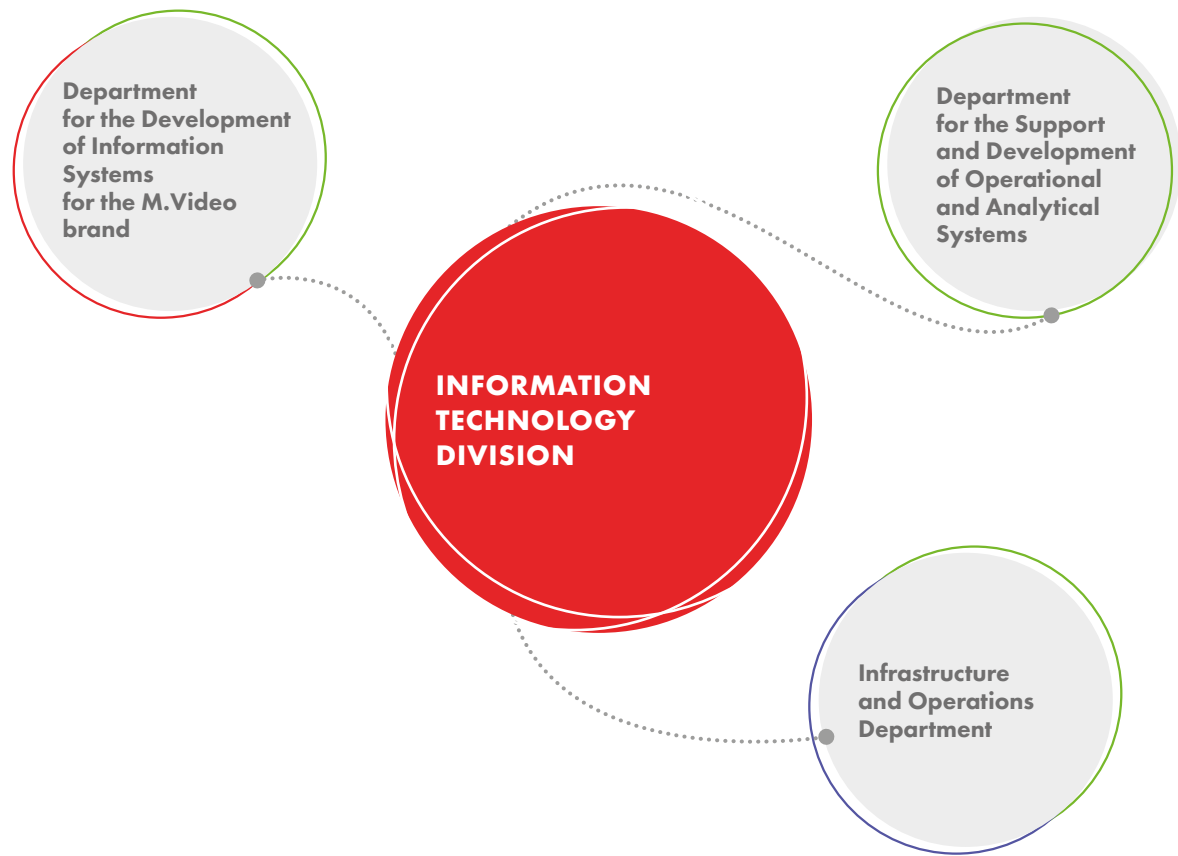
See "Customer experience", p. 71

The Data Science Centre's priorities in 2018 were personalised marketing and optimisation of the customer experience on the website. Developments in these areas could significantly improve the level of service personalisation. In particular, M.Video–Eldorado analyses the behaviour of customers both online and offline, including their purchase history, their use of bonus points and other discount mechanisms, their behaviour on the site and in stores, views, abandoned baskets and responses to marketing communications, SMS and e-mail newsletters.

The Group is also implementing solutions based on data analytics in internal processes, including logistics and personnel management. For example, M.Video and Eldorado forecast the daily need for personnel in retail, as well as the demand for managing logistics supplies. When planning schedules for personnel and for the transportation of goods to each store, the geographic location of the store, traffic, seasonality, as well as the speed of retail sales and potential pickup volumes of online orders are taken into account.

By the end of 2019, the Group plans to increase the number of staff at the Centre

to 17 people





# OPERATING AND FINANCIAL PERFORMANCE FOR 2018



**Ekaterina Sokolova,**  
**M.Video-Eldorado Group Chief Financial Officer**

The first performance results of the combined M.Video-Eldorado Group confirm the success of Eldorado’s integration into the Group and the effectiveness of our new two-brand strategy. At the end of 2018, the Group demonstrated record pro forma sales<sup>1</sup> growth of 18% and a comparable increase in revenue, and both M.Video and Eldorado showed double-digit growth rates. At the same time, we increased our consolidated EBITDA by 39%, demonstrating a record EBITDA margin for the Group at 6.0%. This result was achieved due to an increase in gross margin and operating efficiency, which was largely due to synergies following the merger of the two networks, including the centralization of inventory management and logistics, as well as the realization of economies of scale. We are proud that, due to our increased operating profitability, the Group has become one of the three most profitable publicly traded consumer electronics companies in the world by EBITDA.

‘In 2019, we will continue to improve the combined Group’s operating efficiency, realizing economies of scale in the rapidly growing network under the M.Video, Eldorado and m\_mobile brands. In addition, as part of the new business digitisation programme, we plan to actively invest in the development of front- and back-office systems, as well as the creation of unique new services and solutions based on the ONE RETAIL concept.

‘Despite large M&A deals in 2018, our leverage remained at a comfortable level, with net debt/EBITDA amounting to 1.6x for the year.



<sup>1</sup> Pro forma results reflect revenue, EBITDA, composite sales and LFL, including Eldorado’s results for the full 12 months of 2018 and retrospectively for the 12 months of 2017.

## Group operating performance as of the end of 2018

The M.Video-Eldorado Group’s sales increased by 14.1% year-on-year (to RUB 421.4 billion including VAT). By year end, M.Video sales had grown by 19.6% (to RUB 279.8 billion); Eldorado’s sales had grown by 17.7% (to RUB 141.6 billion).

Like-for-like sales increased by 13.5% due to an increase in traffic in the stores of both Group networks, as well as an increase in the average check at a time when the share of revenue from digital products, accessories and services was increasing. M.Video increased Like-for-like sales by 12.9% year-on-year, and Eldorado showed record-breaking growth in LFL sales of 14.8%.

In line with approved strategy, the Group continued to actively grow digital product sales, including through the use of the m\_mobile format. At the end of the year, sales of digital products in the Group’s individual stores and specialised zones increased by 34.3% (twice the growth rate of the Russian market) to RUB 72.9 billion. The Group also focused on Eldorado’s digital product line, increasing this category’s share in the company’s sales by 5 percentage points to 20.6% for 2018.

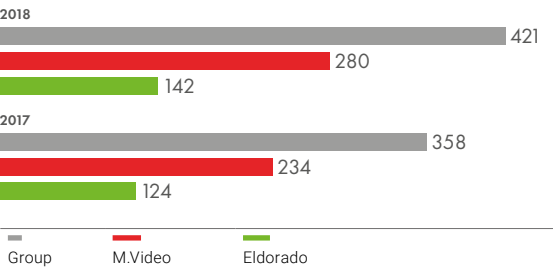
The Group’s online sales increased by 31.0% in 2018, compared to 2017, to RUB 77.3 billion due to an increase in online store traffic and customer conversion, as well as a high average purchase amount.

M.Video’s online sales increased by 45.7% year-on-year (approximately 1.5 times above the market average) to RUB 52.8 billion owing to improved functionality and user experience on the www.mvideo.ru website. Eldorado saw online sales increase by 7.5% to RUB 24.5 billion<sup>2</sup>, amid the network’s transition to an omni-channel model and the alignment of online and store prices, which caused a temporary redistribution of customer traffic in favour of offline stores.

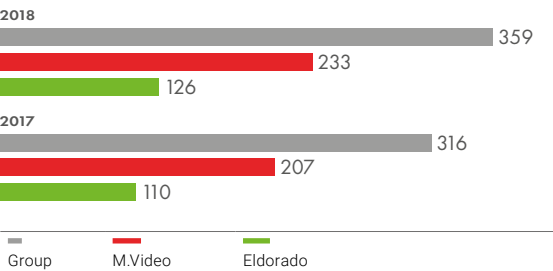
The share of online sales in the Group’s total sales reached 18.3%, up from 16.5%<sup>3</sup> in 2017. Most customers who ordered products from the M.Video and Eldorado online stores preferred to pick up their products at the Group’s points of sale: the share of self-pickups in online sales was 74.4% for the year.

<sup>2</sup> Including VAT.  
<sup>3</sup> Pro forma indicator.

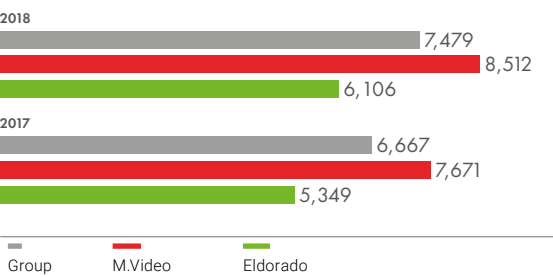
## Net turnover (including VAT), RUB bln



## Like-for-like sales, RUB bln



## Average check, RUB



**RUB 421.4 billion**  
The M.Video-Eldorado Group’s sales

**+14.1%**  
y-o-y

In 2018, the combined Group opened a record number of new stores, increasing its network by 102 sales points (87 of these were opened in the fourth quarter), including 51 M.Video stores, 46 Eldorado stores and five m\_mobile stores. The total number of stores at the end of the year reached 941, giving the Group a presence in 220 cities across Russia.

Group financial performance in 2018

Consolidated IFRS financial results<sup>1</sup>

The Group’s consolidated revenue in 2018 increased by 62.0% over 2017 to RUB 321.1 billion owing to strong growth in like-for-like store sales, an increase in online sales and the acquisition of the Eldorado network.

Consolidated gross profit increased by 69.0% to RUB 78.6 billion, and gross margin improved by 1 percentage point year-on-year (to 24.5%) at the end of 2018, mainly due to efficient product line and inventory management, as well as a growing share of digital product sales in total Group sales.

The Group’s consolidated EBITDA increased by 76.0% year-on-year and reached RUB 20.8 billion, while EBITDA margin increased by 0.5 percentage points year-on-year to 6.5%, the highest level in the company’s history.

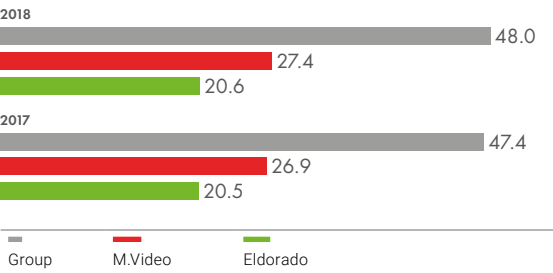
Combined financial performance (pro forma)

The pro forma company’s combined gross margin increased by 19.4% year-on-year and amounted to RUB 86.7 billion, while gross margin increased by 0.8 percentage points on an annualized basis to 24.6% in 2018.

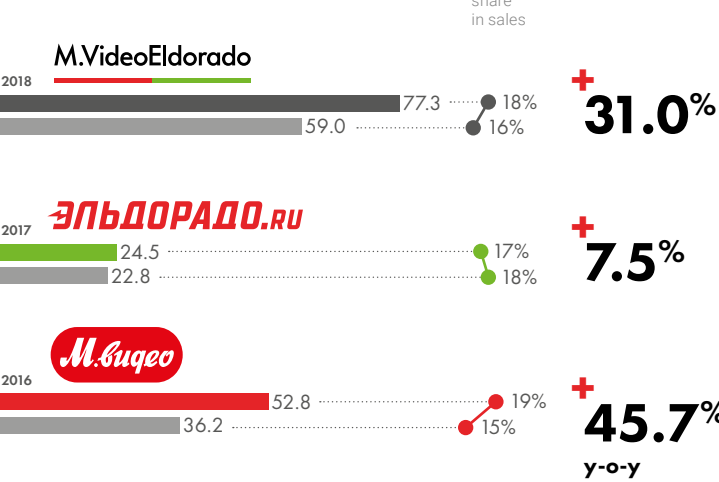
Consolidated pro forma EBITDA for the Group increased by 39.2% year-on-year and reached RUB 21.3 billion, while EBITDA margin increased by 1.0 percentage point year-on-year to 6.0% in 2018.

Year-on-year improvement in the EBITDA margin was due to an increase in gross margin along with the increased operating efficiency of key combined functions. Following the integration of the Eldorado network and MediaMarkt stores, the Group realized more than RUB 6 billion in EBITDA synergies in 2018 due to centralized procurement and management systems, as well as through economies of scale.

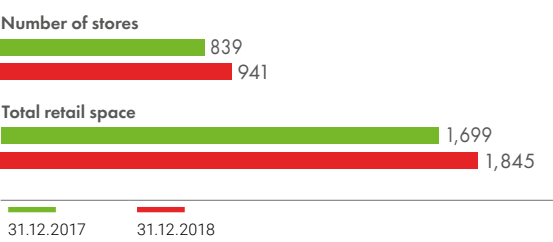
Number of checks, mln transactions



Group online sales (including VAT)<sup>2</sup>, RUB billion

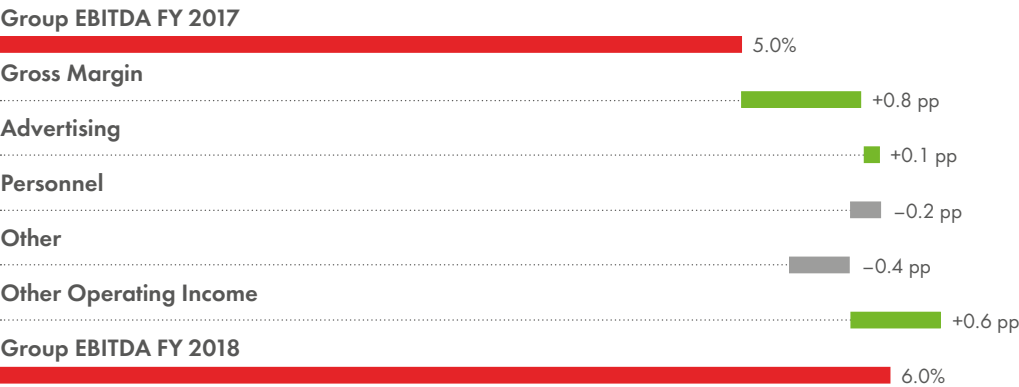


Development of the retail network in 2018



<sup>1</sup> IFRS – International Financial Reporting Standards.  
<sup>2</sup> Including VAT.

Evolution of pro forma EBITDA profitability



The ratio of advertising and product promotion expenses to revenues decreased by 0.1 percentage points from 2.1% to 2.0% as a result of reduced advertising prices initiated by the Group, including as a synergy effect given the role of M.Video and Eldorado as large advertisers.

Expenses for wages as a share of revenues increased by 0.2 percentage points from 6.9% to 7.1%, which was mainly due to the expansion of the retail network and the payment of one-time compensation as part of the integration of MediaMarkt stores and staff restructuring. This effect was partially offset by an increase in labour productivity in both the M.Video and Eldorado networks. In 2018, sales per hour increased by 14.7% and 18.0% at M.Video and Eldorado, respectively; the number of products sold per hour at M.Video and Eldorado increased by 5.2% and 8.5%, respectively; and the number of purchases per hour increased by 3.5% and 4.1%.

Despite the opening of new stores, the ratio of leasing costs to revenue in 2018 remained at 5.4% due to lower leasing costs following negotiations between the merged company and lessors.

The ratio of other expenses to revenue increased by 0.6 percentage points year-on-year to 2.6%, which was mainly due to non-recurrent costs associated with the incorporation of the MediaMarkt and Eldorado legal entities, including costs for consulting services, reserves for taxes and allowance for bad debt.

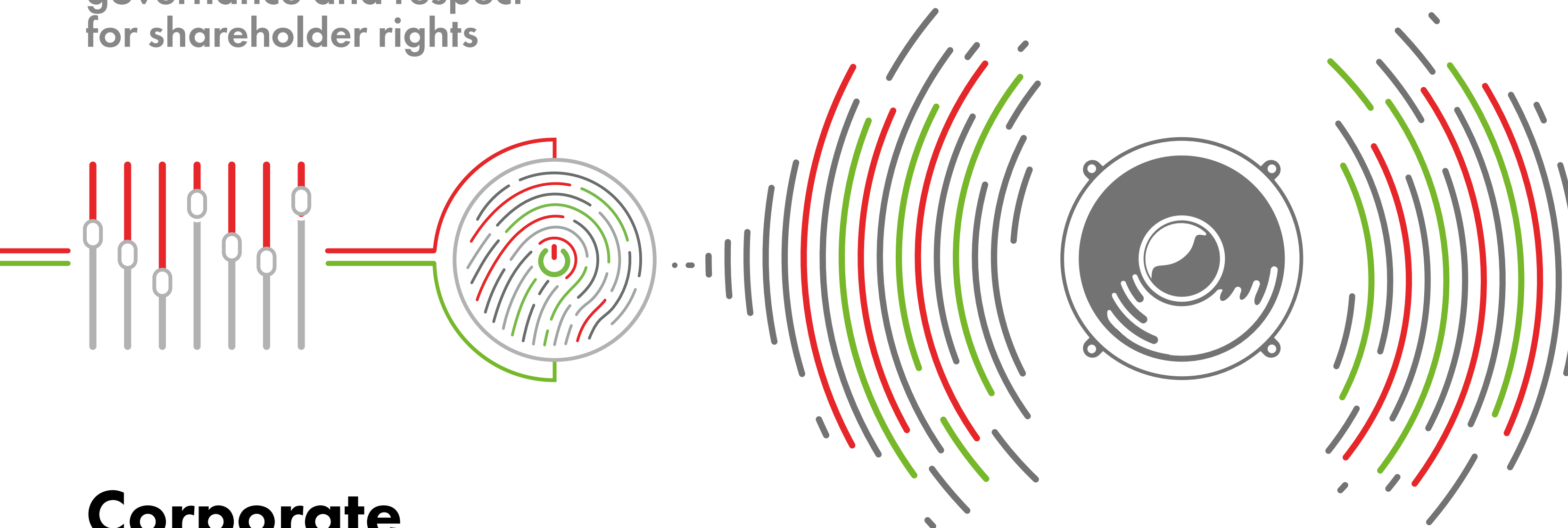
Debt portfolio and liquidity

At the end of 2018, the Group’s total debt amounted to RUB 59.5 billion, with 76.8% of the debt portfolio represented by long-term liabilities related to the acquisition of Eldorado and MediaMarkt.

Cash and cash equivalents as of 31 December 2018 reached RUB 25.7 billion. The net debt/EBITDA ratio for the year was 1.6x. The group intends to consistently reduce its debt burden in the future.



Compliance with high standards of corporate governance and respect for shareholder rights



**Corporate Governance**



OVERVIEW OF THE CORPORATE GOVERNANCE SYSTEM ➡

M.VIDEO-ELDORADO GROUP'S CORPORATE GOVERNANCE SYSTEM

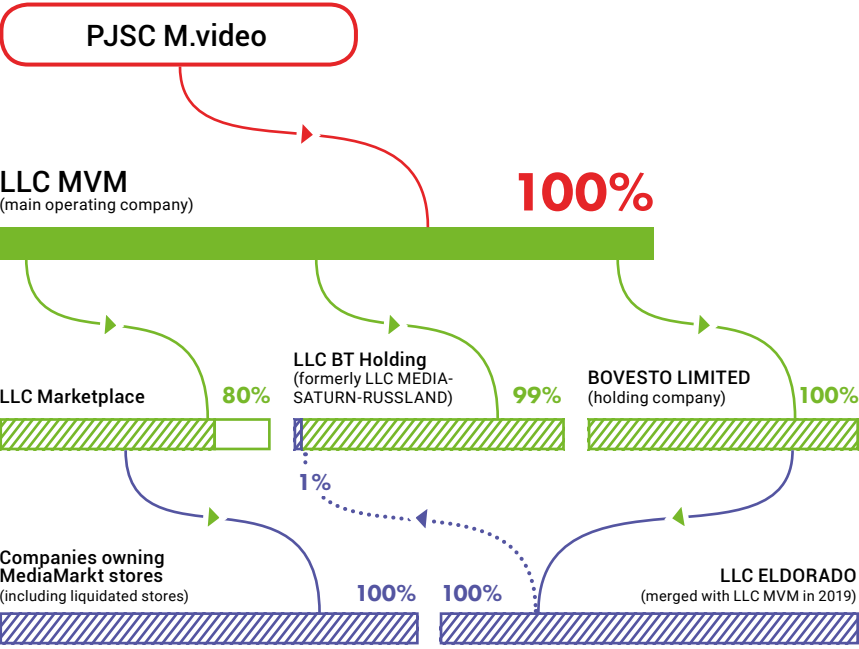
M.VIDEO-ELDORADO GROUP CONSIDERS THE ESTABLISHMENT OF AN EFFECTIVE CORPORATE GOVERNANCE MODEL TO BE A KEY FACTOR IN ENSURING SHAREHOLDERS' RIGHTS AND CREATING TRUSTING RELATIONSHIPS WITH INVESTORS AND OTHER GROUP STAKEHOLDERS.

As part of the development of its corporate governance system, the Group is guided by the requirements of the laws of the Russian Federation, the Listing Rules of PJSC Moscow Exchange and the principles and recommendations of the Corporate Governance Code recommended for use by the Bank of Russia.

The Group is structured as a holding company whose parent is PJSC M.video (hereinafter referred to as the 'Company'). All strategic decisions, as well as key business decisions taken by the Group's operating companies, are made at the level of the Company's executive bodies, which makes it possible to achieve full coordination among operational divisions, to reduce administrative expenses and to the use the Group's resources as efficiently as possible.

The Group's main operating company is LLC MVM<sup>1</sup>, a subsidiary of PJSC M.video, which operates the M.Video and Eldorado retail networks. As the main commercial operator within the Group, this company is the owner of the goods sold by M.Video and Eldorado, as well as the owner of the real estate assets used by both networks. In addition, LLC MVM owns 80% of the shares in LLC MARKETPLACE, which runs the Goods online platform.

Key companies in M.Video-Eldorado Group as of 31 December 2018



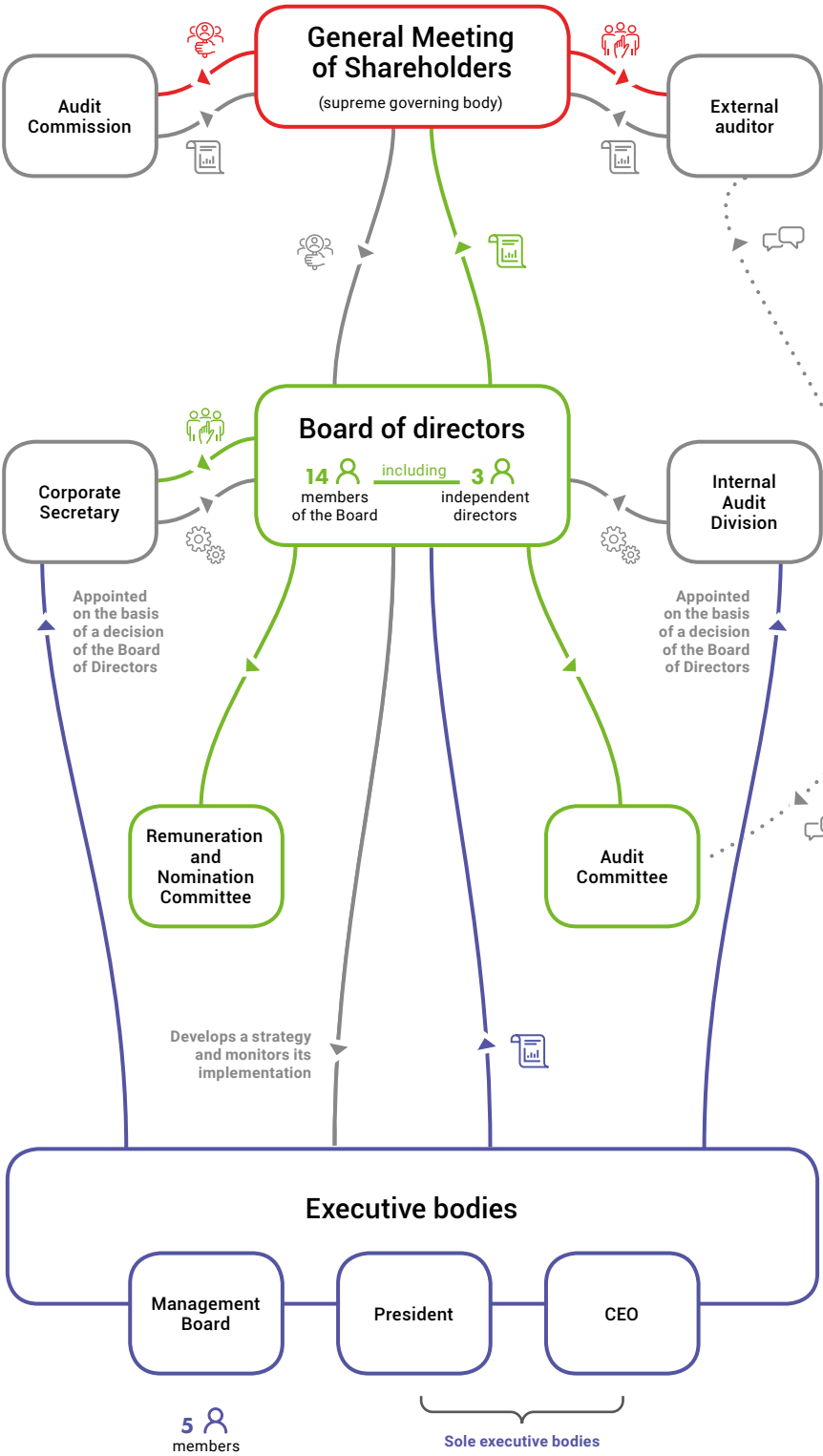
Major changes in the Group's structure since the reporting date

In February 2019, the merger of LLC ELDORADO into LLC MVM was completed as part of the legal integration of the Eldorado network into the Group. As a result, PJSC M.video's effective ownership share of LLC MVM remained unchanged at 100%.

In an effort to optimise the Group's structure, a decision was taken in H1 2019 to liquidate a number of Russian legal entities acquired by the Group as part of a deal to purchase the Russian business of MediaMarkt.

<sup>1</sup> Prior to 31 October 2018, the company was called LLC M.video Management.

PJSC M.video's corporate governance system



- Elects
- Approves
- Reports to
- Functionally subordinate to
- Communication

The key elements of the PJSC M.video's corporate governance model are the General Meeting of Shareholders, the Board of Directors and its committees, the Management Board and the sole executive bodies (the President and Chief Executive Officer), the Audit Commission and the Company's structural divisions responsible for the internal control and internal audit functions.

Oversight of the Company's compliance with applicable corporate laws, the provisions of the Charter and the Company's bylaws guaranteeing the exercise of the rights and legitimate interests of shareholders is carried out by the Corporate Secretary, who is appointed by the Board of Directors.

Additional guarantees of the veracity of the Company's accounting and financial statements in accordance with Russian and international standards are provided by engaging an external (independent) auditor approved by the General Meeting of Shareholders.

PRINCIPLES OF CORPORATE GOVERNANCE

The Company adheres to the following key principles, which are designed to secure the interests of shareholders and to ensure a reasonable balance between the powers of the governing bodies and those of the oversight bodies:

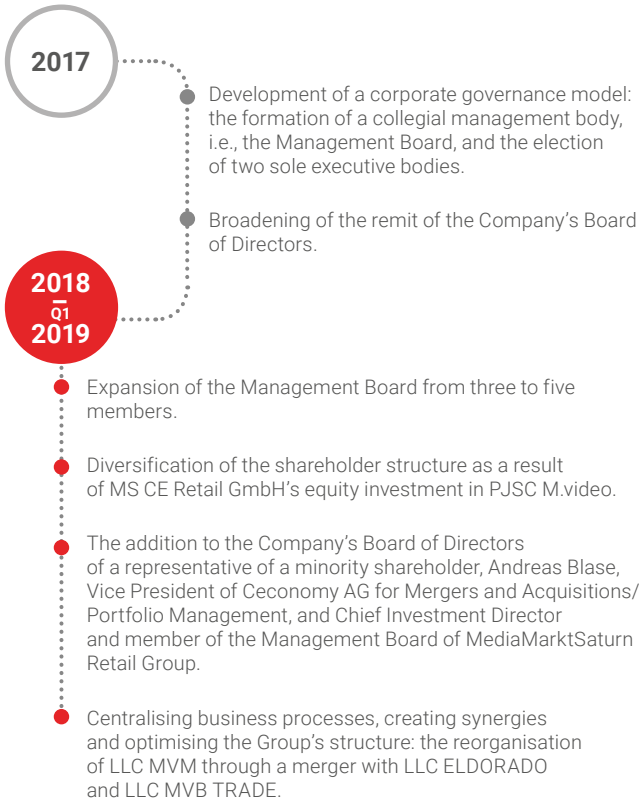
- providing shareholders with a genuine opportunity to exercise their rights related to participation in the Company;
- ensuring equal treatment of all shareholders and equal rights of shareholders who own an equal number of shares of the same type (category), including minority and foreign shareholders;
- implementation by the Board of Directors of the strategic management of the Company's operations and its effective oversight of the activities of the Company's executive bodies;
- accountability of the members of the Company's Board of Directors to shareholders;
- executive management of the Company's day-to-day activities in the interests of ensuring its long-term sustainable development, shareholder profit from these activities and accountability of executive bodies to the Board of Directors and the Company's shareholders;
- timely disclosure of complete and accurate information about the Company that is necessary for shareholders to make informed decisions;
- ensuring effective oversight of the Company's financial and commercial operations in order to protect shareholders' rights and legitimate interests;
- social responsibility and respect for the rights and legitimate interests of other interested parties.

DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM

THE COMPANY ADHERES TO A POLICY OF CONTINUOUS DEVELOPMENT OF ITS CORPORATE GOVERNANCE SYSTEM, TAKING INTO ACCOUNT THE STRATEGIC GOALS AND OBJECTIVES OF M.VIDEO-ELDORADO GROUP AND BEST CORPORATE GOVERNANCE PRACTICES.

Changes to the corporate governance system significantly improved oversight of decisions made in PJSC M.video subsidiaries by specifying the position of the Company's representative of participants of subsidiary companies are taking decisions.

Key events in the framework of improving the Company's corporate governance in 2017–2018 include the following



CORPORATE GOVERNANCE ASSESSMENT

The Board of Directors monitors the practice of corporate governance in the Company and plays a key role in material corporate events of M.Video–Eldorado Group. Assessing corporate governance falls within the remit of the Board of Directors and is also one of the tasks of the Company's internal audit function.

PJSC M.video conducts an annual assessment of compliance with the principles and recommendations of corporate governance enshrined in the Corporate Governance Code recommended by the Bank of Russia (hereinafter also referred to as the 'Code'). Every

year, the Company strives to improve compliance with the principles and recommendations of the Code and discloses information on compliance with these principles and recommendations.

As part of its efforts to improve the Company's corporate governance system, an external consultant conducted an assessment in 2017 of the work of the Board of Directors for 2016. In 2020, the Company plans to engage an external consultant to assess the work of the Company's Board of Directors. In addition, the Company plans to conduct a self-assessment of the work of the Board of Directors in 2019.

GENERAL MEETING OF SHAREHOLDERS

THE GENERAL MEETING OF SHAREHOLDERS IS THE COMPANY'S SUPREME GOVERNING BODY. IT IS CONVENED BY THE BOARD OF DIRECTORS AT LEAST ONCE A YEAR. DECISIONS OF THE GENERAL MEETING OF SHAREHOLDERS ARE BINDING ON THE BOARD OF DIRECTORS, THE MANAGEMENT BOARD, THE PRESIDENT AND THE CEO, AS WELL AS ALL COMPANY EMPLOYEES.

The remit of the General Meeting of Shareholders includes the following key issues in particular:

- determining the number of members of the Board of Directors, as well as the election and early termination of Board members;
- electing the members of the Company's Audit Commission and the early termination thereof;
- approving the auditor;
- distributing the Company's profits (including the announcement of dividends) and losses;
- paying out (announcing) dividends based on the results for Q1, H1, Q3 and the reporting year.

General meetings of shareholders are held annually. On the basis of a decision by the Board of Directors, the Annual General Meeting of Shareholders is held not earlier than two months and not later than six months after the end of the fiscal year.

A general meeting of shareholders may be held in the form of an in-person meeting or by absentee voting. In accordance with the Charter, the Company informs shareholders about general meetings by posting a message on the Company's official website. Other materials provided to shareholders in preparation for general meetings are also posted on the Company's website.

<http://invest.mvideo.ru/eng/>



General meetings of shareholders of PJSC M.video held in 2018

Type and date of general meeting	Decisions of the General Meeting of Shareholders
Extraordinary 13 April 2018	<ul style="list-style-type: none"><li>• A decision was made to consent to a material, interested-party transaction (related transactions): the Company entered into a pledge and surety agreement for a loan from VTB Bank (PJSC) in order to acquire Bovesto Limited (the parent company of LLC ELDORADO)</li></ul>
Annual 29 June 2018	<ul style="list-style-type: none"><li>• A decision was taken not to distribute the Company's net profit for the year</li><li>• The size of the Board of Directors was set at 14 members</li><li>• The Board of Directors and the Audit Commission were elected</li><li>• JSC Deloitte &amp; Touche CIS was approved as the auditor of the Company's annual financial statements in accordance with RAS and IFRS</li><li>• The amount of remuneration and compensation of expenses for members of the Board of Directors and the Audit Commission for the period from July 2018 through June 2019 was determined</li></ul>

1 RAS stands for Russian Accounting Standards.

An Extraordinary General Meeting of Shareholders held on 18 January 2019 took a decision to elect a new Board of Directors for the Company. In accordance with the decision, Andreas Blase, Ceconomy Vice President for Mergers and Acquisitions/Portfolio Management, and Chief Investment Officer and member of the Management Board of MediaMarktSaturn Retail Group, joined the Board of Directors. Maxim Kalyuzhny, Director of Legal and Corporate Affairs of GCM Global Energy PLC, left the Board of Directors.

In order to comply with the recommendations of the Corporate Governance Code recommended for use by the Bank of Russia, PJSC M.video includes the position of the Board of Directors concerning agenda items in the materials for the Annual General Meeting of Shareholders.

In 2019, the Company is conducting an analysis of the possibility of using telecommunications to provide shareholders with remote access to participate in the General Meeting of Shareholders.

## BOARD OF DIRECTORS

THE BOARD OF DIRECTORS IS A COLLEGIAL MANAGEMENT BODY THAT EXERCISES OVERALL STRATEGIC MANAGEMENT OF THE ACTIVITIES OF PJSC M.VIDEO, THE FORMATION OF EXECUTIVE BODIES AND OVERSIGHT OF THEIR ACTIVITIES, AS WELL AS OBSERVANCE OF THE RIGHTS AND LEGITIMATE INTERESTS OF THE COMPANY'S SHAREHOLDERS.

In accordance with the Charter, the Board of Directors is responsible for making the following key decisions on issues related to management of the Company:

- determination of the Company's priority areas of activity and development strategy, as well as oversight of their implementation by executive bodies;
- approval of the Company's Annual Report and its annual financial statements in accordance with RAS and IFRS;
- approval of the Company's risk management and internal control system, Risk Management and Internal Control Policy, and risk matrix;
- assessment of the Company's corporate governance practices;
- approval of the Regulation on Internal Audit, assessment of the work of the head of the Internal Audit Division, approval of reports on its work, approval of the Internal Audit Plan for the calendar year and the introduction of changes thereto;

- recommendations on the amount of dividends, the form and procedure for the payout thereof, and approval of the Company's Dividend Policy Regulation;
- approval of major transactions and interested-party transactions in accordance with the criteria specified by law and the Charter;
- preliminary approval of the actions and decisions on the part of the Company's authorised representatives at meetings of participants and on boards of directors of Company subsidiaries or other organisations in which the Company has a stake when making decisions on key issues related to the activities of these organisations;
- other issues stipulated by the Company's Charter and the laws of the Russian Federation.

The Board of Directors is formed by the General Meeting of Shareholders and is accountable to the General Meeting. The Board of Directors must have at least seven members.



At the Annual General Meeting of Shareholders on 29 June 2018, the size of the Board of Directors was set at

14 members

## COMPOSITION OF THE BOARD OF DIRECTORS

The principles for the formation of the Board of Directors laid down in the Charter and Company bylaws are formulated taking into account the requirements of applicable laws, the PJSC Moscow Exchange Listing Rules applicable to the Company and the recommendations of the Corporate Governance Code.

- In particular, in order for the Board of Directors to effectively carry out its oversight functions and to prevent potential conflicts of interest:
- members of the Company's executive bodies may not constitute, in the aggregate, more than one-quarter of the members of the Board of Directors, and they are elected by a collegial decision of the Board of Directors; and
  - the Board of Directors must include at least three independent members.

The Company assesses the compliance of candidates for the Board of Directors with the independence criteria established by the Moscow Exchange Listing Rules and the Regulation on the Company's Board of Directors.

In 2018, Sait-Salam Gutseriev left the Board of Directors, and Eldar Vagapov joined the Board of Directors. In January 2019, in accordance with a decision of an Extraordinary General Meeting of Shareholders, Maxim Kalyuzhny left the Board of Directors, and Andreas Blase, Vice President for Mergers and Acquisitions/Portfolio Management, and Chief Investment Officer and Management Board member of MediaMarktSaturn Retail Group, became a non-executive member of the Board of Directors.

Based on the results of an assessment of the work of the Board of Directors to be conducted by an external consultant in 2020, the Company plans to consider questions concerning the compliance of the number of members of the Board of Directors with the Company's needs and the interests of shareholders and about increasing the number of independent directors to at least one-third of the Board of Directors.

### Structure of the Board of Directors in terms of the status of directors as of 31 December 2018

Name of Board member	Status	
	Non-executive director	Independent director
Said Gutseriev	♥	
Mikhail Gutseriev	♥	
Pavel Breev		
Alexander Tynkovan		
Bilan Uzhakhov		
Avet Mirakyan	♥	
Vilen Eliseev	♥	
Anton Zhuchenko	♥	
Vladimir Preobrazhensky		♥
Andrey Derekh		♥
Alexey Makhnev	♥	
Maxim Kalyuzhny	♥	
Eldar Vagapov	♥	
Janusz Lella		♥



MEMBERS OF THE BOARD OF DIRECTORS

AS OF 31 DECEMBER 2018



**Said Gutseriev**  
Chairman of the Board  
of Directors

Biographical information

Born in 1988.  
**Education:** Plymouth Business School, University of Plymouth, University of Oxford (St. Peter's College)

**2012–2014:** worked for Glencore UK Ltd.  
**2016–2017:** member of the Board of Directors of JSC INTECO.  
**2017–2018:** member of the Board of Directors of PJSC Mospromstroy.  
**2017:**

- member of the Board of Directors of JSC BINBANK kreditnye karty;
- member of the Board of Directors of LLC ROST CAPITAL;
- member of the Board of Directors of JSC ROST BANK;
- member of the Board of Directors of PJSC BINBANK.

**2017–2018:**

- member of the Board of Directors of JSC Doverie National Pension Fund;
- member of the Board of Directors, Chairman of the Board of Directors of LLC Safmar Retail;
- member of the Board of Directors of the JSC SAFMAR National Pension Fund.

**Since 2017:** Chairman of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2014:**

- CEO of JSC FortelInvest;
- member of the Board of Directors of PJSC NK RussNeft;
- member of the Board of Directors of JSC Russian Coal;
- member of the Board of Directors of JSC Preobrazhenskneft (since 2015: Chairman of the Board of Directors).

**Since 2015:**

- member of the Board of Directors of JSC Oilgastet (since 2015: Chairman of the Board of Directors);
- member of the Board of Directors of PJSC Orsknefteorgsintez;
- member of the Board of Directors of JSC NK Neftisa;
- member of the Board of Directors of JSC FortelInvest;
- Chairman of the Board of Directors of LLC Geoprogress.

**Since 2016:**

- member of the Board of Directors of LLC A101;
- member of the Board of Directors of JSC Korporatsiya A.N.D.

**Since 2017:**

- member of the Board of Directors of LLC Pioneer Estate;
- member of the Board of Directors of JSC A101 DEVELOPMENT;
- member of the Board of Directors of JSC SAFMAR Group;
- member of the Board of Directors of JSC KOMPANIYA ADAMAS;
- member of the Board of Directors and Chairman of the Board of Directors of LLC ELDORADO;
- member of the Board of Directors of JSC Proekt-grad;
- member of the Board of Directors of JSC Avgur Estate;
- member of the Board of Directors of PJSC SAFMAR Financial Investments;
- Since 2017: member of the Board of Directors of LLC Larnabel Ventures;
- Since 2017: member of the Board of Directors of JSC Europlan Leasing Company.

**Since 2018:**

- member of the Board of Directors of JSIC VSK;
- member of the Board of Directors of FLLC Slavkali.



**Pavel Breev**  
Executive director  
(member  
of the Management Board  
of PJSC M.video)

Biographical information

Born in 1967.  
**Education:** S. K. Tumansky Moscow Aviation Engine-Building Technical College

**Since 2006:** member of the Board of Directors of PJSC M.video.  
**2006–2013:** CEO of OJSC Kompaniya M.video (now PJSC M.video).  
**2008–2013:** Director of Retail Business Development, LLC M.video Management.  
**Since 2013:** executive director of PJSC M.video.  
**2013–2017:** CEO of LLC M.video Management.  
**2016–2017:** Director of the Private Limited Liability Company Svece Limited.  
**Since 2017:** member of the Management Board of PJSC M.video.

Positions held in other organisations

**Since 2017:**

- Vice President of LLC MVM (formerly LLC M.video Management);
- director of Tonesino Limited;
- alternate director of Starwolf Limited;
- member of the Board of Directors of LLC ELDORADO.

**Since 2018:** member of the Management Board of LLC ELDORADO.



**Mikail Gutseriev**  
Non-executive director

Biographical information

Born in 1958.  
**Education:** Institute of Technology, Dzhambul (now Taraz), Kazakh SSR; Gubkin Russian State University of Oil and Gas, Moscow; Financial Academy under the Government of the Russian Federation, Moscow; St. Petersburg Law University

**2010–2015:** President of PJSC NK RussNeft.  
**2013–2014:** Chairman of the Management Board of the Safmar Charitable Foundation.  
**2015–2018:** member of the Board of Directors of CJSC IP Slavneftekhim.  
**2016:** member of the Board of Directors of LLC ROST CAPITAL.  
**2016–2017:** member of the Board of Directors of JSC INTECO (since 2017: Chairman of the Board of Directors).  
**2017–2018:** member of the Board of Directors and Chairman of the Board of Directors of JSC SAFMAR Group.  
**2017:**

- member of the Board of Directors and Chairman of the Board of Directors of JSC ROST BANK;
- member of the Board of Directors, Chairman of the Board of Directors of PJSC BINBANK;
- member of the Board of Directors of LLC Stroitel'naya kompaniya Strategiya;
- member of the Board of Directors of JSC PATRIOT;
- member of the Board of Directors of JSC Delovoi tsentr.

**Since 2017:** member of the Board of Directors of PJSC M.video.  
**2017–2018:**

- member of the Board of Directors of the JSC SAFMAR National Pension Fund.
- member of the Board and Chairman of the Board of Mospromstroy-Fund National Pension Fund.

Positions held in other organisations

**Since 2010:**

- Chairman of the Board of Directors of JSC Russian Coal;
- member of the Board of Directors of PJSC NK RussNeft (since 2015: Chairman of the Board of Directors).

**Since 2011:** member of the Board of Directors and Chairman of the Board of Directors of FLLC Slavkali.  
**Since 2013:** member of the Board of Directors and Chairman of the Board of Directors of JSC NK Neftisa.  
**Since 2015:**

- member of the Board of Directors and Chairman of the Board of Directors of JSC FortelInvest;
- Chairman of the Board of the Safmar Charitable Foundation.

**Since 2016:**

- member of the Board of Directors and Chairman of the Board of Directors of PJSC Mospromstroy;
- member of the Board of Directors of LLC PO Mekhovye Promysly (since 2017: Chairman of the Board of Directors);
- member of the Board of Directors, Chairman of the Board of Directors of LLC Pioneer Estate;
- member of the Board of Directors of JSC Korporatsiya A.N.D. (since 2017: Chairman of the Board of Directors);
- member of the Board of Directors of LLC Green Point (since 2017: Chairman of the Board of Directors);
- member of the Board of Directors, Chairman of the Board of Directors of LLC SAFMAR CAPITAL Group;
- member of the Board of Directors, Chairman of the Board of Directors of LLC SAFMAR Plaza.
- member of the Board of Directors of LLC A101 (since 2017: Chairman of the Board of Directors);

**Since 2017:**

- member of the Board of Directors, Chairman of the Board of Directors of JSC KOMPANIYA ADAMAS;
- member of the Board of Directors of LLC ELDORADO;
- member of the Board of Directors of JSC Servis-Reestr;
- member of the Board of Directors, Chairman of the Board of Directors of JSC Proekt-Grad;
- member of the Board of Directors of PJSC SAFMAR Financial Investments;
- member of the Board of Directors, Chairman of the Board of Directors of JSC SAFMAR National Pension Fund;
- member of the Board of Directors of JSC Avgur Estate (2017–2018: Chairman of the Board of Directors);
- member of the Board of Directors of Doverie National Pension Fund (since 2018: Chairman of the Board of Directors);
- member of the Board of Directors of Safmar National Pension Fund (since 2018: Chairman of the Board of Directors);
- member of the Board of Directors of LLC Larnabel Ventures (2017–2018: Chairman of the Board of Directors);
- member of the Board of Directors and Chairman of the Board of Directors of JSC SAFMAR Group (since 2018: President and Chairman of the Board of Directors);
- member of the Board of Directors of JSC A101 DEVELOPMENT (2017–2018: Chairman of the Board of Directors).

**Since 2018:** member of the Board of Directors, Chairman of the Board of Directors of JSC Mospromstroy-Fund National Pension Fund.

MEMBERS OF THE BOARD OF DIRECTORS

AS OF 31 DECEMBER 2018



**Eldar Vagapov**  
Non-executive director

Biographical information

Born in 1981.  
**Education:** University of Cambridge  
**2009–2015:** CEO of LLC ERFID.  
**2015–2016:** Advisor to the CEO of JSC FortelInvest.  
**2016–2017:** Director of the Investment Department of JSC FortelInvest.  
**Since 2018:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2014:** member of the Board of Directors of the Automatic Identification Association UNISCAN/GS1 RUS.  
**Since 2015:** member of the Board of Directors of LLC ERFID.  
**Since 2017:**

- member of the Board of Directors of LLC Larnabel Ventures;
- CEO of Larnabel Ventures LLC.



**Andrey Derekh**  
Independent director

Biographical information

Born in 1968.  
**Education:** Minsk Radio Engineering Institute; International Management Institute of the Republic of Belarus; diploma from the Royal Institute of Marketing; specialised training in development and management in the oil and gas sector for managers from the CIS through the SABIT programme in the United States

**2016–2018:** member of the Board of Directors of FLLC Slavkali.  
**Since 2017:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2012:**

- Chairman of the Board of Directors of CJSC UNITER Investment Company;
- Deputy Director for Foreign Economic Activity of CJSC UNITER Investment Company.

**Since 2016:** member of the Board of Directors (independent director) of PJSC NK RussNeft.  
**Since 2017:** member of the Management Board of the New Economic Strategy Fund of the Republic of Belarus.



**Vilen Eliseev**  
Non-executive director

Biographical information

Born in 1987.  
**Education:** Kuban State University (qualified as an IT manager with a specialisation in applied informatics in management); Kuban State Agrarian University (diploma in economics with a specialisation in finance and credit)

**2012–2014:** Senior consultant for LLC PwC Russia B.V.  
**2014–2015:** Junior Manager at LLC PwC Consulting.  
**2015–2016:** Head of the Centre for Attracting Share Capital at PJSC BINBANK.  
**2016–2018:** Investment Director of JSC SAFMAR Group.  
**2017–2018:** Investment Director of PJSC SAFMAR Financial Investments.  
**Since 2017:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2017:** member of the Board of Directors of LLC ELDORADO;  
**Since 2018:**

- Director of the Investments and Capital Markets Department of PJSC Safmar Financial Investments;
- Director of the Investments and Capital Markets Department of JSC SAFMAR Group.



**Anton Zhuchenko**  
Non-executive director

Biographical information

Born in 1975.  
**Education:** Lomonosov Moscow State University

**2014–2018:** member of the Board of Directors of OJSC Arsenal Machine-Building Plant.  
**2015–2017:** member of the Board of Directors of JSC Caspian Oil.  
**Since 2017:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2008:** Director of GCM Global Energy PLC.  
**Since 2010:** member of the Board of Directors of JSC Russian Coal.  
**Since 2011:**

- member of the Board of Directors of PJSC Mosstroyplastmass;
- member of the Board of Directors of FLLC Slavkali.

**Since 2013:** member of the Board of Directors of JSC NK Neftisa.  
**Since 2015:** member of the Board of Directors of JSC FortelInvest.  
**Since 2016:**

- member of the Board of Directors of LLC Green Point;
- member of the Board of Directors of LLC SAFMAR Plaza;
- member of the Board of Directors of LLC SAFMAR CAPITAL Group;
- member of the Board of Directors of LLC Pioneer Estate;
- Chairman of the Supervisory Board of CJSC Grand Hotel;
- Chairman of the Supervisory Board of the LLC Hotel Avrora-Lux;
- Chairman of the Board of Directors of JSC Sadko Hotel;
- Chairman of the Supervisory Board of LLC Mospromstroy Hotel Management;
- Chairman of the Supervisory Board of CJSC MPS-GRAND;
- Chairman of the Supervisory Board of CJSC MPS-LUX;
- Chairman of the Supervisory Board of CJSC MPS-STAR;
- Chairman of the Supervisory Board of CJSC MPS-MIR;
- Chairman of the Supervisory Board of CJSC MPS-FOREST;
- member of the Board of Directors of PJSC Mospromstroy;
- member of the Board of Directors of JSC Korporatsiya A.N.D.

**Since 2017:**

- member of the Board of Directors of JSC A101 DEVELOPMENT;
- member of the Board of Directors of JSC SAFMAR Group;
- member of the Board of Directors of LLC A101;
- member of the Board of Directors of JSC Proekt-Grad;
- member of the Board of Directors of JSC Avgur Estate;
- Chairman of the Supervisory Board of CJSC GOSTINITSA TVERSKAYA;
- member of the Board of Directors of LLC Larnabel Ventures.

**Since 2018:**

- member of the Board of Directors of LLC PO Mekhovye Promysly;
- Chairman of the Board of Directors of CJSC IP Slavneftekhim.



**Janusz Lella**  
Independent director

Biographical information

Born in 1957.  
**Education:** Warsaw Technical University, Institute of Chemical Technology

**2005–2009:** Director of Retail Sales, LLC M.video Management;  
**2009–2012:** Chief Executive Officer of Castorama, Poland;  
**2013–2014:** Chief Executive Officer of the X5 Retail Group supermarket format, Russia (LLC IKS 5 FINANCE);  
**2015–2017:** Chief Executive Officer of Malpka S.A.;  
**2017:** member of the Board of Directors of OJSC Sedmoi Kontinent;  
**Since 2017:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2012:** owner of the individual private company Janusz Lella Consulting;  
**Since 2017:** member of the Supervisory Board of BRW S.A. (Black Red White);  
**Since 2018:** member of the Supervisory Board of TXM S.A.



MEMBERS OF THE BOARD OF DIRECTORS

AS OF 31 DECEMBER 2018



**Maxim Kalyuzhny**  
Non-executive director

Biographical information

Born in 1974.  
**Education:** Peoples' Friendship University of Russia, Master of Jurisprudence

**2010–2016:** member of the Board of Directors of JSC Russian Coal.  
**2012–2015:** member of the Board of Directors of JSC Caspian Oil.  
**2017–2019:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2017:** Director of Legal and Corporate Affairs at GCM Global Energy PLC.



**Alexey Makhnev**  
Non-executive director

Biographical information

Born in 1976.  
**Education:** St. Petersburg State University of Economics and Finance; St. Petersburg State University of Economics and Finance Graduate School

**2009–2015:** member of the Board of Directors of PJSC Magnit.  
**2013–2018:**

- Head of the Consumer Sector, Retail and Real Estate Division, Corporate and Investment Department of JSC VTB Capital;
- Head of the Trade, AIC, Consumer Goods and Pharmaceuticals Unit in the Department for Client Relations with Market Industries, and Senior Vice President of PJSC VTB Bank.

**Since 2017:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2015:** member of the Board of Directors of PJSC LSR Group.  
**Since 2018:**

- Chief Executive Officer of the Investment Banking in Global Markets Department of JSC VTB Capital;
- Advisor to the First Deputy President and Chairman of the Management Board, Senior Vice President of the Department for Client Relations with Market Industries of VTB Bank (PJSC);
- member of the Board of Directors of LLC VTB Nedvizhimost;
- member of the Board of Directors of PJSC Magnit.



**Avet Mirakyan**  
Non-executive director

Biographical information

Born in 1974.  
**Education:** Yerevan State University

**2009–2015:** Partner, Head of Advisory Services for Transaction Support in CIS Financial Markets of LLC Ernst & Young.  
**2016–2017:** member of the Board of Directors of JSC INTECO.  
**2017:**

- member of the Board of Directors of JSC ROST BANK;
- member of the Board of Directors of LLC ELDORADO;
- member of the Board of Directors of JSC Doverie National Pension Fund.

**Since 2017:** member of the Board of Directors of PJSC M.video.  
**2017–2018:**

- member of the Board of Directors of PJSC BINBANK;
- member of the Board of Directors of LLC Safmar Retail.

Positions held in other organisations

**Since 2016:**

- CEO of JSC SAFMAR Group;
- member of the Board of Directors of PJSC SAFMAR Financial Investments;
- member of the Board of Directors of JSIC VSK;
- member of the Board of Directors of JSC SAFMAR National Pension Fund.

**Since 2017:**

- member of the Board of Directors of JSC SAFMAR Group;
- member of the Board of Directors of LLC A101;
- member of the Board of Directors of JSC A101 DEVELOPMENT;
- member of the Board of Directors of FLLC Slavkali;
- member of the Board of Directors of PJSC NK RussNeft;
- CEO of PJSC SAFMAR Financial Investments;
- member of the Board of Directors of JSC Avgur Estate;
- member of the Board of Directors of JSC Proekt-Grad;
- member of the Board of Directors of LLC Larnabel Ventures;
- member of the Board of Directors, Chairman of the Board of Directors of JSC Europlan Leasing Company.

**Since 2018:**

- member of the Board of Directors of JSC Doverie National Pension Fund;
- Chairman of the Board of Directors of LLC DIREKT KREDIT TSENTR.



**Vladimir Preobrazhensky**  
Independent director

Biographical information

Born in 1961.  
**Education:** Moscow Aviation Institute

**2012–2014:** Research Director at the Moscow School of Management SKOLKOVO.  
**Since 2013:** visiting professor at the New Economic School.  
**Since 2016:** independent member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2014:** member of the Board of Directors of LLC Volga-Dnepr Moskva.  
**Since 2016:** representative of the Board of Directors of LLC Multikubik.  
**Since 2018:** member of the Board of Directors of Volga-Dnepr Logistics B.V.



MEMBERS OF THE BOARD OF DIRECTORS

AS OF 31 DECEMBER 2018



**Alexander Tynkovan**  
Executive director (Chairman of the Management Board and President of PJSC M.video)

Biographical information

Born in 1967.  
**Education:** Moscow Power Engineering Institute

**Since 2007:** member of the Board of Directors of PJSC M.video (executive director).  
**2008–2015:** member of the Supervisory Board of X5 Retail Group N.V.  
**2010–2017:** First Deputy CEO of LLC Avtoritet.  
**2016–2017:** Director of the Private Limited Liability Company Svece Limited.  
**2013–2017:** CEO of PJSC M.video.  
**Since 2007:** President and Chairman of the Management Board of PJSC M.video.

Positions held in other organisations

**Since 2013:** President of LLC MVM (formerly LLC M.video Management).  
**Since 2017:**

- member of the Board of Directors of LLC ELDORADO;
- director of Norateno Holding Limited;
- director of Starwolf Limited.

**Since 2018:** member of the Management Board of LLC ELDORADO.



**Bilan Uzhakhov**  
Executive director (CEO and member of the Management Board of PJSC M.video)

Biographical information

Born in 1987.  
**Education:** University of Hamburg; Plekhanov Russian University of Economics; Sberbank Corporate University in cooperation with the London Business School; Higher School of Economics – National Research University

**2012–2013:** Deputy CEO for Finance, OJSC Russian Coal.  
**2013–2017:** CEO of JSC Russian Coal.  
**2017–2018:** member of the Board of Directors of LLC Safmar Retail.

**2017:**

- member of the Board of Directors of JSC Doverie National Pension Fund;
- Deputy CEO of PJSC M.video;
- Vice President of LLC M.video Management.

**Since 2017:**

- member of the Management Board and CEO of PJSC M.video;
- member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2013:** member of the Board of Directors of JSC Russian Coal.  
**Since 2017:**

- member of the Board of Directors of JSC SAFMAR National Pension Fund;
- Advisor to the CEO of JSC Russian Coal;
- member of the Board of Directors of PJSC SAFMAR Financial Investments;
- member of the Board of Directors of LLC ELDORADO;
- CEO of LLC MVM (formerly LLC M.video Management);
- member of the Board of Directors of JSC Europlan Leasing Company.

**Since 2018:**

- CEO of LLC ELDORADO;
- member of the Board of Directors of JSIC VSK;
- member of the Board of Directors of JSC Doverie National Pension Fund;
- member of the Management Board of LLC ELDORADO.

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS

IN 2018



**Sait-Salam Gutseriev<sup>1</sup>**  
Non-executive director

Biographical information

Born in 1959.  
**Education:** Millionshchikov Grozny Oil Institute; Financial University under the Government of the Russian Federation

**2008–2015:** head of the representative office of the private limited liability company Margrey Limited.

**2013–2015:** member of the Board of Directors of PJSC NK RussNeft.

**2016–2017:**

- member of the Board of Directors of LLC ROST CAPITAL;
- member of the Board of Directors of JSC INTECO.

**2016–2018:** member of the Board of Directors of PJSC Mospromstroy.

**2017:**

- member of the Board of Directors of JSC SAFMAR Group;
- member of the Board of Directors of PJSC BINBANK;
- member of the Board of Directors of JSC Doverie National Pension Fund;
- member of the Board of Directors of LLC Stroitel'naya kompaniya Strategiya;
- member of the Board of Directors of JSC PATRIOT;
- member of the Board of Directors of JSC SAFMAR National Pension Fund;
- member of the Board of Directors of JSC Delovoi tsentr;
- member of the Board of Directors of JSC Servis-Reestr;
- member of the Board of Directors of PJSC SAFMAR Financial Investments.

**2017–2018:**

- member of the Board of Directors of LLC ELDORADO;
- member of the Board of Directors of FLLC Slavkali;
- member of the Board of Directors of LLC Larnabel Ventures;
- member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**Since 2016:**

- member of the Board of Directors of PJSC NK RussNeft;
- member of the Board of Directors of JSC Korporatsiya A.N.D.;
- member of the Board of Directors of LLC SAFMAR CAPITAL Group;
- member of the Board of Directors of LLC Pioneer Estate;
- member of the Board of Directors of LLC SAFMAR Plaza;
- member of the Board of Directors of LLC A101;
- member of the Board of Directors of JSC NK Neftisa.

**Since 2017:**

- member of the Board of Directors of JSC A101 DEVELOPMENT;
- CEO of JSC FortInvest;
- member of the Board of Directors of JSC KOMPANIYA ADAMAS;
- member of the Board of Directors of JSC Russian Coal;
- member of the Board of Directors of JSC Proekt-grad;
- member of the Board of Directors of PJSC Orsknefteorgsintez;
- member of the Board of Directors of JSC Avgur Estate.

In 2018, a minor change was made to the composition of the Company's Board of Directors. In accordance with a decision of the Annual General Meeting of Shareholders, Eldar Vagapov joined the Board of Directors on 29 June 2018; Sait-Salam Gutseriev left the Board of Directors.

IN 2019<sup>2</sup>



**Andreas Blase**  
Non-executive director

Biographical information

Born in 1983.  
**Education:** Dipl. – Kaufmann (2007)

**2010–2015:** Investment Director, Capvic Equity Partners AG.

**2015–2016:** Director of Mergers and Acquisitions, Federal Mogul GmbH.

**Since 2019:** member of the Board of Directors of PJSC M.video.

Positions held in other organisations

**2016–2018:** Vice President for Mergers and Acquisitions and Investment Portfolio Management, Ceconomy Retail GmbH.  
**Since 2018:** Chief Investment Officer, member of the Management Board of MediaMarktSaturn Retail Group.

Andreas Blase is a German citizen. Mr. Blase provided written consent for his election to the Board of Directors of PJSC M.video.

In accordance with a decision of an Extraordinary General Meeting of Shareholders, Andreas Blase replaced Maxim Kalyuzhny on the Board of Directors in January 2019.

<sup>1</sup> Information about Sait-Salam Gutseriev is provided as of the end of the period during which he was a member of the Company's Board of Directors.  
<sup>2</sup> As of the end of Q1 2019.

INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

As of 31 December 2018, Avet Mirakyan, a member of the Board of Directors, owned 0.000807% of ordinary shares of the Company. No other members of the Board of Directors had equity holdings in the Company's charter capital or owned ordinary shares as of 31 December 2018, nor did they conclude any transactions involving the acquisition or disposal of the Company's shares in 2018.

Board members Said Gutseriev, Mikail Gutseriev, Sait-Salam Gutseriev and Bilan Uzhakhov were interested parties to transactions in 2018. This fact was taken into account during the approval of such transactions by the Company's executive bodies. There is no other information about the existence of a conflict of interest involving these individuals (including in relation

to the participation of individuals in the executive bodies of the Company's competitors).

The Company is unaware of the existence of a conflict of interest in relation to other members of the Board of Directors (including in relation to the participation of these individuals in the executive bodies of the Company's competitors).

The Company is unaware of the filing of claims against members of the Board of Directors in 2018.

The Company's directors and officers have liability insurance. The cost of directors and officers liability insurance incurred by the Company in 2018 amounted to RUB 2.6 million.

ORIENTATION PROGRAMME FOR NEW MEMBERS OF THE BOARD OF DIRECTORS

The orientation programme for newly elected members is organised on an individual basis by the chairman of the Board of Directors or the corporate secretary upon the instruction of the chairman. In addition, members of the Board of Directors have the right to request

information about the Company that is of interest to them. As the Company's practice shows, these orientation methods are sufficient for newly elected members of the Board of Directors.

RESULTS OF THE WORK OF THE BOARD OF DIRECTORS IN 2018

During the year, meetings of the Board of Directors were held on a regular, scheduled basis, in addition to when it was necessary to make decisions on issues falling within the remit of the Board of Directors. A total of 21 meetings of the Board of Directors were held in 2018, including 7 in-person meetings and 14 meetings in the form of absentee voting.

The following were among the key issues and decisions considered and adopted by the Board of Directors during the year:

- acquiring control of Eldorado, concluding a loan agreement and security transactions with VTB Bank (PJSC) in connection with the acquisition;
- convening an Extraordinary General Meeting of Shareholders on the issue of the approval of major interested-party transactions and determining the Company's price of RUB 401.01 per share for buying back shares from shareholders in accordance with Article 76 of Federal Law No. 208-FZ of 26 December 1995 on Joint Stock Companies;

- acquiring the Russian business of MediaMarkt;
- consolidating the Group's key operating companies (the restructuring of LLC MVM through a merger with LLC ELDORADO and LLC MVB TRADE);
- increasing PJSC M.video's Management Board from three to five members and electing two new members of the Management Board: Enrique Fernandez and Ekaterina Sokolova;
- calling the Annual General Meeting of Shareholders, approving lists of candidates for the Company's Board of Directors and its Audit Commission for election at the Annual General Meeting of Shareholders;
- approving JSC Servis-Reestr as the new registrar for PJSC M.video, as well as the terms of the contract for maintaining the register of owners of the Company's securities.

The Company plans to conduct a self-assessment of the work of the Board of Directors in 2019.

MEETINGS OF THE BOARD OF DIRECTORS

in 2017

7 in person

14 absentee voting

in 2018

7 in person

15 absentee voting

THE BOARD OF DIRECTORS COMMITTEES

IN 2018, THE BOARD OF DIRECTORS HAD TWO COMMITTEES: THE AUDIT COMMITTEE AND THE REMUNERATION AND NOMINATION COMMITTEE. BOTH COMMITTEES ARE COMPOSED ENTIRELY OF INDEPENDENT DIRECTORS.

The Board of Directors committees are responsible for preliminary consideration of, and work on, issues raised at meetings of the Board of Directors. The main purpose of the committees' work is to improve the quality

and speed of the Board of Directors' decision-making, as well as the effectiveness of the Board's interaction with the Company's executive bodies and its subsidiary companies.

Audit Committee

The Audit Committee assists the Board of Directors concerning oversight of the Group's financial and business activities, and the quality of risk management, internal control and corporate governance.

- The Audit Committee's main tasks include the following:
- monitoring the completeness, accuracy and veracity of financial statements, including annual and interim statements, the announcement of preliminary results and any other official statements regarding the Group's financial results;
  - participating in the consideration of material issues and assessments in relation to the Company's financial statements that are provided to third parties and that may have a significant impact on the value of the Company's securities;
  - assessing the effectiveness of risk management and internal control procedures and corporate governance practices, as well as preparing proposals for the improvement thereof;
  - monitoring the reliability and efficiency of the risk management and internal control system;
  - monitoring procedures to ensure the Company's compliance with legal requirements, in addition to the Company's ethical norms, rules and procedures, as well as the Moscow Exchange's requirements;
  - monitoring the effectiveness of the notification system for potential cases of unethical practices on the part of employees of the Company and of third parties, as well as other violations in the Company's activities;
  - ensuring the independence and objectivity of the internal and external audit functions, assessing the effectiveness of the internal audit function and overseeing the conduct of external audits.

Members of the Audit Committee as of 31 December 2018:

**Vladimir Preobrazhensky**, independent director, Committee Chairman;

**Janusz Lella**, independent director;

**Andrey Derekh**, independent director.

Report on the work of the Audit Committee in 2018

- In 2018, the Audit Committee held eight meetings, five of which were in-person, two through absentee voting and one by conference call. The Committee addressed the following key issues in particular:
- approval of the consolidated financial statements, approval of the accounting statements of PJSC M.video for 2017 and the opinion of the independent auditor;
  - approval of the terms of the contract with the external auditor of the Group's financial statements for 2018. As the auditor of PJSC M.video's financial statements for 2018, the Audit Committee recommended JSC Deloitte & Touche CIS;
  - consideration of the Group's interim condensed financial information in accordance with IFRS for the first half of the year and the conclusion of the review verification of this information.

The Committee also discussed with management issues such as audit planning for 2018, a report on compliance with the treasury policy, improvement of the risk matrix, information security measures, a report on the results of the audit of LLC MARKETPLACE for 2017 in accordance with RAS, transformation of the financial function and other issues.

The Regulation on the Audit Committee is available on the Company's website at:



[www.invest.mvideo.ru/eng/disclosure/internaldocs/index.shtml](http://www.invest.mvideo.ru/eng/disclosure/internaldocs/index.shtml)

REMUNERATION AND NOMINATION COMMITTEE

The Board of Directors has delegated to the Remuneration and Nomination Committee the authority to determine the criteria for attracting qualified top managers to the Group. The Committee facilitates the Group's compliance with its Remuneration Policy, the implementation of successful recruitment practices, and the development and continuity of top management.

The remit of the Remuneration and Nomination Committee includes:

- personnel issues related to appointments to various positions within the Group, including:
  - determination of the criteria for selecting candidates for the Board of Directors, members of the Management Board and for the position of the sole executive body;
  - preliminary assessment of candidates, verification of their independence and the formation of recommendations for the Board of Directors regarding candidates for the Board of Directors, for the position of the sole executive body, members of the Management Board, the corporate secretary, as well as other key Group executives;
  - making recommendations for shareholders regarding voting on issues related to electing members of the Board of Directors;
  - development and approval of material conditions, including for early termination, and employment contracts for the Group's top managers;
  - development of criteria and a performance evaluation system and a preliminary evaluation of the work of the Board and top-level managers at year end;
  - development of criteria for the independence of members of the Board of Directors and for informing shareholders about the compliance (or non-compliance) of members of the Board of Directors with these criteria;
  - evaluation of the composition of the Board of Directors in terms of professional specialisations, experience, independence and engagement, as well as identifying priority areas for strengthening the composition of the Board of Directors;
- issues related to remuneration for various positions within the Group, including:
  - development and revision of the remuneration policy for members of the Board of Directors and the Group's top-level managers, as well as oversight of its introduction and implementation;
  - ongoing monitoring of compliance of the Group's criteria for remuneration with its strategy and financial situation, as well as the situation in the labour market;

- monitoring the implementation of decisions of the General Meeting of Shareholders in terms of establishing remuneration for the members of the Board of Directors, as well as monitoring disclosure of information in accordance with the requirements of legislation, listing rules and other regulatory acts.

**Members of the Remuneration and Nomination Committee as of 31 December 2018:**

**Janusz Lella**, independent director, Committee Chairman;  
**Vladimir Preobrazhensky**, independent director;  
**Andrey Derekh**, independent director.

**Report on the work of the Remuneration and Nomination Committee in 2018**

In 2018, eight meetings of the Remuneration and Nomination Committee were held, five of which were in-person, while three were held via conference call. The Committee addressed the following key issues:

- recommendations for the Board of Directors concerning the achievement on the part of top managers of KPIs and their corresponding level of remuneration for 2017;
- development of the criteria for KPIs for top management for the purpose of deciding bonuses for 2018;
- extension of the Company's CEO;
- maintaining wage levels without increasing the overall executive budget for 2018 based on an analysis of the labour market;
- proposals regarding the structure of remuneration paid to members of the Board of Directors for the 2018/2019 period and its subsequent approval at the Annual General Meeting of Shareholders;
- selection procedures for high-performing employees (HiPo) in order to comply with best market practices;
- recommendations on the positioning of the Group and brands in the labour market and in the business community, including the question of choosing the name of the consolidated Group;
- recommendations on the establishment of the consolidated Group's mission and values;
- assessment of the independence of members of the Board of Directors and suggesting independent members to the Board of Directors for approval;
- preparations for an external independent assessment of the work of the Board of Directors for 2018 and the selection of an appropriate contractor.

**The Regulation on the Remuneration and Nomination Committee is available on the Company's website at:**



[www.invest.mvideo.ru/eng/disclosure/internaldocs/index.shtml](http://www.invest.mvideo.ru/eng/disclosure/internaldocs/index.shtml)

Group President Alexander Tynkovan, Group CEO Enrique Fernandez and the Head of the Human Resources Department, Natalia Maleeva, were invited as speakers to all in-person meetings of the Remuneration and Nomination Committee.

CORPORATE SECRETARY

The remit of PJSC M.video's Corporate Secretary includes interaction with the Company's shareholders; monitoring compliance with the requirements of applicable corporate laws, the provisions of the Company's Charter and bylaws; ensuring the exercise of shareholders' rights and legitimate interests; supporting the effective work of the Board of Directors and its committees; preparing and holding general meetings of shareholders; and ensuring the timely disclosure of information on the part of the Company.

One of the Corporate Secretary's important functions is working with insiders. The Corporate Secretary maintains a list of insiders and a list of insider information and monitors whether transactions are carried out by insiders involving the Company's securities based on the information provided to it.

The Corporate Secretary is appointed by, and subordinate and accountable to, the Board of Directors.

The Corporate Secretary is guided by applicable legislation, the Company's Charter, the Company's Regulation on the Corporate Secretary and other Company bylaws.

As of 31 December 2018, the Corporate Secretary did not have any equity holdings or own any ordinary shares of the Company, nor did she conclude any transactions involving the acquisition or disposal of Company shares in 2018.

The Corporate Secretary was not involved in any conflicts of interest in 2018.

The Company is unaware of the filing of any claims against the Corporate Secretary in 2018.

Until March 2018, the Company's Corporate Secretary was **Yana Khavasova**; from March to April 2018, it was **Elena Lyamar**.



**Olga Shalgacheva**  
Corporate Secretary  
of PJSC M.video

*Biographical information*

**Education:** Ms. Shalgacheva graduated in 2007 from the Peoples' Friendship University of Russia and in 2011 from the A. S. Griboedov Institute of International Law and Economics

**From April 2014 to January 2017:** Corporate Secretary of PJSC MDM Bank.

**From January to April 2017:** Head of Corporate Affairs at PJSC FG Budushcheye.

**From April 2017 to April 2018:** Corporate Secretary of PJSC FG Budushcheye.

**From April 2018 to the present:** Corporate Secretary of PJSC M.video (elected by the Board of Directors, minutes No. 144/2018 of 24 April 2018).





# MANAGEMENT BOARD AND SOLE EXECUTIVE BODIES →

## MANAGEMENT BOARD

THE MANAGEMENT BOARD IS A COLLEGIAL EXECUTIVE BODY THAT MANAGES THE COMPANY'S DAY-TO-DAY OPERATIONS.

The Management Board's remit includes the following key issues:

- general issues related to the Company's development;
- implementing the decisions of the General Meeting of Shareholders and of the Board of Directors;
- review of the Company's reports (management and accounting), including those prepared in accordance with IFRS;
- provision of recommendations to the Board of Directors on matters within its remit;
- approval of the Company's investment projects and capital investments, including transactions concluded as part of the implementation of such investment projects and capital investments;
- approval of the position of the Company's representative when voting at the general meetings of participants or when making decisions as the sole participant of controlled companies on issues that are within the remit of the Management Board.

The formation of the Management Board, including the determination of the number of members and the election of its members, with the exception of the President and the CEO, who are members of the Management Board ex officio, is determined by decision of the Board of Directors. Oversight of the Management Board's activities is performed by the Board of Directors.

Members of the Management Board are elected for a period of three years. Meetings of the Management Board are convened by the Chairman of the Management Board at his initiative or at the request of a member of the Management Board.

## MEMBERS OF THE MANAGEMENT BOARD

### Members of the Management Board until February 2018

- Alexander Tynkovan;
- Pavel Breev;
- Bilan Uzhakhov.

The members of the Management Board were elected by the Board of Directors on 7 June 2017 (minutes No. 126/2017 of 13 June 2017).

### Members of the Management Board since February 2018

- Alexander Tynkovan;
- Pavel Breev;
- Bilan Uzhakhov;
- Ekaterina Sokolova;
- Enrique Fernandez.

In February 2018, by decision of the Board of Directors (minutes No. 140/2018 of 16 February 2018), the Management Board was expanded from three to five members, with two new members joining the Management Board.



Alexander Tynkovan

Information about Mr. Tynkovan is provided in the 'Board of Directors' section of this Report, p. 98–108



Pavel Breev

Information about Mr. Breev is provided in the 'Board of Directors' section of this Report, p. 98–108



Bilan Uzhakhov

Information about Mr. Uzhakhov is provided in the 'Board of Directors' section of this Report, p. 98–108



Enrique Fernandez  
Member of the Management Board

#### Biographical information

Born in 1968.  
**Education:** University of Zaragoza, Faculty of Economics, MBA from the ICADE School of Business and Economics (Madrid)

**2009–2016:** Commercial Director of LLC M.video Management.

**2017–2017:** CEO of LLC M.video Management.

**Since 2018:** member of the Management Board of PJSC M.video.

#### Positions held in other organisations

**Since 2017:** Chief Executive Officer of LLC MVM (formerly LLC M.video Management).

**Since 2018:** member of the Management Board of LLC ELDORADO.



Ekaterina Sokolova  
Member of the Management Board

#### Biographical information

Born in 1974.  
**Education:** ACCA Diploma in International Financial Reporting, Institute of Business and Economics at the Russian Presidential Academy of National Economy and Public Administration, MBA; California State University, MBA

**2004–2013:** Vice President for Strategy, Economics and Finance, OJSC TNK-VR Management.

**2013:** Advisor to the President and Director of the Economics and Finance Department for the Refining and Trade Unit of OJSC NK Rosneft.

**Since 2016:** Chief Financial Officer of PJSC M.video.

**Since 2018:** member of the Management Board of PJSC M.video.

#### Positions held in other organisations

**Since 2016:** Chief Financial Officer of LLC MVM (formerly LLC M.video Management).

**Since 2018:** member of the Management Board of LLC ELDORADO.

## INFORMATION ABOUT MEMBERS OF THE MANAGEMENT BOARD

As of 31 December 2018, members of the Management Board did not have any equity holdings or own any ordinary shares of the Company, nor did they conclude any transactions involving the acquisition or disposal of the Company's shares in 2018.

Management Board members Bilan Uzhakhov and Enrique Fernandez were interested parties in the conclusion of transactions in 2018. This fact was taken into account during the approval of such transactions by the Company's executive bodies. There is no other information about the existence of a conflict

of interest involving these individuals (including in relation to the participation of individuals in the executive bodies of the Company's competitors).

The Company is unaware of the existence of a conflict of interest in relation to other members of the Company's Management Board (including in relation to the participation of these individuals in the executive bodies of the Company's competitors).

The Company is unaware of any claims filed against members of the Management Board in 2018.

# CONTROL AND AUDIT

## FINANCIAL CONTROL

### Bodies responsible for financial control at PJSC M.video

Audit Commission	Internal Audit Division	Internal Control and Risk Management Department
Subordination and reporting		
<ul style="list-style-type: none"><li>Reports only to the General Meeting of Shareholders</li></ul>	<ul style="list-style-type: none"><li>Functional subordination to the Board of Directors</li><li>Reports to the sole executive bodies</li></ul>	<ul style="list-style-type: none"><li>Functional subordination to the sole executive bodies</li></ul>
Tasks and functions		
<ul style="list-style-type: none"><li>Scheduled documentary audits of the Company's financial and business activities for the year, as well as unscheduled documentary audits</li><li>Requirement to convene the Board of Directors and/or an Extraordinary General Meeting of Shareholders in cases provided for in Art. 55(8) of the Federal Law on Joint-Stock Companies</li><li>Convocation of an Extraordinary General Meeting of Shareholders</li><li>Monitoring the correction of deficiencies and violations identified as a result of audits and the implementation of the recommendations of the Audit Commission</li><li>Making decisions on conducting unscheduled audits at the initiative of the Company's executive bodies</li></ul>	<ul style="list-style-type: none"><li>Assisting the executive bodies and employees in the development and monitoring of procedures and measures for the development of risk management, internal control and corporate governance</li><li>Coordination of activities with the external auditor and consultants in the field of risk management, internal control and corporate governance</li><li>Conducting an internal audit of subsidiary companies</li><li>Preparation and submission to the Board of Directors and executive bodies of reports on the results of the activities of the Internal Audit Division</li><li>Verification of compliance on the part of the Company's employees with the provisions of laws and the Company's internal policies regarding insider information and the fight against corruption, compliance with the requirements of the Code of Ethics</li></ul>	<ul style="list-style-type: none"><li>Organisation and coordination of work to build a risk management system</li><li>Identification and assessment of risks, approaches to risk response</li><li>Ensuring the effective operation of the risk management system</li><li>Methodological support for the internal control and risk management system</li></ul>

## AUDIT COMMISSION

The Audit Commission periodically monitors the Company's financial and business operations, and the activities of its executive bodies and officials through documentary and factual audits of the following points:

- the legality, economic merits and efficiency (expediency) of business and financial operations performed by the Company during the audit period;
- the completeness and veracity of the information on business and financial operations reflected in the Company's management documents;
- the legality, economic merits and effectiveness of actions taken by Company executives and heads of structural divisions in terms of compliance with the laws of the Russian Federation, as well as the Company's Charter, approved plans, programmes and other bylaws.

The number of members of the Audit Commission and the procedure for its activities are determined by the Regulation on the Audit Commission approved by the General Meeting of Shareholders. Members of the Audit Commission may not simultaneously be members of the Board of Directors or occupy other positions in the Company's executive bodies.

## RESULTS OF THE MANAGEMENT BOARD'S WORK IN 2018

The Management Board held 32 meetings in 2018. The significant increase in the number of Management Board meetings compared with 2017 was due to the fact that, in 2017, the Management Board was formed only at the end of the first half of the year, the fact that the Management Board's powers were expanded in 2018, and also because of the merger with LLC ELDORADO,

which is controlled by PJSC M.Video and of vital importance to the Company.

The overwhelming majority of issues considered by the Management Board in 2018 are related to the activities of companies controlled by PJSC M.video.

## SOLE EXECUTIVE BODIES

The sole executive bodies of PJSC M.video are the President and the CEO, who act independent of one another within the remit stipulated by the Charter and the relevant regulations on the sole executive bodies.

The remit of the sole executive bodies includes the resolution of all issues related to the management of the day-to-day activities of PJSC M.video, with the exception of issues falling within the remit of the General Meeting of Shareholders, the Board of Directors or the Management Board, as well as implementation of the decisions of the General Meeting of Shareholders, the Board of Directors and the Management Board.

The President and the CEO are elected (dismissed) by decision of the Board of Directors and are accountable to the General Meeting of Shareholders and the Board of Directors.

In the event that a President is not elected, or in the case of the short-term or prolonged inability of the President to fulfil his official duties, the duties of the President are performed by the CEO.

In the event that a CEO is not elected, or in the case of the short-term or prolonged inability of the CEO to fulfil his official duties, the duties of the CEO are performed by the President.

The President chairs the meetings of the Management Board and ensures that minutes are kept at Management Board meetings.

In 2018, the Company's President was Alexander Tynkovan. Information about the President is provided in the 'Board of Directors' section of this Report.

In 2018, the Company's CEO was Bilan Uzhakhov. Information about the CEO is provided in the 'Board of Directors' section of this report.

### MEETINGS OF THE MANAGEMENT BOARD

in 2017

6 in person

1 in person using an online audio and video connection

in 2018

23 in person

8 in person using an online audio and video connection

1 absentee voting



**Alexander Tynkovan**

Information about Mr. Tynkovan is provided in the 'Board of Directors' section of this Report, p. 98–108



**Bilan Uzhakhov**

Information about Mr. Uzhakhov is provided in the 'Board of Directors' section of this Report, p. 98–108

MEMBERS OF THE AUDIT COMMISSION

AS OF 31 DECEMBER 2018

**Evgeny Bezlik**  
Chairman of the Audit Commission

Biographical information

Born in 1975.  
**Education:** Tashkent Military Technical College

**2011–2018:** Head of the Internal Investigations Department of LLC M.video Management.  
**Since 2013:** Chairman of the Audit Commission of PJSC M.video.

Positions held in other organisations

- Since 2018:**
- Head of the Internal Investigations Department of LLC MVM (formerly LLC M.video Management);
  - Auditor at LLC MARKETPLACE.

**Andrey Gorokhov**

Biographical information

Born in 1980.  
**Education:** Ivanovo State University of Chemistry and Technology

**2007–2015:** Head of Financial and Investment Analysis, LLC PromSvyazKapital.  
**2015–2017:** Head of the Financial and Investment Analysis Division of PJSC Promsvyazbank.  
**2017–2018:** member of the Board of Directors of PJSC SAFMAR Financial Investments.  
**Since 2017:** member of the Audit Commission of PJSC M.video.

Positions held in other organisations

- Since 2017:**
- Deputy CEO for Management Accounting, Reporting and New Projects at LLC KiiT;
  - member of the Board of Directors of JSC Russian Coal;
  - member of the Board of Directors of PJSC Mospromstroy.
- Since 2018:**
- Auditor at JSC Doverie National Pension Fund;
  - Auditor at JSC SAFMAR National Pension Fund;
  - Auditor at PJSC SAFMAR Financial Investments;
  - member of the Audit Commission of JSC Europlan Leasing Company;
  - member of the Board of Directors of CJSC IP Slavneftekhim.

**Alexey Rozhkovsky**

Biographical information

Born in 1984.  
**Education:** Novosibirsk State University of Economics and Management, Diploma in International Financial Reporting (DiplFR ACCA), Master of Business Administration, Management College of South Africa, PhD in Economics

**2012–2015:** Head of the Analytical Department of PJSC MDM BANK.  
**2016–2017:** Head of the Department for Work with Non-bank Financial Organisations of JSC SAFMAR Group.  
**Since 2017:** member of the Audit Commission of PJSC M.video

Positions held in other organisations

- Since 2017:** Director of the Finance Department and Deputy Finance Director of PJSC SAFMAR Financial Investments
- Since 2018:**
- member of the Audit Commission of JSIC VSK;
  - member of the Audit Commission of JSC Europlan Leasing Company.

INTERNAL AUDIT DIVISION

**Larisa Rudenko**  
Head of the Internal Audit Division

Biographical information

Born in 1984.  
**Education:** Russian State Social University

**Since 2013:** Head of the Internal Audit Division of PJSC M.video.

Positions held in other organisations

**Since 2013:** Head of the Internal Audit Department of LLC MVM (formerly LLC M.video Management).

The head of the Internal Audit Division reports to the Board of Directors and is appointed and dismissed by the sole executive body based on a decision of the Board of Directors. The Audit Committee of the Board of Directors regularly reviews reports of the internal auditor and evaluates his or her performance.

The activities of the Internal Audit Division are governed by the Regulation on Internal Audit of the Open Joint-Stock Company M.video, approved by the Company's Board of Directors (minutes No. 94/2014 of 15 December 2014).

INTERNAL CONTROL AND RISK MANAGEMENT

**Boris Ogarkov**  
Head of the Internal Control and Risk Management Department

Biographical information

Born in 1987.  
**Education:** Moscow State Institute of International Relations (MGIMO), Bachelor of Commerce, Master's in International Finance

**2013–2014:** Director of the Department of Operational and Financial Control of LLC NK Itera.  
**2014:** Director of Project Management of CJSC Re-kon.  
**2014–2015:** Head of the Department of Financial Control, Contracting Systems and Working Capital Management in the Department of Economics and Finance of CJSC Independent Oil and Gas Company.  
**2015:** Head of the Department of Financial Control of the Economy and Finance Unit of JSC Independent Oil and Gas Company.  
**2016:** Deputy Finance Director of LLC Siberskaya internet-kompaniya.  
**Since 2016:** Head of the Internal Control and Risk Management Department of PJSC M.video.  
**2016–2017:** Head of the Internal Control and Risk Management Department of LLC M.video Management.

Positions held in other organisations

**Since 2017:** Head of the Internal Control and Tender Procedures Department of LLC MVM (formerly LLC M.video Management).

- The objectives of internal control within the Company are as follows:
- the timely identification and analysis of risks involved in the Company's activities;
  - ensuring the veracity of financial and management information and reporting;
  - implementation of the Company's financial and business plans;
  - safeguarding assets and ensuring the efficient use of resources;
  - assistance in building the optimal organisational structure for the Company;
  - compliance with the requirements of the current regulatory legal acts of the Russian Federation and the Company's internal procedures.

In 2018, the Board of Directors highly rated the performance of the Company's internal control and risk management system. This system makes it possible to protect the interests of shareholders and the Company's assets, thereby strengthening investor confidence in the Company and its executive bodies. The Company's risk management and internal control system provides for an objective, fair and clear picture of the Company's current state and prospects, the integrity and transparency of the Company's reporting, and the reasonableness and acceptability of the risks taken by the Company. Information about the Company's risk management system is available in the 'Risk Management' section of this report.

For the risk management and internal control system to function effectively, the Company has established an Internal Control and Risk Management Department.

The current members of the Audit Commission were elected at an Extraordinary General Meeting of Shareholders of PJSC M.video on 7 August 2017 (minutes No. 23 of 10 August 2017) and at the Annual General Meeting of Shareholders on 29 June 2018 (minutes No. 26 of 2 July 2018).

As of 31 December 2018, the members of the Audit Commission did not have any equity holdings or own any ordinary shares of the Company, nor did they conclude any transactions involving the acquisition or disposal of the Company's shares in 2018.

The Company is unaware of any claims filed against members of the Audit Commission in 2018.



EXTERNAL AUDITOR

PJSC M.video engages an external auditor who carries out an audit of the Company’s financial and business operations. The external auditor is approved by the General Meeting of Shareholders.

The objectivity of the choice of the external auditor is ensured through a tender procedure.

In accordance with the Company’s Charter, the issue of determining the amount of payment for the external auditor’s services falls within the remit of the Board of Directors.

Following an evaluation of the commercial proposals made by the companies that took part in the tender procedure at a meeting of the Company’s tender committee on 16 May 2018, it was decided to recommend

JSC Deloitte & Touche CIS as PJSC M.video’s auditor. Based on the results of a request for quotations and the recommendation of the Audit Committee (minutes No. 62/2018 of 22 May 2018), the Board of Directors decided, on 22 May 2018, to recommend that the General Meeting of Shareholders approve JSC Deloitte & Touche CIS as the Company’s auditor. Based on the results of the Annual General Meeting of Shareholders of PJSC M.video, a decision was taken to approve JSC Deloitte & Touche CIS as the Company’s auditor for 2018.

The cost of the auditing services provided by JSC Deloitte & Touche CIS as the Company’s auditor amounted to RUB 25.4 million. JSC Deloitte & Touche CIS did not provide the Company with any non-audit-related services in 2018. There are no deferred or overdue payments for services provided by the auditor.

USE OF INSIDER INFORMATION

PJSC M.video has a Regulation on Insider Information (hereinafter, the ‘Regulation’) that governs the use of insider information, i.e., information about the Group’s operations (as well as its securities and transactions involving its securities) that is not publicly available and disclosure of which could affect the market value of PJSC M.video’s securities.

The Regulation is aimed at ensuring:

- protection of the rights and legitimate interests of the Company’s shareholders and other persons

when concluding transactions with the Company’s securities;

- monitoring the activities of insiders;
- preventing manipulation of the price of the Company’s securities.

The Corporate Secretary maintains a list of insiders and a list of insider information and also monitors the execution of transactions involving the Company’s securities by insiders.

MANAGING CONFLICTS OF INTEREST

The Group strives to manage possible conflicts of interest as effectively as possible both in the corporate governance system and at the level of every employee in the performance of their duties.

In order to prevent situations in which an employee’s personal interests could affect the proper performance

of their duties, the Group adopted a Regulation on Conflicts of Interest, which defines conflicts of interest, lists the most common situations in which a conflict of interest might arise and establishes specific regulations on conflicts of interest for the employees of individual divisions.

CODE OF CONDUCT

In 2017, the Group adopted a Code of Business Ethics and Recommended Behaviour (hereinafter, the ‘Code of Conduct’ or the ‘Code’) at the level of the key operating company, LLC MVM (formerly LLC M.video Management), which specifies the fundamental principles and standards of business and personal ethics within PJSC M.Video.

The following are among the key principles established and governed by the Code:

- antitrust compliance (the Group has also adopted an antitrust policy);
- a safe working environment;
- the prohibition of any form of discrimination, harassment, pressure or intimidation;

- integrity, honesty and fairness in interpersonal relationships;
- veracity and completeness of documentation and reporting;
- a conscientious approach to the Group’s assets;
- impermissibility of transactions involving the Company’s securities based on insider information;
- protection of commercial secrets, proprietary information and personal data;
- management of conflicts of interest, including in relations with counterparties, when making personal purchases within the M.Video network;
- opportunities for professional and personal growth and development;
- restrictions on the possibility of receiving gifts from counterparties;
- the need to identify and counter suspicious transactions;
- separation of political and professional activities.

The Code of Conduct applies to all Group employees, including directors, permanent and temporary employees, consultants, representatives and partners.

Ethics Committee

LLC MVM (formerly LLC M.video Management) has a standing Ethics Committee, whose activities are aimed at maintaining the Company’s business reputation,

ensuring that its activities in general and those of its employees comply with high standards of business ethics and behaviour, as well as avoiding and resolving conflicts of interest.

The remit of the Ethics Committee includes:

- consideration of cases related to violations of the regulations contained within the Code of Business Ethics, other ethical principles and norms that specify the Company’s values and corporate culture;
- consideration of situations involving a potential or actual conflict of interest;
- consideration of ethical issues arising from and/or related to workers and/or the personal relationships between workers that have an impact on work processes or day-to-day interaction;
- consent to appointments (transfers) of employees to positions as provided for by the Code of Conduct and other bylaws;
- the determination of rules of business behaviour and the Company’s corporate culture;
- the formation of proposals for amendments and additions to the Code of Conduct, as well as to other Company documents.

The Ethics Committee is chaired by the Chief Executive Officer of LLC MVM (formerly LLC M.video Management), Enrique Fernandez.

PRINCIPLES FOR THE DETERMINATION AND AMOUNT OF REMUNERATION OF MANAGEMENT AND CONTROL BODIES

The compensation package offered by the Company includes a salary, medical insurance programmes, additional benefits and a bonus system.

According to the Regulation on Remuneration and Compensation Paid to Members of the Board of Directors of PJSC M.video (hereinafter referred to as the ‘Regulation on Remuneration’), the total amount of remuneration and compensation paid to members of the Board of Directors and to members of the Audit Commission is approved by the General Meeting of Shareholders.

The remuneration for the Corporate Secretary and the Internal Audit Division is determined by the Board of Directors.

For participation in the work of the Board of Directors and/or committees of the Board of Directors, members of the Board of Directors are paid the following types of remuneration.

**Basic remuneration** is paid for:

- participation in in-person meetings of the Board of Directors;
- participation in strategic budget sessions;
- participation of a member of the Board of Directors at the request of the Chairman of the Board of Directors, chairmen of the committees of the Board of Directors or the CEO in meetings of thematic working groups, meetings or discussions related to the activities of the Company and its subsidiaries that are held at the Company’s office or elsewhere.

**Compensation for performing additional duties** is paid for:

- performing the duties of a member of a Board of Directors committee;
- performing the duties of the Chairman of a Board of Directors committee;
- performing the duties of the Chairman of the Board of Directors.

# CAPITAL, SHARES AND DIVIDENDS

## SHARE CAPITAL

THE CHARTER CAPITAL OF PJSC M.VIDEO AS OF 31 DECEMBER 2018 WAS RUB 1,797,682,270 AND WAS DIVIDED INTO 179,768,227 ORDINARY SHARES WITH A NOMINAL VALUE OF RUB 10 PER SHARE.

### Shareholder structure

#### List of shareholders of PJSC M.video as of 31 December 2018, %

Shareholder	Share of charter capital as of 31 December 2018	Share of votes as of 31 December 2018	Share of charter capital as of 31 December 2017	Share of votes as of 31 December 2017
Mianello Limited	38.56	38.93	57.68	57.68
MS CE Retail GmbH	15.00	15.15	0.00	0.00
JSC Doverie National Pension Fund	6.97	7.04	9.68	9.68
JSC Budushcheye National Pension Fund <sup>1</sup>	No information available	No information available	9.35	9.35
PJSC M.video	0.97	Shares do not grant voting rights	0.00	0.00
LLC MVM	0.13	0.13	0.13	0.13
Other shareholders	38.37	38.75	23.16	23.16
Total	100	100	100.00	100.00

PJSC M.video's largest shareholder is Mianello Limited, with a shareholding of 38.6%.

At the end of 2018, LLC MVM owned 236,990 shares of PJSC M.video. The rest of shares (treasury shares) were bought out and owned by PJSC M.video.

In August 2018, M.Video–Eldorado Group closed deals in which MediaMarktSaturn acquired a 15% stake in PJSC M.video from SAFMAR Group, and M.Video–Eldorado Group acquired a 100% stake in the Russian business of MediaMarktSaturn.

#### Information on the number of registered persons<sup>2</sup>

Shareholder type	Number of shareholders	Number of shares		Share of the charter capital, %
		ordinary	preferential	
Owners–individuals:	9	294	0	0.000164
including non-residents of the Russian Federation	0	0	0	0
including residents of the Russian Federation	9	294	0	0.000164
Owners–legal entities:	0	0	0	0
including non-residents of the Russian Federation	0	0	0	0
including residents of the Russian Federation				
Nominal holders:	1	178,028,753	0	99.032380
Securities of unidentified parties–legal entities	0	0	0	0
Pledge holders:	0	0	0	0
Issuer account:	1	1,739,180	0	0.967457
Total:	11	179,768,227	0	100

<sup>1</sup> Information concerning JSC Budushcheye National Pension Fund as of 31 December 2018 is provided in accordance with information from the List of Registered Persons in the register of holders of the Company's registered securities as of 31 December 2018 (including the disclosure of nominal holders). JSC Budushcheye National Pension Fund is not included in the mentioned list.

<sup>2</sup> Details are provided as of 31 December 2018, excluding information about customers that are nominal holders.

Members of the Board of Directors who are residents of the Russian Federation are paid remuneration in Russian roubles. Members of the Board of Directors who are not residents of the Russian Federation are paid remuneration in a foreign currency at the exchange rate of the Bank of Russia on the date of payment.

In accordance with the Regulation on Remuneration, each member of the Board of Directors may be reimbursed for the following expenses:

- actually incurred and documented transportation costs associated with the travel of a member of the Board of Directors to the venue of a meeting of the Board of Directors and/or a Board of Directors committee and back, other transportation costs incurred in connection with travel associated with the Board of Directors;
- living expenses of a member of the Board of Directors during meetings of the Board of Directors and/or meetings of Board of Directors committees;
- expenses for meals for a member of the Board of Directors during meetings of the Board of Directors and/or meetings of Board of Directors committees;
- miscellaneous expenses (payment for communications, fuel, meals and entertainment expenses, etc.).

The maximum amount of compensation for expenses for members of the Board of Directors is approved by the General Meeting of Shareholders upon a proposal of the Board of Directors.

Based on a decision of the Annual General Meeting of Shareholders of 29 June 2018, the following amount of remuneration was determined to be paid to members of the Board of Directors for the period from July 2018 through June 2019:

- remuneration for members of the Board of Directors in a total amount not to exceed RUB 52 million;
- reimbursement of expenses incurred by members of the Board of Directors as part of their functions as members of the Board of Directors in a total amount not to exceed RUB 10 million.

The total amount of remuneration paid to members of the Board of Directors for their participation in the Board of Directors in 2018 (for the entire year) amounted to RUB 28.2 million. The total amount of reimbursement of expenses related to the performance of the functions of members of the Board of Directors compensated by the Company in 2018 (for the entire year) amounted to RUB 676 thousand.

Wages paid to executive members of the Management Board who have an employment relationship with the Group are paid in accordance with employment contracts. Regarding the members of the Management Board, the authorised executive bodies did not make any decisions regarding the amount of remuneration payable or the amount of expenses subject to compensation. There are no other agreements regarding the amount of remuneration payable or the amount of expenses subject to compensation.



Market capitalisation and stock quotes

Ordinary shares of PJSC M.video are traded on the Moscow Exchange under the ticker MVID and are included in the level 1 quotation list. The Company’s shares are included in the calculation

base of the main index of the Russian stock market – the Moscow Exchange Index – as well as the Consumer Sector Index calculated by the Moscow Exchange.

Changes in stock price of PJSC M.video in 2018, %



In 2018, PJSC M.video’s share price decreased slightly by 2.3% as a result of downward pressure on the shares of Russian retailers stemming from macroeconomic and geopolitical factors. At the same time, the PJSC M.video stock price noticeably outpaced changes in the Moscow Exchange Consumer Sector Index, which showed a decrease of 12.9% in 2018.

The average trading volume of the Company’s shares (in units of stocks) in 2018 decreased by 58.0% compared with 2017.

As of the end of 2018, PJSC M.video had a market capitalisation of RUB 73,740,926,715.40.

Market making

As part of the Group’s work aimed at improving its investment case, PJSC M.video pays considerable attention to maintaining the liquidity of its shares on the Moscow Exchange. To this end, the Company has entered into agreements to maintain its share price and to provide market-making services with professional securities market participants. In accordance with these agreements, when certain conditions are met, market makers ensure that transactions involving the Company’s shares are carried out on the stock exchange, thus creating additional liquidity in the interests of all groups of shareholders.

DIVIDENDS

In accordance with the current Regulation on the Dividend Policy of PJSC M.video, the Company may pay dividends to shareholders out of the net profit based on the results of the corresponding financial reporting period. In determining the amount of dividends recommended to the General Meeting of Shareholders, the Board of Directors is guided by the Group’s net profit in accordance with IFRS.

In determining the recommended amount of dividends, the Board of Directors takes into account the main areas

for profit distribution proposed by the CEO together with the Management Board based on the following factors:

- the amount of the Group’s net profit after tax for the corresponding period;
- the Group’s financial and business plans for future periods;
- the Group’s working capital structure at the end of the corresponding period;
- the Group’s debt at the end of the corresponding period.

Dividend payments by the Company in 2013–2018

Reporting period	Amount of declared dividends, RUB	Dividend amount per share, RUB	Share of dividends in net profit, %	Date of the General Meeting of Shareholders' decision to declare dividends
2013	3,595,364,540	20	73.86	17 June 2014
Q3 2014	4,494,205,675	25	98.34	5 December 2014
2014	4,853,742,129	27	53.00	16 June 2015
2015	3,595,364,540	20	99.86	20 June 2016
2016	The Annual General Meeting of Shareholders held on 5 June 2017 decided not to pay out dividends for 2016			
2017	The Annual General Meeting of Shareholders held on 29 June 2018 decided not to pay out dividends for 2017			
2018	The Annual General Meeting of Shareholders held on 26 June 2019 decided not to pay out dividends for 2018			

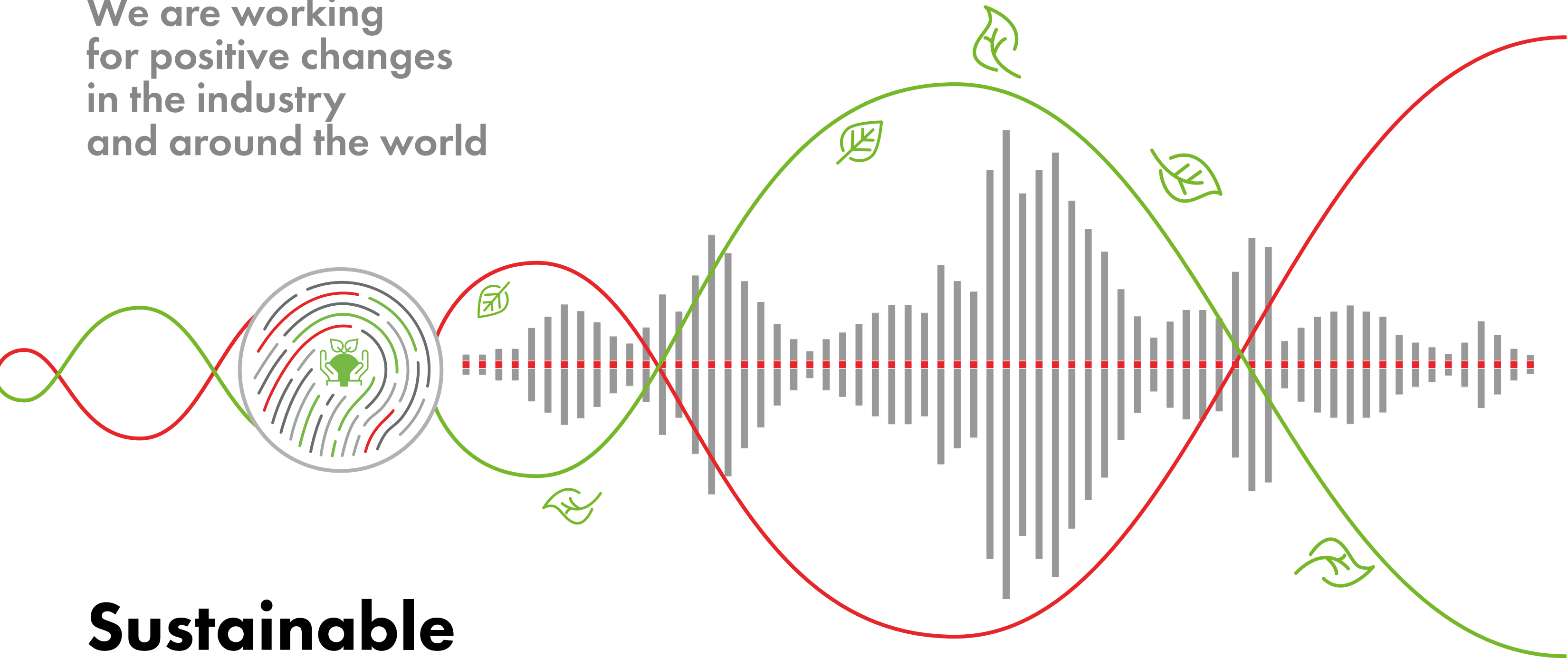
Market makers for shares of PJSC M.video in 2018–2019<sup>1</sup>

Market maker	Start of the agreement with the market maker	Term of the agreement with the market maker
Finam Holdings financial services company	25 July 2017	11 July 2018 with an extension
ITI Capital financial services company	4 September 2018	31 December 2018 with an extension
UNIVER Investment Group	10 April 2018	12 April 2019
	23 April 2019	30 April 2022

<sup>1</sup> Information as of 1 May 2019.



We are working  
for positive changes  
in the industry  
and around the world



**Sustainable  
Development**

# STAKEHOLDER ENGAGEMENT

RELATIONSHIPS WITH STAKEHOLDERS ARE AN IMPORTANT ELEMENT IN M.VIDEO-ELDORADO GROUP'S SUCCESS IN TERMS OF ITS OPERATIONAL AND FINANCIAL RESULTS, AS WELL AS ITS NON-FINANCIAL GOALS.

Our stakeholders include any individual or organisation with an interest in what we do. In addition, we include among our stakeholders individuals and organisations that may be affected by our activities, as well as those that can influence the Group's decisions.

The Group strives to be proactive in its engagement with stakeholders and to build open, respectful and mutually beneficial relationships with them, as well as to inform them in a timely manner about challenges, achievements and events taking place within the Group. It is very important for the Group to understand the values and needs of all its stakeholders.

M.Video-Eldorado Group has an internal regulatory framework that governs stakeholder engagement: The Policy on Stakeholder Engagement specifies a common approach to managing relationships with stakeholders. Certain aspects of stakeholder engagement are also governed by internal documents such as the following:

- Regulation on Auditing Counterparties;
- Policy on Non-commercial Procurement;
- Regulation on the Tender Committee;
- Code of Business Ethics;
- Regulation on the Ethics Committee;
- Corporate Governance Code;
- Policy on Charity, Sponsorship and Donations.

## Partners

- Reliable long-term collaboration
- Exclusive all-Russia contracts
- Total Quality Management

### Goals of engagement

- Developing long-term relationships with suppliers and other counterparties in order to ensure the high quality of the Group's product and its long-term competitiveness;
- Raising awareness among partners of the Group's activities, plans and long-term development;
- Improving communication with partners, finding and introducing new tools and channels of interaction;
- Supplier diversification;
- A common understanding of mutual obligations and expectations from cooperation.

### Value creation

- The Group is a reliable partner and a major counterparty for a wide range of suppliers;
- The Group adheres to high standards in the areas of quality control and corporate behaviour, and it requires compliance with these same standards on the part of suppliers;
- The introduction of state-of-the-art IT solutions to improve automation and efficiency in the supply chain.

### Forms of engagement

- Periodic meetings and participation in specialised events;
- Development of the Group's proprietary supplier system;
- Dialogue with suppliers, surveys conducted among suppliers.

## Customers

- Best products for reasonable price
- Healthy competition
- Technologies for unique customer experience

### Goals of engagement

- Increasing awareness of the M.Video and Eldorado brands;
- Providing customers with important information about new products, services, special offers, etc.;
- Building trust and open relationships with customers before, during and after they make a purchase;
- Getting feedback from customers to further improve product lines and services;
- Informing customers about the Group's efforts to solve ongoing social and environmental problems.

### Value creation

- Creating a new, mobile Internet-based consumer experience;
- Providing convenient formats and tools for making purchases, creating a single service space for our customers at our retail locations and in our online stores;
- Enabling customers to access the latest technology and leading brands.

### Forms of engagement

- Communication through websites and mobile applications;
- Marketing through social networks;
- Publication of information about the Group in specialised and business media;
- SMS and email marketing;
- Providing customers with on-site advice at stores.

## Investors

### Market leadership

- Public transparent business
- Best corporate governance
- Best-in-class EBITDA margin

Revenue grows 1.5x Net Income doubles in 3 years

### Goals of engagement

- Raising awareness of the Group's investment case and its development, facilitating the growth of the Group's market capitalisation;
- Disclosing information about the Group's ongoing activities, the implementation of its development strategy, financial and non-financial indicators;
- Expanding and diversifying the Group's investor base to ensure that the Company has access to a wide range of capital market instruments;
- Receiving feedback from the investment community, generating new ideas through dialogue with investors;
- Informing the investment community about the Group's efforts to ensure the sustainability of its business.

### Value creation

- Implementing a growth strategy in order to strengthen the Group's market position and realise its investment potential;
- Diversifying the shareholder base: a division of the Economy – MediaMarktSaturn Retail Group has become a shareholder of PJSC M.Video;
- Remaining committed to high standards of transparency and corporate governance.

### Forms of engagement

- Meetings with investors in the framework of investment conferences, roadshows, etc.;
- Conference calls concerning financial results;
- Analysis of investors' perception of the Company;
- Conducting a dialogue with analysts;
- Press releases, reports published as part of mandatory information disclosure;
- Annual general meetings of shareholders and mandatory reporting;
- Corporate website;
- The inclusion on the Board of Directors of three independent directors who protect the interests of shareholders.

## Society

In top-10 best employers in Russia

28,000 employees 220 cities

- Best HR brand in Retail 2018 (M.Video)
- Corporate Social Responsibility practices

### Goals of engagement

- Ensuring a positive perception and understanding of the Group's operations;
- Creating a corporate culture that meets the Group's strategic goals;
- Ensuring a well-founded and effective system of staff incentivisation, creating opportunities for the professional development of our employees;
- Maintaining a constructive dialogue with Group personnel;
- Finding solutions to ongoing social problems and environmental issues at the local and global levels; adopting measures aimed at meeting the needs of society;
- Helping protect the health of employees and of people who have contact with the Group in one way or another;
- Maintaining a dialogue on issues related to state regulation of the industry and possible changes in the regulatory sphere that could affect the Group's operations.

### Value creation

- The Group is carrying out a number of social and environmental projects that are having a long-term positive impact on society;
- We regularly exchange experience and knowledge with key Group stakeholders and strive to set trends;
- The Group pays a great deal of attention to innovative development, directing significant resources to the development and implementation of new technologies;
- The Group offers attractive opportunities for career growth, professional development, a fair wage and incentives.

### Forms of engagement

- Implementation of environmental protection programmes;
- Implementation of social projects;
- Participation in activities and initiatives on the part of associations and industry and business organisations;
- Work with the mass media and social media;
- Surveys conducted among employees, presentations, internal communications;
- Anonymous feedback from parties that interact with the Group.

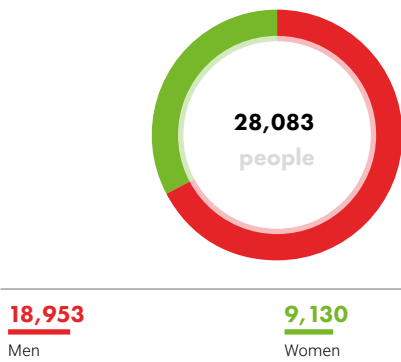
CORPORATE CULTURE AND PERSONNEL



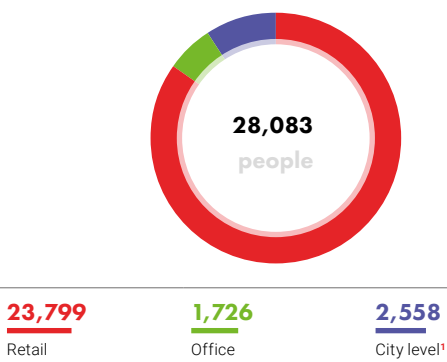
Group average headcount



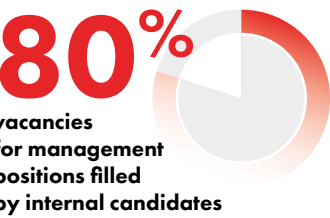
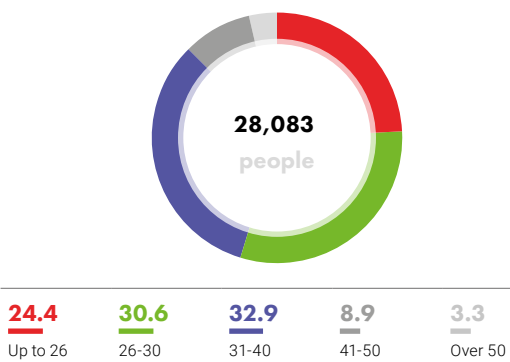
Gender breakdown of Group personnel



Number of Group personnel by main categories



Group personnel by age



<sup>1</sup> Support staff (contact centre, warehouses, services, etc.).

M.VIDEO-ELDORADO GROUP CORPORATE CULTURE

AS PART OF THE MERGER OF M.VIDEO AND ELDORADO IN 2018, THE GROUP WAS FACED WITH THE TASK OF LAYING THE FOUNDATIONS FOR A UNIFIED CORPORATE IDEOLOGY AND TRANSFORMING THE CORPORATE CULTURE AND EMPLOYER BRAND.

The Group's corporate culture is based on a renewed mission and values formulated after the successful merger of M.Video and Eldorado.

See the section 'Group portrait', p. 4

The key elements of the Group's mission are its customers, partners, employees and the entire ecosystem in which the Group operates. As the largest player in the Russian market for household appliances and electronics, the Group is aware of its responsibility for the development of the industry in which it operates and for the formation of best practices in Russia's consumer electronics market. The Group aims to use its size and experience for positive changes both in the industry and on a global scale.

The Group's corporate culture is based on the ideas of partnership, responsibility and engagement with all stakeholders. The combination of the size of our business and the challenges of further dynamic growth requires

flexible decision-making on the part of every employee, as well as the ability to adapt quickly to changing market conditions and to the needs of our customers.

In carrying out work to form a corporate culture and develop personnel management, the Group strictly adheres to the requirements of Russian legislation and applicable international standards.

Personnel management system

Group employees are the key to our success in building a sustainable and profitable company. We create value for our employees by earmarking significant resources for their development. All employees of M.Video-Eldorado Group are provided with ample opportunities for career management, training and professional development. We also work to provide adequate social conditions for every employee and to ensure the rights of employees, including compliance with the principles of equality and non-discrimination.

Strategic initiatives in personnel management

Strategic areas	Key objectives
A new corporate culture	
Group unity and the value of each brand	<ul style="list-style-type: none"><li>A further increase in staff engagement</li><li>A unique value proposition within retail brands and at corporate headquarters</li></ul>
A strong, innovative HR brand not only in retail	<ul style="list-style-type: none"><li>Strengthening our position as one of the leading employers in Russia</li><li>Expanding target audiences to attract staff</li></ul>
ONE RETAIL Concept	
Digital thinking	<ul style="list-style-type: none"><li>A system of organisational interaction as an alternative to a hierarchical system</li><li>Solutions based on HR data</li></ul>
A technological HR brand	<ul style="list-style-type: none"><li>An attractive IT brand</li><li>Seamless employee-Company interaction</li><li>Automation of HR processes</li></ul>
Business performance	
Strategic goals: >6% EBITDA, >30% market share	<ul style="list-style-type: none"><li>Performance of small-format stores</li><li>Performance of promotional staff and outsourcing</li></ul>
Attraction and retention of talent	<ul style="list-style-type: none"><li>Increasing the speed of recruitment</li><li>Reducing staff turnover</li><li>A strong candidate pool</li></ul>



BUILDING A STRONG IT brand



One of the most important challenges in the implementation of the ONE RETAIL strategic concept is to attract qualified specialists in the field of IT to work for the Group. With this goal in mind, the Group considers IT to be the core of its HR brand positioning, as it improves the flexibility of its organisational structure and business processes and ramps up communication with the professional IT community through social networks and specialised media resources (habr, vc.ru, etc.). In addition, the Group is working on launching an internship programme and forming a retail community for young IT specialists that is intended to raise awareness of innovative Group projects that require a solution to non-standard work-related tasks.

Principles of the personnel management system

Importance of engagement

The Group defines engagement as an employee’s desire and motivation to play an active role in the life of the Group, understanding and supporting its values, and showing a willingness to participate in the achievement of corporate goals. A high level of personnel engagement is one of the key factors behind M.Video and Eldorado’s customer-oriented business.

We work on the engagement of every employee, encouraging initiative and offering openness to change, a flexible organisational structure and interesting professional work. As part of an open dialogue, management aims to communicate to every employee their team’s strategic goals and to receive regular feedback from staff. We also create an environment of open communication, and we actively involve employees in the life of the Company through corporate events, non-financial incentivisation programmes and volunteer projects.

Based on engagement indicators in 2018, M.Video and Eldorado were among the best employers in Russia according to hh.ru: M.Video was the best employer in Russian retail, and Eldorado was in the top 10.

The M.Video brand was also recognised as the best employer according to the annual AON Best Employers survey. Aon Hewitt and AXES Management, a global leader in HR consulting, rated the levels of employee engagement and satisfaction at more than 100 companies and singled out the top eight. The M.Video brand was the only Russian retail chain included on the list; the level of engagement on the part of the brand’s employees was 85%, which is more than 20% above the average for Russia.

M.Video–Eldorado Group is proud that the turnover rate among its personnel is significantly lower than the market average, at 34% (the aggregate figure for both brands) as of the end of 2018.

Leadership in innovation

M.Video–Eldorado Group is constantly introducing innovations aimed at strengthening its competitive advantages and investing in the development of technologies in all areas of its activities. We incorporate the latest technologies into the lives of our customers, partners and employees through the digitisation of business processes.

Digital workspace

M.Video–Eldorado Group is developing its digital environment in order to provide convenient access to personnel, administrative and IT services. Employees have a single entry point through the EM.Life portal, which can be accessed through standard computers and mobile devices so as to order and receive services.

Transparent and balanced goal setting

The Group regularly sets and passes from the top down monthly, quarterly and annual targets for all employees. Employee remuneration depends on the fulfilment of balanced KPIs aimed at achieving the Group’s financial goals, improving operational efficiency and ensuring sustainable development.

Flexible working arrangements

Since 2018, M.Video has been using software to set flexible working hours for retail personnel. A special program determines individual work schedules depending on the dynamics of customer flow, demand specifics, store location, time of day and employee wishes. In addition, the Company has introduced a time management system based on biometric facial recognition technology, which makes it possible to automatically calculate retail employees’ working hours, to improve the transparency of payments, and also to quickly change the number of consultants in stores depending on traffic, promotions and other events. The flexible scheduling system combined with the biometric solution creates a convenient and transparent remuneration system, significantly reduces the number of conflicts within teams, and improves motivation and staff engagement. As of the end of 2018, more than 13,000 retail employees were working on the basis of flexible schedules, a more than twofold increase from 2017.

Number of employees with flexible work schedules



As of the end of 2018, the number of retail employees working on the basis of flexible schedules had more than

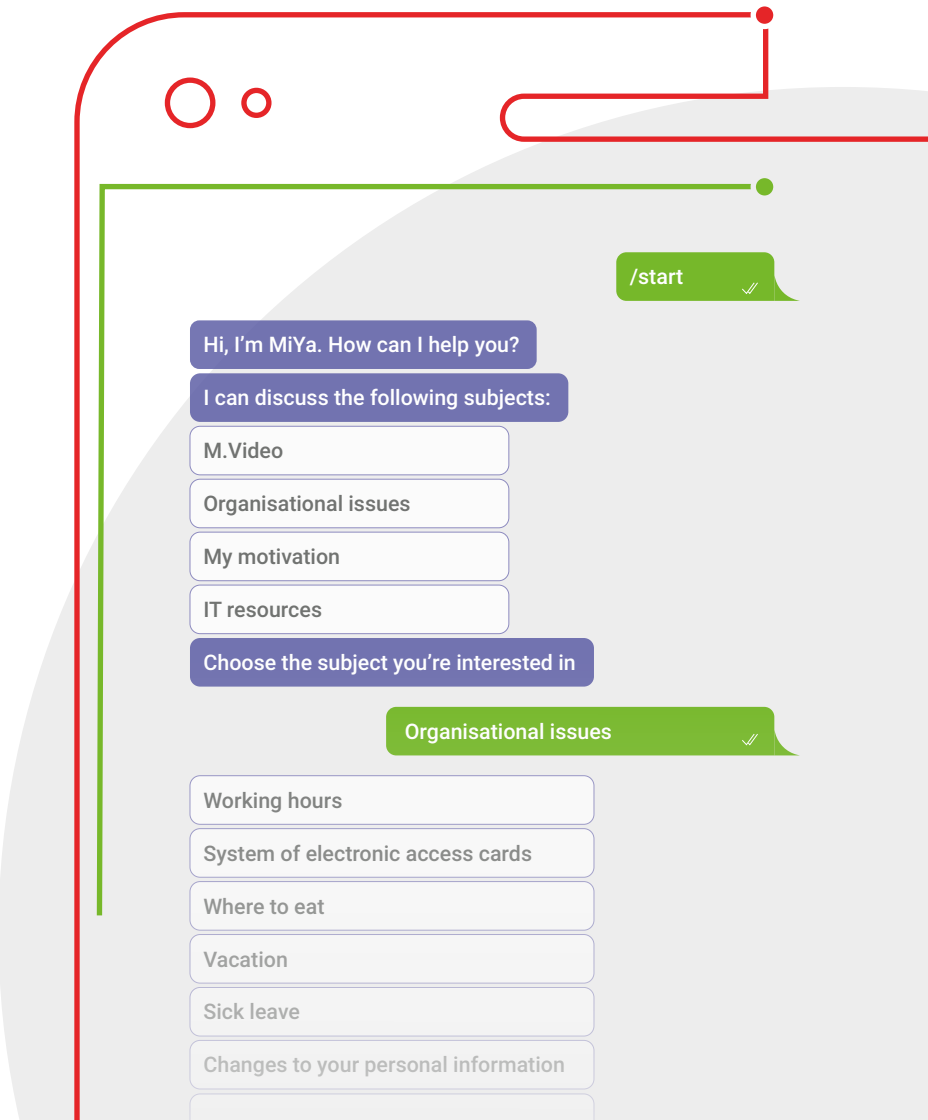
doubled

The MiYa electronic assistant for new employees

M.Video is developing its MiYa (short for ‘M.Video and I’) chatbot program, which helps new employees adapt to their workplace and their team more quickly and efficiently. Developed on the basis of the Dialogflow cloud platform, MiYa operates through Telegram and provides answers to new employees’ frequently asked questions about working conditions, resources available to staff, corporate traditions, the location of certain facilities, etc. HR employees can independently enter information into the chatbot, which speeds up the procedure of updating the information in the program.

The Group implements employee development programmes and projects such as the following:

- training programmes for retail personnel and the corporate headquarters;
- an effective distance learning system (webinars);
- the M.Video Faculty project;
- an individual career development plan for every employee.



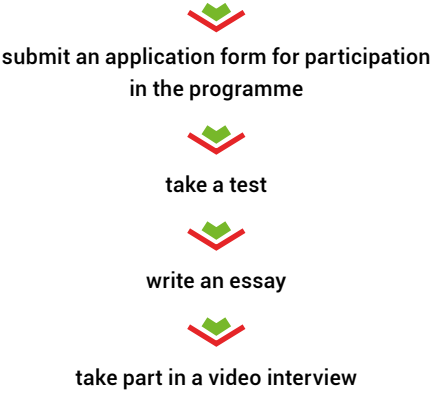
Responsibility for employees

One of the Group's key HR advantages is the development of its own staff. The Company provides all its employees with extensive opportunities for career management, training and development. There is a candidate pool for both the retail network and corporate headquarters. As a result of a specially developed employee development system, 86% of vacancies at M.Video retail are filled by internal candidates, while this figure is 81% at Eldorado. At corporate headquarters, 72% of vacancies are filled by internal candidates.

'Career without Barriers' project

In 2015, M.Video launched its 'Career without Barriers' programme, which was created to facilitate the transfer of the most enterprising and most interested employees from the Company's stores to work at corporate headquarters.

The selection takes place in four stages. Retail employees:



The best candidates are added to the staff reserve. When a vacancy opens up at corporate headquarters, the Company first makes it available to internal candidates. Employees from any city can take part in the programme, and candidates from the pool should be ready to move to Moscow.

Vacancies filled by Group employees, %



Every M.Video–Eldorado Group employee has access to a programme to manage their personal benefits through the accumulation of bonus points called the 'Benefits Cafeteria'. The programme enables employees to accumulate virtual points and exchange them for a wide range of goods and services. Prior to 2019, the programme existed only at M.Video; since 2019, Eldorado employees have also been granted access to the programme. The programme is aimed at encouraging excellent results and a commitment to corporate values.

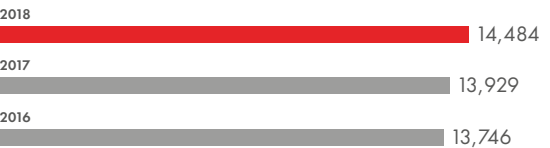
Number of participants in the 'Benefits Cafeteria' programme

The Group understands the great importance of interaction with employees in social networks. In addition to marketing pages for customers, the Group supports corporate accounts in leading social media networks that are popular in Russia: VKontakte, Instagram and Facebook. Through social networks, the Group delivers important messages to staff and a wider audience, and it shares news and information about new opportunities. In addition, the Group uses its accounts to interact with potential employees – answering their questions and receiving feedback – interested in working for the Group.

Subscribers to HR accounts in social networks



Number of participants in the 'Benefits Cafeteria' programme



ENVIRONMENTAL PROTECTION

M.VIDEO–ELDORADO GROUP'S KEY VALUES INCLUDE HAVING A PASSION FOR EVERYTHING THE COMPANY DOES AND TAKING RESPONSIBILITY FOR THE FUTURE.

We pay attention not only to the fulfilment all of our obligations to our customers, shareholders and employees, but also to Russia's environmental well-being and preserving the diversity of the wilderness in our country. We are not indifferent to the sort of world we live in. For more than a decade, the Group has been developing environmental initiatives and involving partners, employees and customers in their implementation.

In June 2019, Russia's largest retailers signed a Memorandum on Sustainable Development and Improvement of Environmental Practices under the auspices of the World Wide Fund for Nature (WWF). M.Video–Eldorado Group is one of the most active project organisers. The companies involved plan to work together on environmental standards for the industry, to develop nature protection projects and to introduce into their business processes international sustainable development practices. This initiative is aimed at introducing the principles of sustainable development in retail through a joint search for solutions to reduce the burden on the environment, improve business processes, develop new technological solutions and change consumption patterns. The principles of the memorandum will be implemented in the format of a Club of Responsible Retailers.

Key Group projects in the area of environmental protection

Switch to eco-friendly paper bags

M.Video was one of the first companies in the Russian market to stop selling plastic bags in stores, replacing them with FSC-certified paper bags produced in the most environmentally friendly way possible. In 2018, Eldorado also switched to paper bags. About 1.5 million plastic bags that remained were withdrawn from sale

220 thousand pieces of equipment were handed over to recycling programme participants in 2018

and recycled by the Company. By purchasing FSC-certified bags, the Group's customers are contributing to careful forest management and protection of forest-based flora and fauna. Part of the proceeds from the sale of paper bags was earmarked for restoration of historical deciduous forests on the territory of the Ugra National Park as part of a project aimed at restoring forests and reintroducing bison, organised together with the Beautiful Children in a Beautiful World charitable foundation.

Recycling batteries

In 2018, M.Video and Eldorado, in partnership with Megapolisresurs, launched a programme to recycle spent batteries. Customers can now hand over used batteries for recycling at 176 M.Video and Eldorado stores in Moscow, the Moscow region and St. Petersburg. As part of a pilot project, visitors have already turned in more than 1 tonne of used batteries for recycling since the end of October 2018. By the end of this year, 470 stores in both networks will be outfitted with collection containers that, through joint efforts, will enable us to collect about 100 tonnes of used batteries every year.

Stores have set up specially designed collection boxes that meet all the requirements for safe storage. Each container can hold up to 35 kg, and visitors will be able leave the most common types of batteries. Once a box is filled, the batteries will be taken to the Megapolisresurs plant, which is currently the only battery recycling plant in Russia.

Equipment recycling programme

The M.Video and Eldorado networks are also carrying out programmes for recycling old household appliances. Special Group promotions enable customers to receive a discount on new equipment in exchange for old equipment and thus to take a responsible approach to environmental protection. Electronic equipment collected in stores or picked up from customers' homes is transported to recycling partners, which dismantle it and turn it into recyclable materials.

This service can be used both in stores and online. The recycling programme covers equipment categories such as televisions, large household appliances, built-in appliances, water heaters and air conditioners. Over the several years that this programme has been in existence, customers have already handed over about 3.5 million pieces of used equipment.

In June 2019, M.Video–Eldorado Group and the Electronics – Recycling System of Collective Responsibility Association agreed on a project involving the ongoing intake of used equipment for recycling. Customers can turn in equipment at any M.Video or Eldorado store at any time regardless of whether or not there is an ongoing promotion. A pilot project has been launched in St. Petersburg; there are also plans to launch a programme by the end of the year at M.Video stores in Moscow, Kazan, Samara, Ulyanovsk, Chelyabinsk and Yaroslavl. Over the course of two years, there are plans to arrange for the intake of equipment in all 220 cities where M. Video and Eldorado operate. In addition, the parties to the agreement are planning to make it possible to remove large equipment from customers’ homes for recycling.

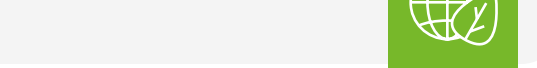
SOCIAL PROJECTS ➔



PERSONAL INVOLVEMENT AND RESPONSIBILITY FOR THE FUTURE ARE AMONG M.VIDEO–ELDORADO GROUP’S KEY VALUES. FOCUSING ON THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT, THE COMPANY PAYS A GREAT DEAL OF ATTENTION TO CHARITABLE AND SOCIAL PROJECTS, AND IT SUPPORTS VOLUNTEER ACTIVITIES ON THE PART OF EMPLOYEES.

The Our Initiative foundation’s programmes are designed for the long term.

WWF conservation projects



M.Video–Eldorado Group also supports the WWF’s conservation projects. The Company takes part in Earth Hour campaigns every year: Televisions, monitors, and sign-board lighting are turned off at all stores. Another initiative being implemented is the sale of energy-saving lightbulbs: On 22 December 2009, M.Video stopped selling inefficient incandescent bulbs and started offering customers a wide range of energy-saving lightbulbs that consume 80% less energy per month.

The M.Video brand supports the WWF programme aimed at the preservation of the snow leopard and Amur tiger populations, is supporting the reconstruction of the visitor centre at the Zov Tigra National Park, assists in fighting fires and illegal logging, and finances and provides special equipment for anti-poaching units at reserves in the Altai and Tyva regions and in Krasnoyarsk Krai.

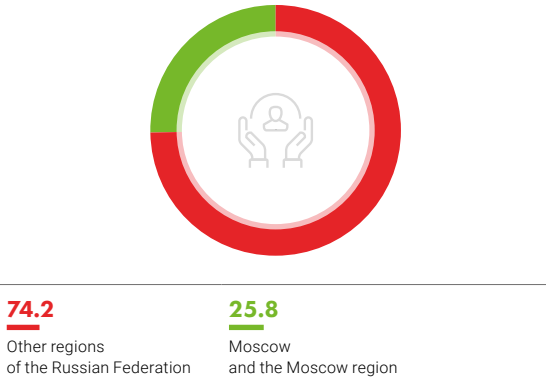
Priority areas for social projects

An important area of M.Video–Eldorado Group’s activities in the field of sustainable development is targeted assistance for individuals, especially children, in difficult life situations.

In 2005, the Our Initiative charitable foundation was created on the basis of a volunteer movement. The foundation is now the economic mechanism for the implementation of M.Video–Eldorado Group’s social programmes and projects. Our Initiative mainly works in various regions of Russia, covering charity events in more than 250 cities and towns throughout the country.

The foundation involves charitable activities in **>250** cities and municipalities in Russia

The foundation’s charitable donations in 2018 were distributed in the following areas, %



The majority of charitable donations in 2018 were aimed at support for children and childhood development. Expenditures aimed at helping children and adolescents in 2018 amounted to 89% of total charitable donations; the remaining 11% of funds was donated to adult support programmes. Group employees who assist in organising numerous programmes at the regional level play an active role in the work of the foundation.

The ‘Let’s Grow Together’ programme is aimed at supporting children from birth to four years of age who are fully in the care of the state. The programme applies to orphans and children left without parental care living in orphanages, as well as children in the corresponding age group who are being raised in other social institutions run by the Ministry of Labour and Social Protection or the Ministry of Health of the Russian Federation.

The programme’s activities have contributed to improvements in the medical, pedagogical and social assistance provided to children, and they also assist in the adoption of children.

The ‘Teenager’s World’ programme is aimed at supporting orphans, social orphans and adolescents aged 5 to 18 who find themselves in difficult life situations and who are in state-run orphanages. The programme envisages measures aimed at the socialisation of residents of orphanages, boarding schools, centres for the promotion of family education and social centres for minors. In 2018, 169 institutions for children and teenagers took part in the programme.

The ‘21st-Century Professions’ programme is aimed at supporting children and teenagers from 10 to 18 years of age who are being educated at cadet schools, Suvorov Military Schools, the Nakhimov Naval Academy and the Moscow Military Music School of the Ministry

of Defence of the Russian Federation. The programme is designed to assist federal state general education institutions in the preparation of well-rounded and patriotic citizens. As of the end of 2018, the programme covered 24 institutions.

The ‘Veterans’ programme is aimed at supporting veterans of World War II, as well as families whose breadwinners were involved in hostilities and were killed in the line of duty. This programme is being implemented in cooperation with interregional public organisations of veterans who served from 7 November 1941 to 24 June 1945 who participate in military parades on Moscow’s Red Square. In 2018, the programme covered 75 people.

The ‘Commonwealth’ programme provides for joint charitable activities on a partnership basis with other non-profit, commercial and government organisations to assist beneficiaries by combining the common interests, experience and capabilities of partner organisations and the Our Initiative foundation.

In 2018, the programme’s main joint activities were carried out with the RUSFOND charitable foundation for assisting seriously ill children, orphans and disabled persons; the Moscow Centre for Paediatric Maxillofacial Surgery LLC; the Good News Foundation; the Vladimir, Nizhny Novgorod, Pskov and Samara regional branches of the Russian Children’s Fund; the Charitable Foundation for the Revival of Culture and Traditions of the Small Cities of Russia; the Kalinka Centre for Children’s Folk Art; and others. In 2018, this programme included the following projects and activities:

- The ‘A Happy Child Is a Healthy Child’ project provides for comprehensive, long-term treatment for children – in relation to their physical appearance – who do not have state funding. We pay particular attention to children of preschool and primary-school age, children in orphanages and children from low-income families. Thanks to this project, 84 children received high-tech medical treatment.
- The ‘Video Passport’ project was established in 2010. Through this project, the Our Initiative charitable foundation takes part in the functioning of the Russian national information retrieval system for adoptive parents in the territory of the Russian Federation by participating in the creation of video materials for finding families for children left without parental care. A ‘Video Passport’ is the most detailed and objective video material available about children who are available for adoption.
- The ‘Stairway of Creativity’ project is aimed at supporting talented and artistically gifted children and teenagers in difficult life situations. Using the mechanism of social partnership, we provide support to minors who are Russian citizens in choosing

As of the end of 2018, the programme covered **24** institutions

Thanks to the ‘A Happy Child Is a Healthy Child’, **84** children received high-tech medical treatment



a specialisation and acquiring their first professional skills. Last year, in the Nizhny Novgorod region, together with the regional branch of the Russian Children’s Fund, the Our Initiative charitable foundation supported the organisation of classes for gifted child artists and children who are learning professional sewing skills. These projects included 45 adolescents who are being raised without parents or who are in a difficult life situation.

- The ‘Vocation’ campaign provides non-financial and material incentives to people working in the fields of education, culture, social protection and medicine for their conscientious and creative contribution to the education of the younger generation of Russian citizens. In 2018, 49 specialists received incentives through the programme.
- The ‘Support for Theatre and Cinema Actors’ campaign is aimed at financing events, as well as supporting late-career professionals and talented young people in the fields of art and culture. In the reporting year, the Our Initiative charitable foundation took part in financing two open Russian film and theatre festivals, which are among the five main festivals in Russia. These were the Provincial Russia film forum in the city of Yeysk and Amur Autumn film forum in the city of Blagoveshchensk. In addition, we supported events held by several older-generation actors: Tatyana Piletskaya, Vladimir Alenikov, Elena Kondulaynen, Larisa Luzhina, Natalya Gvozdkova, and others.
- The ‘Emergency Social Assistance’ campaign provides urgent assistance not included in the planned activities of the Our Initiative foundation in case of unforeseen situations at institutions and organisations where there are children and teenagers, veterans of World War II and other socially vulnerable groups of the population.

- The ‘Emergency Situations’ campaign involves the provision of material assistance and psychological support to victims of natural disasters, environmental disasters and terrorist acts. The Our Initiative foundation transferred needed household appliances to 237 large families affected by the flood in Krasnodar Krai in 2018.
- The ‘New and Experimental Areas and Projects’ campaign is aimed at determining the feasibility of developing and introducing new areas for the foundation’s charitable activities. The results could form the foundation for the creation of timely and interesting charitable projects and programmes.

The Beautiful Children in a Beautiful World charitable foundation

Within the framework of its key priority areas of activity – support for children and environmental protection – M.Video established the Beautiful Children in a Beautiful World foundation in 2013, which specialises in helping children and nature (the foundation’s website is [www.detipriroda.ru](http://www.detipriroda.ru)). Two charitable programmes are being implemented within these two fields: ‘Beautiful Children’ and ‘A Beautiful World’.

- The ‘Beautiful Children’ programme This programme provides organisational and financial assistance for the surgical treatment of children with diseases affecting the oral and maxillofacial region. In 2018, 171 operations were performed through the programme on children from various regions of Russia. In just the five years of its existence, the foundation has donated 845 smiles, having financed 845 operations or other stages of treatment for 566 children.



In 2018, the programme provided incentives for

45 specialists



Благотворительный фонд  
красивые дети  
в красивом мире

Over five years, the foundation has financed

845 operations or other stages of treatment for 566 children

During the reporting year, the fourth charity run was held in support of the foundation’s programmes; it was the first joint charity event organised after the formation of M.Video–Eldorado Group. The race, whose motto was ‘Faster Together’, was the most popular in the Company’s history: more than 4.2 thousand people from 159 cities took part in it, and RUB 1.4 million was collected as a result of the event.

- ‘A Beautiful World’ programme This project is aimed at nature conservation in Russia, nature that we love and are proud of. In the five years since the foundation was established, this programme has supported 35 environmental projects in 17 conservation areas.

In Ugra National Park, for example, the foundation, together with M.Video–Eldorado Group, has been implementing a project since 2014 aimed at restoring the forest and reintroducing bison. For five years already, sales of FSC-certified bags at M.Video stores have been helping raise funds – RUB 2.5 million annually – for this project. At the end of 2018, the Eldorado brand also switched to FSC-certified paper bags. When purchasing one of these bags, customers are helping plant a tree at Ugra National Park. In addition, M.Video volunteers plant 10 hectares of trees in the park every year, and Eldorado employees joined the project in 2018. Throughout the implementation of the project, Group volunteers have planted a total of 50 hectares of trees in Ugra National Park. As part of the project, bison are being introduced in the park, and there are currently 50 of the animals living there.

In 2018, the film Kamchatka Bears: Life Begins, made with the support of M.Video and the Beautiful Children in a Beautiful World foundation, was released in cinemas. The film has won no fewer than ten awards at Russian and international festivals.

**Corporate volunteering** M.Video–Eldorado Group pays considerable attention to the development of corporate volunteering. We understand the importance of developing local communities and encourage our employees to strive to change the world around them. They are involved in projects at various levels: federal, centrally organised projects, and regional projects organised at the local level, both with the support of corporate headquarters and at the initiative of local staff.

M.Video–Eldorado Group’s volunteer movement has about 3 thousand participants. Our employees volunteer to plant trees; to take care of the clean-up and landscaping of conservation areas (Bashkiriya, Taganai, Orlovskoye Polesye and Zabaykalsky National Parks, among others); to help children, the elderly and veterans; and to support animal shelters.

In 2018, Group volunteers took part in work at Ugra National Park, Smolenskoye Poozerye National Park, Taganai National Park, the Volga-Kama Nature Reserve, Zabaykalsky National Park, the Bryansk Forest Nature State Biosphere Reserve, Orlovskoye Polesye National Park, the Voronezh Nature Reserve and Bashkiriya National Park. For example, as part of a project aimed at restoring the park’s forest and reintroducing bison, organised jointly by M.Video, the foundation and Ugra National Park, M.Video volunteers plant 10 hectares of oak saplings every year; since the beginning of the project, more than 50 hectares of trees have been planted. As part of the project, serious work is being carried out on reforestation: cutting down dead spruce stands (in the areas where planting is being carried out), mechanised soil preparation for planting forests on this territory, and looking after saplings from various years.



In five years, the A Beautiful World’ programme has supported

35 environmental projects

in 17 protected areas



M.Video–Eldorado Group’s volunteer movement has about

3,000 participants

M.VIDEO–ELDORADO GROUP HAS IMPLEMENTED A LARGE NUMBER OF CHARITABLE PROJECTS AS PART OF THE ‘BEAUTIFUL CHILDREN’ PROGRAMME.

Through the sale of gift cards in 2018, the programme was able to collect

RUB 1.5 million

With the help of donation boxes at 177 M.Video stores, about

RUB 5.7 million

was collected during the reporting year

Thanks to campaign called ‘Every Little Bit Helps’ the Group managed to raise more than

RUB 685 thousand

In 2018, pre-New Year charity events called ‘Give a New Year’s Miracle’ and ‘Bowl of Goodness’ were held at all M.Video and Eldorado stores, which raised nearly

RUB 12 million

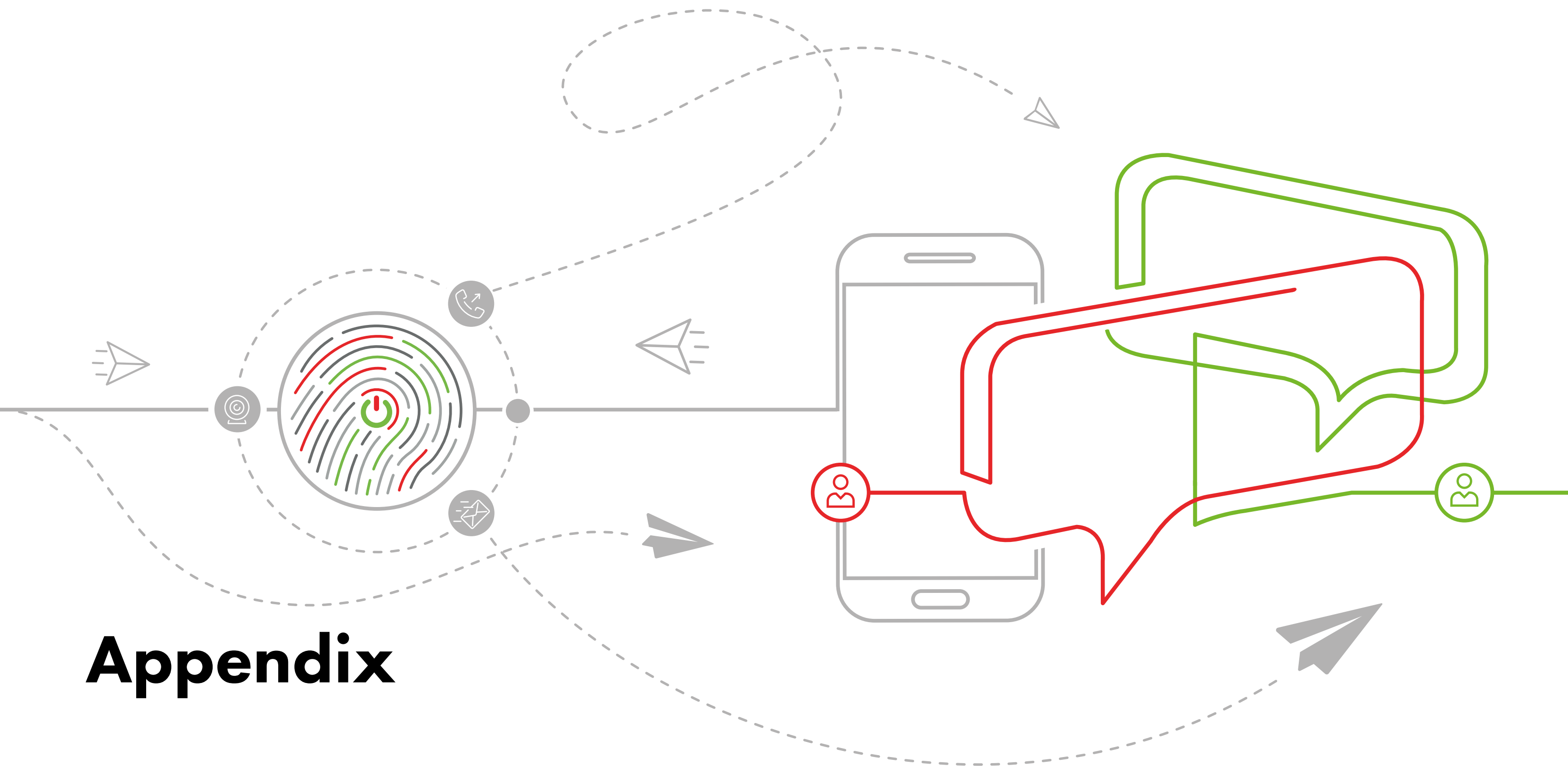
for the foundation

Foundation’s website:



[www.detipriroda.ru](http://www.detipriroda.ru)





# Appendix

# STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company “M.video” (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2018, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

- In preparing the consolidated financial statements, management is responsible for:
- Properly selecting and applying accounting policies;
  - Presenting information, including accounting policies, in manner that provides relevant, reliable, comparable and understandable information;
  - Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
  - Making an assessment of the Group’s ability to continue as a going concern.

- Management is also responsible for:
- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
  - Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
  - Maintaining statutory accounting records in compliance with local legislation and accounting standards of Russian Federation;
  - Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
  - Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved on 20 March 2019.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(in millions of Russian Rubles)

	Notes	31 December 2018	31 December 2017
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	7	20 734	7 936
Investment property	8	575	-
Intangible assets	9	68 767	7 999
Deferred tax assets	18	5 759	4 264
Non-current financial assets	10	-	2 471
Other non-current assets	11	2 646	993
<b>Total non-current assets</b>		<b>98 481</b>	<b>23 663</b>
<b>CURRENT ASSETS:</b>			
Inventories	12	113 145	52 283
Accounts receivable and prepaid expenses	13	31 457	21 611

	Notes	31 December 2018	31 December 2017
Income tax receivable		33	16
Other taxes receivable	14	16 112	6 154
Cash and cash equivalents	15	25 669	17 791
Assets held for sale	16	494	-
Other current assets		43	7
<b>Total current assets</b>		<b>186 953</b>	<b>97 862</b>
<b>TOTAL ASSETS</b>		<b>285 434</b>	<b>121 525</b>
<b>EQUITY:</b>			
Share capital	17	1 798	1 798
Additional paid-in capital	17	4 576	4 576
Treasury shares	17	(749)	(52)
Retained earnings		25 240	16 602
Equity attributable to owners of the Company		30 865	22 924
Non-controlling interests	17	510	230
<b>Total equity</b>		<b>31 375</b>	<b>23 154</b>
<b>NON-CURRENT LIABILITIES:</b>			
Non-current bank borrowings	19	45 720	-
Other liabilities		573	-
Provisions	25	256	-
Deferred tax liabilities	18	1 785	-
<b>Total non-current liabilities</b>		<b>48 334</b>	<b>-</b>
<b>CURRENT LIABILITIES:</b>			
Current bank borrowings	19	13 789	-
Trade accounts payable		155 420	77 698
Other payables and accrued expenses	20	17 126	8 708
Advances received	21	5 309	2 656
Income tax payable		1 397	531
Other taxes payable	22	2 782	1 627
Deferred revenue	23	6 940	5 923
Financial guarantees	24	-	780
Provisions	25	2 962	448
<b>Total current liabilities</b>		<b>205 725</b>	<b>98 371</b>
<b>Total liabilities</b>		<b>254 059</b>	<b>98 371</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>285 434</b>	<b>121 525</b>

The Notes on pages 7-48 form an integral part of these consolidated financial statements.

The independent auditor’s report is presented on pages .

Signed on 20 March 2019 by:



CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018	2017
REVENUE	26	321 102	198 197
COST OF SALES	27	(242 463)	(151 670)
GROSS PROFIT		78 639	46 527
Selling, general and administrative expenses	28	(69 234)	(40 754)
Other operating income	29	6 079	2 623
Other operating expenses	30	(801)	(216)
OPERATING PROFIT		14 683	8 180
Finance income	31	509	659
Finance expenses	31	(3 617)	-
PROFIT BEFORE INCOME TAX EXPENSE		11 575	8 839
Income tax expense	18	(3 210)	(1 885)
<b>TOTAL NET PROFIT and TOTAL COMPREHENSIVE INCOME for the year</b>		<b>8 365</b>	<b>6 954</b>
Total net profit and total comprehensive income for the year attributable to:			
Owners of the Company		8 582	6 974
Non-controlling interests		(217)	(20)
BASIC EARNINGS PER SHARE (in Russian Rubles)	32	48,04	38,85
DILUTED EARNINGS PER SHARE (in Russian Rubles)	32	48,04	38,85

The Notes on pages 7-48 form an integral part of these consolidated financial statements.

Signed on 20 March 2019 by:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018  
(in millions of Russian Rubles)

	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
<b>Balance as at 31 December 2016</b>		<b>1 798</b>	<b>4 576</b>	<b>(52)</b>	<b>9 628</b>	<b>15 950</b>	<b>1</b>	<b>15 951</b>
Increase in non-controlling interests in LLC "MARKETPLACE"	17	-	-	-	-	-	249	249
Total comprehensive income/(loss) for the year		-	-	-	6 974	6 974	(20)	6 954
<b>Balance as at 31 December 2017</b>		<b>1 798</b>	<b>4 576</b>	<b>(52)</b>	<b>16 602</b>	<b>22 924</b>	<b>230</b>	<b>23 154</b>
Impact of modified retrospective application of IFRS 15		-	-	-	56	56	-	56
<b>Balance as at 1 January 2018</b>		<b>1 798</b>	<b>4 576</b>	<b>(52)</b>	<b>16 658</b>	<b>22 980</b>	<b>230</b>	<b>23 210</b>
Purchase of treasury shares	17	-	-	(697)	-	(697)	-	(697)
Non-controlling shareholder's contribution into a subsidiary's capital	17	-	-	-	-	-	497	497
Total comprehensive income/(loss) for the year		-	-	-	8 582	8 582	(217)	8 365
<b>Balance as at 31 December 2018</b>		<b>1 798</b>	<b>4 576</b>	<b>(749)</b>	<b>25 240</b>	<b>30 865</b>	<b>510</b>	<b>31 375</b>

The Notes on pages 7-48 form an integral part of these consolidated financial statements.

The independent auditor's report is presented on pages.

Signed on 20 March 2019 by:

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Russian Rubles)

	Notes	2018	2017
<b>OPERATING ACTIVITIES:</b>			
Net profit for the year		8 365	6 954
Adjustments for:			
Income tax expense	18	3 210	1 885
Depreciation and amortization	27, 28	6 107	3 614
Change in allowance for long-term advances paid for rent and accounts receivable	11,13	275	(12)
Change in allowance for obsolete and slow-moving inventories and inventory losses, net of surpluses		1 017	98
Interest income	31	(509)	(657)
Interest expenses	31	3 604	-
Other non-cash reconciling items, net		273	(66)
<b>Operating cash flows before movements in working capital</b>		<b>22 342</b>	<b>11 816</b>
Increase in inventories		(32 114)	(7 118)
Decrease/(increase) in accounts receivable and prepaid expenses		1 930	(8 465)
Increase in other taxes receivable		(6 017)	(1 897)
Increase in trade accounts payable		36 635	11 413
Increase/(decrease) in other payables and accrued expenses		3 728	(131)
Increase in deferred revenue		682	979
Decrease/(increase) in other liabilities		113	(68)
Increase in advances received		577	284
(Decrease)/increase in other taxes payable		(273)	933
Other changes in working capital, net		(187)	(24)
<b>Cash generated by operations</b>		<b>27 416</b>	<b>7 722</b>
Income tax paid		(3 024)	(2 704)
Interest paid		(2 820)	-
<b>Net cash generated by operating activities</b>		<b>21 572</b>	<b>5 018</b>

	Notes	2018	2017
<b>INVESTING ACTIVITIES:</b>			
Loans issued		-	(1 631)
Repayment of loans issued		1 711	-
Payments for property, plant and equipment and investment property		(4 251)	(2 091)
Proceeds from disposal of property, plant and equipment and assets held for sale		292	3
Payments for intangible assets		(3 562)	(3 168)
Interest received		522	661
Net cash outflow from purchase of subsidiaries/investment in associate	6	(55 019)	(15)
<b>Net cash used in investing activities</b>		<b>(60 307)</b>	<b>(6 241)</b>
<b>FINANCING ACTIVITIES:</b>			
Purchase of treasury shares	17	(697)	-
Contribution of non-controlling interests to the capital of subsidiary	17	497	249
Proceeds from borrowings		71 209	21
Repayment of borrowings	19	(24 207)	(21)
Repayment of loans		(124)	-
Repayment of finance lease		(67)	-
<b>Net cash generated by financing activities</b>		<b>46 611</b>	<b>249</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>7 876</b>	<b>(974)</b>
<b>CASH AND CASH EQUIVALENTS, at the beginning of the year</b>		<b>17 791</b>	<b>18 763</b>
Impact of foreign exchange on cash and cash equivalents		2	2
<b>CASH AND CASH EQUIVALENTS, at the end of the year</b>		<b>25 669</b>	<b>17 791</b>

The Notes on pages 7-48 form an integral part of these consolidated financial statements.

The independent auditor’s report is presented on pages.

Signed on 20 March 2019 by:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Russian Rubles)

## 1. GENERAL INFORMATION

The consolidated financial statements of Public Joint Stock Company "M.video" (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 20 March 2019.

The Company is incorporated in the Russian Federation.

Following the initial public offering in November 2007, the Company's ordinary shares were admitted to trading on MICEX stock exchange (Moscow Exchange) in the Russian Federation.

The Group is the operator of a chain of consumer electronic outlets and online internet stores operating in the Russian Federation. The Group specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services. The Group comprises a chain of owned and leased stores (941 stores as at 31 December 2018; 424 stores as at 31 December 2017) and online internet stores in Moscow and 110 other cities (93 cities as at 31 December 2017).

The accompanying consolidated financial statements include assets, liabilities and result of operations of the Company and its subsidiaries as at 31 December 2018 and 2017:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2018	31 December 2017
LLC "MVM"	Retailing	Russian Federation	100	100
LLC "MARKETPLACE"	Marketplace project development	Russian Federation	80	80
BOVESTO LIMITED	Holding company	Cyprus	100	-
LLC "Eldorado"	Retailing	Russian Federation	100	-
LLC "Invest-Nedvizhimost"	Operating lease of real estate	Russian Federation	100	-
LLC "Rentol"	Operating lease of real estate	Russian Federation	100	-
LLC "TC "Permsky"	Operating lease of real estate	Russian Federation	100	-
LLC "Eldomarket"	Retailing	Russian Federation	100	-
LLC "BT Holding"	Holding company	Russian Federation	100	-
MVEL Investition GmbH	Holding company	Germany	100	-
LLC "MVB Trade"	Retailing	Russian Federation	100	-
LLC "CE Trading solutions"	Retailing	Russian Federation	100	-
LLC "MV TVT"	Retailing	Russian Federation	100	-

On 30 April 2018 LLC "MVM" acquired 100% of the shares BOVESTO LIMITED (see Note 6). BOVESTO LIMITED was a holding company to LLC "Eldorado", LLC "Invest-Nedvizhimost", LLC "Rentol", LLC "TC "Permsky", LLC "Eldomarket".

On 31 August 2018 LLC "MVM" acquired 99% of the shares LLC "Media Saturn Russland" and 100% of the shares Media-Saturn Russland Beteiligungen GmbH. After acquisition LLC "Media Saturn Russland" was renamed to LLC "BT Holding" and Media-Saturn

Russland Beteiligungen GmbH was renamed to MVEL Investition GmbH.

MVEL Investition GmbH owns 1% of the shares in LLC "BT Holding". LLC "BT Holding" is a holding company for LLC "MVB Trade", LLC "CE Trading solutions", LLC "MV TVT" (see Note 6).

## SHAREHOLDERS

As at 31 December 2018 and 2017, the registered shareholders of the Company and their respective ownership and voting interests were as follows:

	2018	2017
Mianello Limited	38,5632%	57,6755%
MS CE Retail GmbH	15,0000%	-
Treasury shares	1,0993%	0,1318%
Various shareholders	45,3375%	42,1927%
Total	100%	100%

## ULTIMATE SHAREHOLDERS

Mianello Limited owns 38,5632% of the voting ordinary shares of the Company. Mianello Limited is incorporated in Cyprus. At 31 December 2018 the ultimate shareholder of Mianello Limited is Gutseriev Said Mikhailovich.

In 2018 MS CE Retail GmbH acquired 15% of the shares of Public Joint Stock Company "M.video" from Mianello Limited, the controlling shareholder of the Company, and the Group acquired

100% of shares in LLC "Media Saturn Russland", Russian business of MS CE Retail GmbH.

At the 31 December 2017 Mianello Limited owned 57,6755% of the voting ordinary shares of the Company. Grenodar Holdings Limited was the ultimate parent entity of the Company. At 31 December 2017 the ultimate beneficial owner of the Company was Gutseriev Mikail Safarbekovitch.

## 2. BASIS OF PREPARATION

### Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### Basis of Accounting

The consolidated financial statements have been prepared on a historical cost basis except for the valuation of financial instruments in accordance with Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9") and International Financial Reporting Standard 13 "Fair value measurement" ("IFRS 13") and valuation of items of property, plant and equipment measured at fair value which was used as deemed cost of the property, plant and equipment as at the date of transition to IFRS on 1 January 2006.

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 and these jurisdictions may differ from generally accepted IFRS principles. 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.

These consolidated financial statements are presented in millions of Russian Rubles (hereinafter, "mln Rubles"), except for per share amounts which are in Rubles or unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Functional and presentation currency – The consolidated financial statements are presented in Russian Rubles ("RUB"), which is the functional of each company of the Group, with operating activities. Functional currency for each company of the Group has been determined as the currency of the primary economic environment in which the company operates.

### Adoption of New Standards and Interpretations

The accounting policies applied in the preparation of these consolidated financial statements, are consistent with those applied in the preparation of consolidated financial statements for the year ended 31 December 2017, except for the adoption in Standards and Interpretations affecting from 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications);
- IFRS 9 Financial Instruments;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 1 and IAS 28;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

Adoption of these new and amended standards and interpretations did not have any significant impact on the Group's consolidated



financial statement for the year ended 31 December 2018, except for the effect of adoption of IFRS 15 “Revenue from Contracts with Customers”.

The Group applied a modified retrospective approach upon transition to IFRS 15 in respect of all its contracts. Under this approach, the effect of IFRS 15 application is recognized

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group transactions, balances, income and expenses or profits and losses resulting from intra-group transactions are eliminated in full on consolidation.

Operating segments – Segment reporting is presented on the basis of management’s perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group’s chief operating decision maker (“CODM”). These internal reports are prepared on the same basis as these consolidated financial statements.

Information reported to the Managing Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the results of ‘M.video’ and ‘Eldorado’ brands. Organizational structure of the Group is also build around the brands. Specifically, the Group’s reportable segments under IFRS 8 are as follows:

- M.video;
- Eldorado.

Operating segments represent chains of retail shops and online internet stores of home appliances and digital equipment under the brands Eldorado and Mvideo. Both segments specializes in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services.

Going concern – These consolidated financial statements are prepared on the going concern basis.

as an adjustment to equity on 1 January 2018. Comparative information for prior periods is presented in accordance with the provisions of IAS 18 Revenue. The Group recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the operating balance of the retained earnings at the beginning of the year ended 31 December 2018.

Foreign currencies – The individual financial statements of each Group’s entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rate prevailing on the date when the most recent fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Exchange differences arising on loans and borrowings are reported as part of finance cost, while exchange differences related to operating items are included into other operating income or expenses.

Property, plant and equipment – Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Fair value of properties was determined with reference to market prices, while fair value of the other items, including the Group’s trade equipment, was predominantly based on the estimates of depreciated replacement costs. Initial cost includes expenditure that is directly attributable to the acquisition of the items.

Major replacements or modernizations of property, plant and equipment are capitalized and depreciated over their estimated useful lives. All other repair and maintenance expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income during the financial period in which it is incurred.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	20-30 years
Leasehold improvements	7 years
Trade equipment	3-5 years
Security equipment	3 years
Other fixed assets	3-5 years

Leasehold improvements are depreciated over the shorter of useful life or the related lease term.

Trade equipment and leasehold improvements are depreciated over the estimated useful life specified above unless there is a plan to fully renovate the store prior to reaching the predetermined estimated useful life. In this situation, the net book value of trade equipment will be depreciated over the remaining estimated useful life being the period of time up to the planned renovation works.

The assets’ residual value and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. Where there are indicators that an asset’s or cash generating unit’s carrying amount is greater than its estimated recoverable amount, it is written down to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss and other comprehensive income.

Construction in progress comprises the cost of equipment in the process of installation and other costs directly relating to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over estimated useful lives of these intangible assets. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives per class of intangible assets are as follows:

Software licenses, development and web site	1-10 years
Trademarks	5-10 years
Leasehold	7-15 years

The Group owns the trademark “Eldorado”, which has an indefinite useful life, due to the fact that there is no foreseeable limit to the period over which this asset is expected to generate economic benefits for the Group. The cost of trademark “Eldorado” as at 31 December 2018 is 9 130.

Internally-generated intangible assets – An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;

- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of non-current assets – At each balance sheet date the Group reviews the carrying amounts of its non-current 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).

An asset’s recoverable amount is the higher of an asset’s or cash-generating units (CGU) fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. 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 risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price if available or other fair value indicators.

For non-current assets the CGU is deemed to be each group of stores located in one city. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Impairment test for goodwill, intangible assets with indefinite useful life and those intangible assets that are not yet available for use, is performed by the Group annually at each year-end by comparing their carrying amount with the recoverable amount calculated as discussed above. If the carrying amount of such assets does not yet include all the cash outflows to be incurred before they are ready for use, the estimate of future cash outflow includes

an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use.

Income tax – Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and 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 assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries as 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 be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Current and deferred income tax for the period**

Current and deferred income tax are recognized as an expense or income in the consolidated statement of profit or loss and other comprehensive income, except when they relate to items credited or debited directly to equity (in which case the tax is also recognized directly in equity) or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**BUSINESS COMBINATIONS**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

- At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:
- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
  - Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale

**GOODWILL**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to the groups of cash-generating units that are expected to benefit from the synergies of the combination.

**ASSETS HELD FOR SALE**

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must

be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**INVESTMENT PROPERTY**

Investment properties are properties held to earn rentals and/ or for capital appreciation (including property under construction for such purposes).

Investment properties are measured at cost, including transaction costs.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. In accordance with the accounting policy estimated useful life of Investment property is 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Fair value of financial instruments – The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques, which include using recent arm’s length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, or other valuation models.

- The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
  - Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
  - Level 3: techniques which use inputs that have a significant effect on the recorded fair value that 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. For assets measured at fair value, gains and losses will be recorded in either profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other

comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

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 (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of the financial assets carried at FVTPL 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 flows characteristics of the asset. The major part of the Group's debt instrument are presented by trade accounts and loans receivable and are measured at amortised cost applying the effective interest rate as these instruments are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains / (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Impairment of financial assets

Financial assets, other than those as at FVTPL, are assessed for indicators of impairment at each balance sheet date.

The Group always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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, obtained from economic expert resorts, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

If in the following reporting periods impairment loss is reduced, and this reduction relates to the event that has taken place after the loss is recognized, then previously recorded impairment loss is recovered by adjustment in profit or loss. Meanwhile carrying value of the financial assets on the recovery date must not exceed depreciated value that would have been reported if the impairment loss had not been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from

the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks

and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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 recorded as the proceeds received, net of direct issue costs.

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.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Value added tax – Value added tax (“VAT”) related to sales is payable to tax authorities on the earliest of (a) cash received from customers in advance or (b) transfer of the goods or rendering services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project cannot be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

VAT is generally allowed to be settled on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

At each reporting date the Group reviews outstanding balance of input VAT for recoverability and creates impairment provision for the amounts which recoverability is doubtful.

Inventories – Inventories are recorded at the lower of average cost or net realizable value. In-bound freight related costs from the suppliers incurred to deliver inventories to the Group's central distribution warehouse are included as part of the net cost of merchandise inventories. Certain supplier bonuses that are not reimbursement of specific, incremental and identifiable costs to promote a supplier's products are also included in the cost of inventory. Other costs associated with storing and transporting merchandise inventories from the central distribution warehouse to the retail stores are expensed as incurred and included either in “Cost of sales” (costs of transporting merchandise from central distribution warehouses to the retail stores) or in “Selling, general and administrative expenses” (all other costs).

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.



Cash and cash equivalents – Cash and cash equivalents comprise cash at banks, in transit and on hand in stores and short-term deposits with an original maturity of three months or less, and credit card payments received within 24 hours of the next working day.

Borrowing costs – The borrowing costs are capitalized by the Group as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset. The Group defines qualifying assets as leasehold improvements and other assets acquired in connection with the new store openings which generally take three months or longer to become operational. Other borrowing costs are expensed as incurred.

Provisions – Provisions are recognized when the Group has a present obligation 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 balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

Revenue recognition – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, discounts and VAT. Inter-company revenue is eliminated.

Revenue from the sale of goods is recognized on a 5-step approach as introduced in IFRS 15:

- The Group identifies the contract with the customer;
- The Group identifies the performance obligations in the contract;
- The transaction price is determined by the Group;
- The transaction price is allocated to the performance obligations in the contracts;
- Revenue is recognized only when the Group satisfies a performance obligation.

The Group recognizes revenue when or as a performance obligation is satisfied, i.e. when control over goods or services representing the Group's obligation is transferred to a buyer: when the goods are sold in retail stores for retail revenues or delivered to customers for online sales (including in-store pick-up).

**Loyalty programs**

The Group operates customer loyalty programs "M.video Bonus", "Co-brand", Card "Home Credit-Eldorado" and "Eldoradosty" which allow customers to accumulate points when they purchase goods in the Group's retail stores. Prior to adoption of IFRS 15, the customer loyalty programs offered by the Group resulted in the allocation of a portion of the transaction price to the bonus points issued based on their fair value and recognition

of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the customer loyalty programs is insignificantly different from the previous accounting policy.

**Additional service agreements**

The Group sells additional service agreements ("ASA") and has an obligation to the buyer to perform services throughout the period of the contract. Revenue from the ASA is deferred and recognized on a straight-line basis over the term of the service contract. Related costs, such as cost of services performed under the contract, general and administrative expenses and advertising expenses are charged to expense as incurred.

**Agent fees**

The Group recognizes as revenue any sales performed as an agent at net amounts (i.e. at the amount of commission, owed to the Group). Such fees include sales of goods, telephone and television service contracts and other services fees.

**Gift cards**

The Group sells gift cards to its customers in its retail stores and through its website. 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 at the earlier date when: (i) the gift card is redeemed by the customer; or (ii) when the gift cards expire.

**Interest income**

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in the finance cost in the consolidated statement of profit or loss and other comprehensive income.

Cost of sales – Cost of sales include the cost of inventories and services acquired from suppliers, freight in, costs related to transporting inventories from distribution centers to stores, allowance for obsolete and slow-moving inventory, inventory losses and supplier bonuses.

Supplier bonuses – The Group receives supplier bonuses in the form of cash payments or other allowances for various programs, primarily volume incentives, reimbursements for advertising expenses and other costs as well as contributions towards margin protection during specific marketing and promotional activities and other fees. The Group has agreements in place with each vendor setting forth the specific conditions for each allowance or payment.

Depending on the arrangement, the Group either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold.

If the payment is a reimbursement of specific, incremental and identifiable costs incurred to promote a supplier's products, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise.

Supplier bonuses which are earned by achieving certain volume purchases are recorded when it is reasonably assured the Group will reach these volumes. Such payments are accounted for as a reduction of inventory purchases and recognized in the consolidated statement of profit or loss and other comprehensive income when the related inventory is sold.

Markdown reimbursements related to merchandise that has been sold, contributions towards promotional activities and similar payments are negotiated and documented by the Group's buying teams and are credited directly to cost of goods sold in the period the performance conditions for their receipt are met by the Group.

Operating leases - Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. If reimbursement of utility and maintenance expenses is included in the fixed lease payments, the amount to be reimbursed and expensed in the reporting period needs to be calculated.

Any benefits received from the landlord as an incentive to enter into an operating lease are spread over the lease term on a straight-line basis. Sublease income and lease expenses are presented on the net basis.

**4. NEW AND REVISED STANDARDS IN ISSUE NOT YET ADOPTED**

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 16 Leases<sup>1</sup>;
- IFRS 17 Insurance Contracts<sup>2</sup>;
- IFRIC 23 Uncertainty Over Income Tax Treatments<sup>1</sup>;
- Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures<sup>1</sup>;
- Amendments to IAS 19 – Employee Benefits<sup>1</sup>;
- Amendments to IFRS 9 – Prepayment Features With Negative Compensation<sup>1</sup>;
- Amendments to IFRS 10 and IAS 28 – Sale of Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup>;
- Annual Improvements to IFRSs 2015-2017 Cycle<sup>1</sup>.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.  
<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.  
<sup>3</sup> Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

Pre-opening expenses – Expenses incurred in the process of opening new stores which do not meet capitalization criteria under IAS 16 "Property, plant and equipment" are expensed as incurred. Such expenses include rent, utilities and other operating expenses.

Employee benefits – Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period. The Group contributes to the Russian Federation state pension, medical and social insurance funds on behalf of all its current employees (a defined contribution plan) by paying social security contributions ("SSC"). The Group's only obligation is to pay contributions to the funds as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. Any related expenses are recognized in the consolidated statement of profit or loss and other comprehensive income as they become due. Contribution for each employee varies from 15,1% to 30% depending on the annual gross remuneration of each employee. The Group does not operate any employer sponsored pension plans.

Dividends – Dividends are recognized as a liability in the period in which they have been declared by the shareholders in a general meeting and become legally payable. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

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.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet).

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted

for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning 1 January 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

As at 31 December 2018, the Group’s future minimal rental payments for non-cancellable operating lease agreements (Note 36) were 106 985. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as future minimal rental payments for operating lease agreements in Note 36. A preliminary assessment indicates that these agreements will meet the definition of a lease agreement under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these agreements unless leases qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group’s consolidated financial statements and management is currently assessing its potential impact.

The Group has chosen the modified retrospective application of IFRS 16. Consequently, the Group will restate the comparative information. The Group is going to use the practical expedient available on transition to IFRS 16 not to reassess whether a contract

is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

- Also the Group is going to use the following practical expedients:
- practical expedient that allows not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component;
  - practical expedient that allows application of a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
  - practical expedient that allows to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The group assessed the effect of the application of IFRS 16 from 1 January 2019: it will be necessary to recognize additionally on its balance sheet obligations under lease agreements (including long-term and short-term parts) for a total amount not exceeding 82 000, which were not previously recognized, as lease relations in respect of which the Group acts as a lessee were disclosed as an operating lease under IAS 17 "Leases" valid until 1 January 2019. The value of estimated liabilities represents the present value of future (at the time of first use) payments, discounted using the rate of attraction of credit funds.

As at 1 January 2019 the Group will recognize right-of-use assets, related to application of IFRS 16 Lease, in the amount not exceeding 83 000. Right-of-use assets will be depreciated starting from 1 January 2019 on a straight-line basis over the lease term.

As at 1 January 2019 the weighted average borrowing rate, used in calculations, will the range from 9,5% to 10,5% depends on lease term of the contract.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

In the application of the Group’s accounting policies, which have been described in Note 3, 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, including, but not limited to, the uncertainties and ambiguities of the Russian legal and taxation systems and the difficulties in securing contractual rights as defined in contracts. 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.

Significant estimates and assumptions

Inventory valuation

In accordance with the Group’s accounting policy 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, obsolete inventories and partially or fully damaged inventories. The identification process includes assessing historical performance of the inventory and analysis of sales of merchandise at prices below their carrying amounts less costs to sell in the recent years. Damaged stock is either provided for or written off depending on the extent of damage. 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.

- The net realizable value allowance is calculated using the following methodology:
- Stock held for resale – comparison of expected selling price versus the carrying value on
  - a stock keeping unit basis;
  - Damaged goods – examination of historical data relating to discounts associated with damaged goods and comparison to book value at the balance sheet date, and also examination of historical data on compensations, received from suppliers for damaged goods;
  - Stock held at service centers – an allowance is applied based on management’s estimate of
  - the carrying value of the inventory and based on historical data on sales of respective inventories and compensations, received from suppliers in relation to stock held at service centers;
  - Additional allowance is accrued if there is actual evidence of a decline in selling prices after the end of the reporting period to the extent that such decline confirms conditions existing at the end of the reporting period.

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.

**Tax and customs provisions and contingencies**  
The Group is subject to various taxes arising in the Russian Federation. The majority of its merchandise is imported into Russian Federation and is therefore subject to the Russian customs regulations. Significant judgment is required in determining the provision for income taxes and other taxes. The Group recognizes liabilities for anticipated tax issues based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provision in the period in which such determination is made.

**Assessment of lease term**  
At the inception or modification of each operating lease agreement the Group assesses non-cancellable lease period. During the assessment the Group considers legal factors (the right to cancel the lease before the end of the lease period and the renewal option) and economic factors (financial and non-financial, such as revenue growth rates, profitability, strategic importance of location). The assessment requires exercise of the management’s judgment. Once determined, the non-cancellable lease period is used in the calculation of lease payments to be recognized as an expense on a straight-line basis as well as in the estimation of depreciation period of leasehold improvements which cannot exceed the non-cancellable lease period of the relevant premises.

**Determination of a portion of lease payments that does not represent a payment for the use of premises**  
As disclosed in Note 3, for the lease agreements which stipulate that payments for reimbursement of maintenance costs incurred by the lessor are embedded in the fixed periodic lease payments, the Group performs a calculation of such costs to be recognized as current period expense on an agreement-by-agreement basis. The calculation is performed based on amounts of factual maintenance costs incurred on similar leases for comparable premises where

the amounts of maintenance costs are clearly stated in the documents. Where possible, comparable premises are selected within the same city or region.

**Revenue attributed to loyalty programs**  
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 then as a revenue over the period that the 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 balance sheet date, as far as issued points are expired through the passage of time in the future.

**Supplier bonuses**  
Management makes estimates in determining the amount and timing of recognition of income received from suppliers for various programs, including volume incentives and reimbursements for specific programs such as markdowns, margin protection and advertising. In determining the amount of volume-related bonuses recognized in any period, management estimates the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is usually less uncertainly involved in determining the amount of income to be recognized for promotional and other bonuses.

Management assesses its performance against the obligations conditional on earning the income, with the income recognized either over time as the obligations are met, or recognized at the point when all obligations are met, dependent of the contractual requirements. Income from supplier bonuses is recognized as a credit within cost of sales unless it relates to compensation of specific, incremental and identifiable costs incurred to promote a supplier’s products, in which case it is offset against those expenses. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories.

During the reporting period the Group has implemented an updated automated algorithm of accounting and allocation of supplier bonuses. This algorithm allows the Group to allocate received bonuses on stock keeping units (SKU) or Plan name level. Management of the Group has carried out detailed analysis and classification of supplier bonuses and identified a set of bonuses that relate entirely to goods already sold and thus need to reduce the cost of goods sold immediately as earned. This approach relates mainly to supplier bonuses received as reimbursement of promotional campaigns and for supplier bonuses that are compensating lost margin in credit sales.

The revised approach to supplier bonuses allocation was implemented by the Group starting from 1 January 2018 and is presented as a change of accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The effect of change of accounting estimate on the value of inventories as at 1 January 2018 is as follows:

	Amount before the change in accounting estimate	Effect of the change in accounting estimate	Amount after the change in accounting estimate
Inventories	52 283	1 480	53 763

6. BUSINESS COMBINATIONS

Subsidiaries acquired

In 2018 the Group acquired the subsidiaries:

	Principal activity	Date of acquisition	Proportion of voting equity interests acquired (%)	Consideration transferred
BOVESTO LIMITED	Holding company	30.04.2018	100%	45 520
LLC "Media Saturn Russland"	Holding company	31.08.2018	99%	14 397
Media-Saturn Russland Beteiligungen Gmbh	Holding company	31.08.2018	100%	117
				60 034

The Group’s subsidiary Bovesto Limited being the parent company to the Eldorado group (“group Eldorado”) was acquired as part of further extension of retail activity of the Group. At the date of acquisition group Eldorado was a group under common control with the Group.

The Group’s subsidiaries LLC "Media Saturn Russland" and Media-Saturn Russland Beteiligungen Gmbh being controlling companies to the Media Markt group in Russia (“Media Markt”) were acquired as part of further extension of retail activity of the Group. At the date of acquisition both companies were companies under common control with the Group.

Assets acquired and liabilities recognized at the date of acquisition

	Group Eldorado	Media Markt	Total
Current assets			
Inventories	28 741	-	28 741
Cash and cash equivalents	1 432	3 612	5 044
Accounts receivable and other assets	13 273	341	13 614
Assets held for sale	704	34	738
Non-current assets			
Property, plant and equipment	10 941	313	11 254
Investment property	594	-	594
Intangible assets	10 220	47	10 267
Other non-current assets	297	83	380
Current liabilities			
Current liabilities	(54 155)	(2 918)	(57 073)
Non-current liabilities			
Deferred tax liabilities	(1 874)	(424)	(2 298)
Other liabilities	(622)	-	(622)
Fair value of net assets	9 551	1 088	10 639

In preparation of financial statements for the year ended 31 December 2018 the management made adjustments to the initial assessment of values of assets and liabilities of group Eldorado. Changes are related to the recalculation of inventory allowances based on new accounting policies, the revision of results of impairment of intangible assets, the revision of bad debt provisions, including respective tax effect.

The purchase price allocation of Media Markt was not finally completed as of reporting date. Therefore, in preparation of financial statements for the year ended 31 December 2018 the management used preliminary assessment of values of assets and liabilities of Media Markt. When the assessment is completed, changes to assessed fair values are possible in respect of accounts receivable, intangible assets and assets held for sale, as well as tax assets and liabilities.

Goodwill arising on acquisition

	Group Eldorado	Media Markt	Total
Consideration (i)	45 520	14 514	60 034
Less: fair value of identifiable net assets acquired	(9 551)	(1 088)	(10 639)
Goodwill arising on acquisition	35 969	13 426	49 395

Goodwill recognized on acquisition of group Eldorado and Media Markt arose from potential synergies embedded into the acquisition price. All of the Group's CGUs are expected to benefit from such synergies.

i. The consideration was transferred in cash. As of reporting date outstanding liability for business acquisition of Media Markt is 134. Also as of reporting date accounts receivable of the Group include amount of 163 reimbursable by the seller.

Net cash outflow on acquisition of subsidiaries

	Group Eldorado	Media Markt	Total
Consideration paid in cash	45 520	14 543	60 063
Less: cash and cash equivalent balances acquired	(1 432)	(3 612)	(5 044)
Total	44 088	10 931	55 019

Impact of acquisitions on the results of the Group

Profit of 3 020 included in Group's profit for the year is attributable to the acquisition of group Eldorado. Loss of 1 237 included in Group's profit for the year is attributable to the acquisition of Media Markt. The revenue of the Group increased by 86 175 and 0, respectively, as a result of the acquisitions.

In our opinion, it is not possible to estimate the profit from the continuing operations of Media Markt up to the acquisition date due to the large number of uncertainties, therefore, information about net profit are shown only for M.video and Eldorado groups. Had business combination been effected at 1 January 2018, the revenue of the Group for the year ended 31 December 2018 would have been 352 591. This estimate is obtained by directly adding the actual revenue of the Group’s companies for the calendar year, after eliminating intragroup transactions, but without any corrections for synergies that would have been possible if business combinations had occurred at 1 January 2018. Had the acquisition of group Eldorado been effected at 1 January 2018, the estimate profit for the year from continuing operations would have been 6

474, that represents an approximate measure of the performance of the combined group for the year adjusted for one-off adjustments related to embracing of group Eldorado by the Group.

In determining the ‘pro-forma’ profit of the Group had group Eldorado been acquired at the beginning of the current year, the management used the following approaches:

- Depreciation of acquired property, plant and equipment was calculated on the basis of fair value of assets estimated in business combination and not on the basis of carrying value of property, plant and equipment in the books of subsidiaries before acquisition;
- In order to harmonize the accounting policies of M.video and Eldorado, transportation costs capitalized in inventories were written off to statement of profit and loss and other comprehensive income. Also inventory allowances and the provision on goods return were recalculated based on the Group’s provision rates;
- Impairment of certain back-office licenses and software including income tax was recognized in anticipation of transfer of the joint business to a new IT platform.



7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2018 and 2017 consisted of the following:

	Land and buildings	Leasehold improve-ments	Construc-tion in progress and equipment to be installed	Trade equipment	Security equipment	Computer equipment and other	Total
Cost							
As at 31 December 2016	5 615	5 146	305	5 774	1 319	3 872	22 031
Additions	-	-	2 000	-	-	-	2 000
Transfers	14	90	(1 762)	722	146	790	-
Disposals	(2)	(60)	-	(87)	(20)	(159)	(328)
As at 31 December 2017	5 627	5 176	543	6 409	1 445	4 503	23 703
Additions	-	-	5 370	-	-	-	5 370
Assets acquired in a business combination	5 575	1 737	526	1 431	644	1 341	11 254
Transfers	15	293	(3 039)	795	235	1 701	-
Disposals	-	(80)	-	(218)	(79)	(381)	(758)
As at 31 December 2018	11 217	7 126	3 400	8 417	2 245	7 164	39 569
Accumulated depreciation							
As at 31 December 2016	2 212	3 938	-	3 995	1 133	2 626	13 904
Charge for the year	271	350	-	732	123	700	2 176
Disposals	-	(59)	-	(79)	(19)	(156)	(313)
As at 31 December 2017	2 483	4 229	-	4 648	1 237	3 170	15 767
Charge for the year	632	532	-	959	281	1 187	3 591
Disposals	-	(73)	-	(164)	(40)	(246)	(523)
As at 31 December 2018	3 115	4 688	-	5 443	1 478	4 111	18 835
Net book value							
As at 31 December 2017	3 144	947	543	1 761	208	1 333	7 936
As at 31 December 2018	8 102	2 438	3 400	2 974	767	3 053	20 734

Depreciation expenses have been included in “Cost of Sales” (Note 27) and “Selling, general and administrative expenses” (Note 28).

Assets mainly related to the closed stores with net book value of 235 were disposed of by the Group in the year ended 31 December 2018 (2017: 15). Loss on disposal of these items of 195 (2017: 12) was recorded within other operating expenses (Note 30).

8. INVESTMENT PROPERTY

Investment property as at 31 December 2018 and 2017 consisted of the following:

	Premises and buildings	Land	Total
Cost			
As at 31 December 2017	-	-	-
Assets acquired in a business combination	436	158	594
As at 31 December 2018	436	158	594
Accumulated depreciation and impairment			
As at 31 December 2017	-	-	-
Charge for the period	19	-	19
As at 31 December 2018	19	-	19
Net book value			
As at 31 December 2017	-	-	-
As at 31 December 2018	417	158	575

For the period from business combination to 31 December 2018, rental income from investment property and premises not occupied by the Group amounting to 288 was included in revenue in the Other revenue line item. Utilities and maintenance expenses included in selling, general and administrative expenses (see Note 28)

amounted to 224. There were no significant direct operating expenses incurred by the Group in relation to investment property that did not generate rental income. At 31 December 2018, fair value of investment property is equal to 575.

9. INTANGIBLE ASSETS

Intangible assets as at 31 December 2018 and 2017 consisted of the following:

	Goodwill	Software licenses, development and web site	Leasehold rights	Trademarks	Total
Cost					
As at 31 December 2016	-	8 401	-	33	8 434
Additions	-	2 584	701	7	3 292
Disposals	-	(619)	-	-	(619)
As at 31 December 2017	-	10 366	701	40	11 107
Additions	-	3 595	6	3	3 604
Assets acquired in a business combination	49 395	1 137	-	9 130	59 662
Disposals	-	(1 137)	-	(12)	(1 149)
As at 31 December 2018	49 395	13 961	707	9 161	73 224
Accumulated amortization and impairment					
As at 31 December 2016	-	2 272	-	17	2 289
Charge for the year	-	1 407	27	4	1 438
Disposals	-	(619)	-	-	(619)
As at 31 December 2017	-	3 060	27	21	3 108
Charge for the period	-	2 413	76	5	2 494
Disposals	-	(1 134)	-	(11)	(1 145)
As at 31 December 2018	-	4 339	103	15	4 457
Net book value					
As at 31 December 2017	-	7 306	674	19	7 999
As at 31 December 2018	49 395	9 622	604	9 146	68 767

During 2018 the Group incurred expenditures in the total amount of 3 604 which for the most part were related to the development of the new front-office / back-office system, the new web site platform, additional functionality of the Group’s ERP system SAP R\3 and development of Marketplace project, development of joint IT platform for M.video, Eldorado and Media Markt.

Amortization expenses have been included in “Selling, general and administrative expenses” (Note 28).

As at 31 December 2018 trademarks with carrying value of 9 133 were pledged as collateral under the loan agreement (Note 19).

As at 31 December 2018 and 2017 the Group had contractual commitments for the technical support of software licenses (Note 37).

10. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Loan issued (i)	-	1 631
Non-current accounts receivable (ii)	-	814
Interest receivable	-	26

	2018	2017
Total	-	2 471

- i.

In November 2017 the loan in the amount of 1 631 was issued to VUPALIAR HOLDINGS LIMITED. The interest rate stipulated by the loan agreement is the key rate set by the Central Bank of the Russian Federation at the beginning of each interest period (November 1) increased by 0,5 percentage points. The maturity of the loan and interest thereon was no later than 30 October 2024. The loan was early repaid in 2018.

to LLC "Autoclub", a related party, in amount not exceeding USD 878 million. As at 31 December 2018 the Group has written off all assets and liabilities related to the guarantee due to early repayment of the principal liability.
- ii.

On 24 October 2017, the Group entered into an agreement stipulating the issuance by the Group of a financial guarantee

As at 31 December 2018, the non-current accounts receivable under the agreement for the issuance of a financial guarantee amounted to 0 (as at 31 December 2017: 814).

## 11. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Advances paid for non-current assets	1 540	448
Long-term advances paid for rent	824	465
Advances paid to related parties (Note 35)	226	30
Long-term loans and notes receivable	45	39
Investment in associates	15	15
Less: allowance for doubtful long-term advances paid for rent	(4)	(4)
Total	2 646	993

## 12. INVENTORIES

Inventories as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Goods for resale	114 508	52 789
Other inventories	121	147
Less: allowance for obsolete and slow-moving inventories	(1 484)	(653)
Total	113 145	52 283

Cost of inventories recognized as an expense in the amount of 237 773 and 149 345 and inventory losses net of surpluses in the amount of 493 and 275 for the years ended 31 December 2018 and 2017, respectively,

were recorded within cost of sales in the consolidated statement of profit or loss and other comprehensive income.

## 13. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

Accounts receivable and prepaid expenses as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Bonuses receivable from suppliers	22 757	14 298
Other accounts receivable	7 096	4 563
Advances paid to suppliers and prepaid expenses	1 826	777
Accounts receivable from related parties (Note 35)	483	2 046
Less: allowance for doubtful accounts receivable	(705)	(73)
Total	31 457	21 611

As at 31 December 2018 and 2017 the Group did not have accounts receivable past due but not impaired.

Movement in the allowance for doubtful accounts receivable and prepaid expenses is as follows:

	2018	2017
Balance at the beginning of the year	73	92
Acquired in a business combination	451	-
Impairment losses recognized on accounts receivable and prepaid expenses	297	29
Amounts written off as uncollectible	(94)	(7)
Amounts recovered during the year	(22)	(41)
Balance at the end of the year	705	73

The accounts receivable impaired as at 31 December 2018 and 2017 were aged of more than 120 days.

and prepaid expenses from the date credit was initially granted up to the reporting date. Details about concentration of credit risk and related management activities are provided in Note 38.

In determining the recoverability of accounts receivable the Group considers any change in the credit quality of receivables

## 14. OTHER TAXES RECEIVABLE

Other taxes receivable as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
VAT recoverable	15 889	6 146
Other taxes receivable	223	8
Total	16 112	6 154

## 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Short-term bank deposits	13 176	11 570
Cash in transit	10 124	4 695
Cash at banks	1 749	1 180
Cash on hand in stores and petty cash	620	346
Total	25 669	17 791

Cash at banks as at 31 December 2018 and 2017 includes the amounts of 80 and 66, respectively, collected by the Group from its customers for further transfer through "Qiji" payment system. The Group cannot use this cash in its operating activities, as it is due to be transferred to the recipients.

Cash in transit represents acquiring and cash collected from the Group's stores and not yet deposited into the bank accounts at the year end.

As at 31 December 2018 short-term bank deposits denominated in RUB earned interest ranging from 5% to 7,56% per annum. The short-term deposits matured in January 2019.

As at 31 December 2017 all short-term bank deposits denominated in RUB earned interest ranging from 0,01% to 7,5% per annum. The short-term deposits matured in January 2018.

## 16. ASSETS HELD FOR SALE

During the next 12 months the Group intends to sell its own land plots, buildings and premises, which the Group does not use. The carrying value of the property reflects the estimated selling

price without VAT as the Group pre-agreed such price with potential buyers of the property.

17. EQUITY

Share capital

As at 31 December 2018 and 2017 the Company had the following number of authorized, issued and outstanding ordinary shares:

	Outstanding ordinary shares	Issued ordinary shares	Authorized ordinary shares
Balance as at 31 December 2017	179 531 237	179 768 227	209 768 227
Purchase of treasury shares	(1 739 180)	-	-
Balance as at 31 December 2018 and 2017	177 792 057	179 768 227	209 768 227

Each share has par value of 10 RUB per share. During 2017 number of authorized, issued and outstanding ordinary shares remained constant.

All issued ordinary shares were fully paid.

Additional paid-in capital

Additional paid-in capital consists of share premium which is the excess between proceeds from issuance of 30 000 000 additional ordinary shares issued at 1 November 2007 and their par value, less share issuance costs and related current and deferred income tax amounts.

Treasury shares

As at 31 December 2018 and 2017 the Group owned 1 976 170 and 236 990 treasury shares held at cost of 749 and 52, respectively.

18. INCOME TAX

The Group’s income tax expense for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Current tax		
Current tax expense in respect of the current year	(3 805)	(2 154)
Provision for income tax	(223)	-
	(4 028)	(2 154)
Deferred tax		
Deferred tax benefit recognized in the current year	818	269
	818	269
Total income tax expense recognized in the current year	(3 210)	(1 885)

Non-controlling interests

In 2016 Mr. A. Tynkovan made a contribution of 1 into capital of LLC “MARKETPLACE” in exchange for 0,1% interest in this subsidiary.

In 2017 Mr. A. Tynkovan made a contribution of 249 into capital of LLC “MARKETPLACE” in exchange for 20% interest in this subsidiary. As a result of this transaction, the Group’s non-controlling interests in LLC “MARKETPLACE” increased by the same amount.

In 2018 Mr. A. Tynkovan made a contribution to additional paid-in capital of LLC “MARKETPLACE” in the amount of 497.

Dividends declared

In 2018 and 2017, no dividends were declared, nor paid.

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2018 and 2017 is presented below:

	31 December 2018	31 December 2017
Deferred tax assets		
Supplier bonuses allocated to inventories	1 728	1 804
Accrued expenses	1 547	1 057
Deferred revenue and prepayments received for goods	832	598
Salary-related accruals	773	304
Difference in depreciable value of property, plant and equipment	402	408
Tax losses	387	93
Allowance for obsolete and slow-moving inventories	297	130
Other items	31	23
Total	5 997	4 417
Tax offset	(238)	(153)
Net tax assets	5 759	4 264
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(1 027)	-
Difference in amortizable value of intangible assets	(871)	(153)
Other items	(125)	-
Total	(2 023)	(153)
Tax offset	238	153
Net tax liabilities	(1 785)	-
Deferred tax assets/(liabilities), net	3 974	4 264

As at 31 December 2018 and 2017 the Group measured deferred tax assets and deferred tax liabilities using tax rate of 20%, which is the rate expected to be applied in the period in which the asset is realized or the liability is settled.

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax expense. Below is a reconciliation of theoretical income tax expense at the statutory rate of 20% effective for 2018 and 2017 to the actual expense recorded in the Group’s consolidated statement of profit or loss and other comprehensive income:

	2018	2017
Profit before income tax expense	11 575	8 839
Income tax expense calculated at 20%	(2 315)	(1 768)
Effect of expenses that are not deductible in determining taxable profit:		
Loss due to provision for profit tax	(223)	-
Inventory losses	(151)	(105)
Non-deductible payroll expenses	(115)	(12)
Other non-deductible expenses, net	(406)	-
Income tax expense recognized in profit or loss	(3 210)	(1 885)



19. BANK BORROWINGS

This note provides information about the contractual terms of the Group’s long-term and short-term interest-bearing bank

borrowings which are measuring at amortized cost. The borrowings described below are denominated in rubles.

	Maturity	31 December 2018	31 December 2017
Non-current borrowings			
Secured borrowings			
PJSC Bank VTB	April 2025	45 720	-
Total non-current borrowings		45 720	-
Current borrowings			
Secured borrowings			
PJSC Bank VTB	April - October 2019	5 769	-
		5 769	-
Unsecured borrowings			
PJSC Bank VTB	June 2019	8 020	-
		8 020	-
Total current borrowings		13 789	-
Total borrowings		59 509	-

As at 31 December 2018 the Group complied with loans covenants.

Movement in liabilities arising from financing activities

As at 31 December 2018, borrowings are secured by trademarks with carrying amount of 9 133 (31 December 2017: 0) (Note 9).

The table below presents changes in liabilities arising from financing activities, including both changes related to cash flows and changes not related to cash flows. Liabilities arising from financing activities include liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

100% stake in share capital of LLC “MVM”, LLC “Eldorado” and LLC “BT Holding” as well as 100% shares of Bovesto Limited are pledged under credit contracts.

	1 January 2018	Cash flows from financing activities	Business combination	Other changes*	31 December 2018
Bank borrowings	-	47 002	11 898	609	59 509
Loans	-	(124)	124	-	-
Finance lease	-	(67)	251	147	331
	-	46 811	12 273	756	59 840

\*Other changes mainly include interest on liabilities accrued but not paid.

20. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
Rent and utilities	5 699	4 570
Other current liabilities related to purchase of property, plant and equipment and intangible assets	4 117	1 131
Salaries and bonuses	3 760	1 711
Other current liabilities to related parties (Note 35)	628	29
Other payables and accrued expenses	2 922	1 267
Total	17 126	8 708

As at 31 December 2018 accounts payable and accruals for rent and utilities included accrued liabilities for lease payments calculated

on a straight-line basis over the lease term in the amount of 4 408 (31 December 2017: 4 071).

21. ADVANCES RECEIVED

Advances received as at 31 December 2018 and 2017 consisted of the following:

	31 December 2018	31 December 2017
Prepayments received for goods (i)	4 030	1 737
Advances received for gift cards	868	678
Other advances received	411	241
Total	5 309	2 656

i. Prepayments received for goods represent cash received at the reporting date. These relate mostly to online sales for goods which have not yet been delivered to customers and goods sold in stores for future delivery.

22. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2018 and 2017 consisted of the following:

	2018	2017
VAT payable	1 364	1 047
Payroll taxes	940	434
Other taxes payable	478	146
Total	2 782	1 627

23. DEFERRED REVENUE

Deferred revenue as at 31 December 2018 and 2017 consisted of the following:

	2018			2017		
	Customer loyalty programs	Other programs	Additional services	Customer loyalty programs	Other programs	Additional services
As at 1 January	1 710	995	3 218	1 742	434	2 768
Impact of modified retrospective application of IFRS 15	(5)	(51)	-	-	-	-
As at 1 January	1 705	944	3 218	1 742	434	2 768
Deferred revenue acquired in a business combination	280	41	70	-	-	-
Revenue deferred during the period	13 355	2 199	2 343	9 525	2 455	2 520
Revenue released to the consolidated statement of profit or loss and other comprehensive income	(12 463)	(2 328)	(2 424)	(9 557)	(1 894)	(2 070)
As at 31 December	2 877	856	3 207	1 710	995	3 218

Other programs represent primarily granting of gift cards to the Group’s customers.

Deferred revenue as at 1 January 2018 was adjusted for modified retrospective application of IFRS 15 Revenue in the amount of 56.

24. FINANCIAL GUARANTEES

As indicated in Note 10, in October 2017 the Group entered into an agreement stipulating the issuance by the Group a financial guarantee to LLC “Autoclub”, a related party, in amount not exceeding USD 878 million.

For the year ended 31 December 2018 the Group recognized commission fee in the amount of 174 in other operating income (23 was recognized for the year ended 31 December 2017).

At initial recognition, the fair value of the financial guarantee liability amounted to 803 was determined based on the present value of the Group’s future commission fee under this agreement.

For the year ended 31 December 2018 the Croup, based on the time value of money, recognized 28 as a financial income and a respective increase in accounts receivable (9 was recognized for the year ended 31 December 2017).

As the commission fee was denominated in US Dollars, the Group incurred 7 as a foreign exchange loss.

The Group received commission fee on 11 October 2018 in the amount of 227.

25. PROVISIONS

Provisions as at 31 December 2018 and 2017 consisted of the following:

	Long-term provisions		Short-term provisions	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Provision for goods return	256	-	1 724	337
Provision for litigation and fines	-	-	960	95
Provision for tax risks	-	-	249	-
Warranty provision – repair of goods	-	-	29	16
<b>Total</b>	<b>256</b>	<b>-</b>	<b>2 962</b>	<b>448</b>

26. REVENUE

Revenue for the years ended 31 December 2018 and 2017 consisted of the following:

	2018	2017
Retail revenue	317 153	195 037
Additional services revenue	2 424	2 070
Other services	1 525	1 090
<b>Total</b>	<b>321 102</b>	<b>198 197</b>

Retail revenue includes sales of goods in stores, pick-up in stores, internet home-delivery and commission fees.

Other revenue for the year ended 31 December 2017 includes revenue from services of installation, recycling and digital assistance. For the year ended 31 December 2018 the structure of other revenue did not change except that income from delivery of goods was presented as part of retail revenue in the amount of 740 (2017: 500). In prior periods, the revenue from delivery was presented as other revenue. This change was made

Due to early repayment of principal liability, the finance guarantee liability was written off as at 31 December 2018.

in accordance with requirements of IFRS 15 – the delivery service and the sale of goods are agreed as a package with one commercial purpose and are viewed as a single performance obligation. Had the company not applied IFRS 15, revenue for the period would have increased by 56 up to 321 158.

In 2018 revenue recognized at a point in time was 318 678, and revenue recognized over time was 2 424.

27. COST OF SALES

Cost of sales for the years ended 31 December 2018 and 2017 consisted of the following:

	2018	2017
Cost of goods sold		
- Cost of goods	237 738	149 345
- Transportation	2 672	1 660
- Inventory losses net of surpluses and related compensations from suppliers (2018: 210; 2017: 177)	625	314
- Change in allowance for obsolete and slow-moving inventory	490	(177)
Cost of additional services	79	90
Cost of other services	859	438
<b>Total</b>	<b>242 463</b>	<b>151 670</b>

Cost of other services includes depreciation of service equipment.

28. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2018 and 2017 consisted of the following:

	2018	2017
Payroll and related taxes (including share-based payments – Note 34)	21 779	12 538
Lease expenses, net of income from sublease (2018: 71; 2017: 29)	14 926	8 885
Depreciation and amortization	6 070	3 614
Advertising and promotional expenses, net	6 054	3 827
Maintenance and other property operating costs	2 632	1 819
Bank charges	2 626	1 600
Credit broker services	2 498	1 143
Utilities	1 809	1 028
Warehouse services	1 689	1 484
Repairs and servicing	1 670	1 096
Security	1 655	979
Consulting services	1 568	1 083
Taxes other than income tax	942	165
Communication	353	243
Other expenses	2 963	1 250
<b>Total</b>	<b>69 234</b>	<b>40 754</b>

Payroll and related taxes for the year ended 31 December 2018 include 3 315 contribution

During 2018 the Group received 1 308 from its suppliers as a compensation of advertising and promotional expenses (2017: 709).

to the state pension fund (2017: 1 879) and social and medical insurance in the amount of 1 281 (2017: 733).

29. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2018 and 2017 includes commissions received from banks on loans provided to customers, income earned from suppliers for advertising

materials placed in the Group's stores, non-commission income from mobile operators and other items.

30. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2018 include loss on disposal of property, plant and equipment of 195 (2017: 12), expenses on corporate events in the amount of 99

(2017: 51), charity expense of 91 (2017: 47), and other individually insignificant items.31. FINANCE INCOME AND EXPENSES

Finance income/(expenses) for the years ended 31 December 2018 and 2017 consisted of the following:

	2018	2017
Interest income	509	657
Interest expense on bank loans	(3 604)	-
Exchange loss from revaluation of investments	(13)	2
<b>Total</b>	<b>(3 108)</b>	<b>659</b>

32. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during

the year plus weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018	2017
Net profit attributable to equity holders of the Company	8 582	6 974
Weighted average number of ordinary share in issue (millions of shares)	178,65	179,53
Basic and diluted earnings per share (in Russian rubles)	48,04	38,85

33. SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues

Information reported to the Managing Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the results of ‘M.video’ and ‘Eldorado’ brands. Specifically, the Group’s reportable segments under IFRS 8 are as follows:

- M.video;
- Eldorado.

Segments include chains of retail shops and online internet stores of home appliances and digital equipment under the brands Eldorado and M.video. Both segments specialize in the sale of TV, audio, video, Hi-Fi, home appliances and digital equipment, as well as related services.

Segment revenues and results

The following is an analysis of the Group’s revenue and results from continuing operations by reportable segment.

	Segment revenue	
	2018	2017
Inter-segment revenue		
M.video	11 140	-
Eldorado	-	-
Total	11 140	-
External revenue		
M.video	234 928	198 197
Eldorado	86 174	-
Total	321 102	198 197
Total segment revenue	332 242	198 197

	Segment profit	
	2018	2017
Segment profit		
M.video	55 572	46 527
Eldorado	23 067	-
Total	78 639	46 527
Selling, general and administrative expenses	(69 234)	(40 754)
Other operating income	6 079	2 623
Other operating expenses	(801)	(216)
Finance income	509	659

	Segment profit	
	2018	2017
Finance expenses	(3 617)	-
Profit before tax	11 575	8 839

The accounting policies of the reportable segments are consistent with those of the Group, as set out in Note 2. Segment profit is measured as gross profit before allocation of selling, general

and administrative expenses, other operating income and expenses, as well as finance income and expenses.

34. SHARE-BASED PAYMENTS

During the year ended 31 December 2017 the Group had cash-settled share option plan – Long-term incentive plan – Series 4 (LTIP 4).

An expense recognized by the Group during the years ended 31 December 2018 and 2017 with regards to its share-based payments is as follows:

Series	2018	2017
LTIP 4	-	401
Total	-	401

The above expenses have been included into “Selling, General and Administrative Expenses” as “Payroll and related taxes” (Note 28).

As at 31 December 2018 and 2017, the Group has no liability to the participants of LTIP 4.

35. RELATED PARTIES

Related parties include shareholders, key management, entities under common ownership and control, entities under control of key management personnel and entities over which the Group has significant influence.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year and the outstanding balances owed by / to related parties as at 31 December 2018 and 2017, respectively:

	2018		31 December 2018		2017		31 December 2017	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Parent company (i)	-	11 664	-	-	-	-	-	-
Entities under common control (ii)	1 731	46 218	-	-	1 628	2 129	2 074	1
Entities controlled by a party exercising significant influence (iii)	436	4 254	696	644	-	-	-	-
Entities under control of key management personnel (iv)	3	609	13	102	3	682	2	28
	2 170	62 745	709	746	1 631	2 811	2 076	29

- The nature of transactions with related parties is as follows:
- ii. Parent company – acquisition of share in Media Markt;
  - iii. Entities under common control – acquisition of share in Eldorado group, sale and purchase of the Groups’ goods, agent services for sales of insurance, warehouses and trade premises leasing;
  - iv. Entities controlled by a party exercising significant influence

- v. – agent services for sales of insurance, warehouses and trade premises rent, acquisition of fixed assets, credit broker services;
- Entities under control of key management personnel – store and head office security services, car leasing service to the Group and logistic services, after-sale and other servicing of the Group’s merchandise, redecoration and engineering repair services in the central office and shops located in Moscow.

As at 31 December 2018 the liability of related parties in respect of the loan issued and the financial guarantee issued, including interest, was as follows:



	2018		31 December 2018		2017		31 December 2017	
	Financial income from related parties	Financial expenses from related parties	Amounts owed by related parties	Amounts owed to related parties	Financial income from related parties	Financial expenses from related parties	Amounts owed by related parties	Amounts owed to related parties
Entities under common control	75	1	-	-	35	-	2 471	-
Total	75	1	-	-	35	-	2 471	-

During the 2018 Mr. A. Tynkovan made a contribution to additional paid-in capital of LLC “MARKETPLACE” in the amount of 497.

In 2017 Mr. A. Tynkovan made a contribution of 249 into capital of LLC “MARKETPLACE” in exchange for 20% interest in this subsidiary. As a result of this transaction, the Group’s non-controlling interests in LLC “MARKETPLACE” increased by the same amount.

Terms and conditions of transactions with related parties

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may

not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party accounts receivable or payable, except for the guarantees for the obligations of LLC “Autoclub” (Note 10 and 24). For the years ended 31 December 2018 and 2017 the Group has an allowance for doubtful accounts receivable from related parties in the amount of 9. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

The remuneration of directors and other members of key management during the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Short-term benefits*	1 598	949
Share-based payments**	-	192
Total	1 598	1 141

\* Short-term benefits include salaries, bonuses and annual leave, medical and relocation expenses.  
\*\* Amounts relate to the participation of the key management personnel in the long-term incentive program posted in the consolidated statement of profit or loss and other comprehensive income (Note 34).

As at 31 December 2018 there were outstanding payables of 818 to key management personnel (2017: 443).

The number of key management positions was 27 in 2018 (2017: 20).

The Group did not provide any material post-employment or other long-term benefits to key management personnel during the period other

than those disclosed in Note 34, contributions to the state pension fund and the social funds as a part of payments of social security contributions on salaries and bonuses. Social security contributions paid relating to compensation of key management personnel amounted to 106 for the year ended 31 December 2018 (2017: 86) and are included in the amounts stated above.

requires exercise of the management’s judgment. Once determined, the non-cancellable lease period is used in the calculation of lease payments to be recognized as an expense on a straight-line basis as well as in the estimation of depreciation period of leasehold improvements which cannot exceed the non-cancellable lease period of the relevant premises.

Certain lease contracts stipulate terms requiring the Group to pay the higher of minimum lease payments or a percentage of revenue. The amounts paid in excess of the minimum lease payments

are disclosed as contingent rentals below. The Group does not have an option to purchase the leased premises at the expiration of the lease period.

Payments recognized as an expense

	2018	2017
Minimum lease payments	13 308	7 855
Contingent rentals	1 644	1 059
Total	14 952	8 914

Non-cancellable operating lease commitments

Future minimum rentals payable during non-cancellable term of operating leases for premises occupied as at 31 December 2018 and 2017 were as follows:

	2018	2017
Within one year	16 789	8 055
After one year but not more than five years	57 161	27 866
More than five years	33 035	15 311
Total	106 985	51 232

Future minimal rental payments will be subject to VAT.

37. COMMITMENTS AND CONTINGENCIES

Operating environment

The Group sells products that are sensitive to changes in general economic conditions that impact consumer spending. Future economic conditions and other factors, including consumer confidence, employment levels, interest rates, consumer debt levels and availability of consumer credit could reduce consumer spending or change consumer purchasing habits. A recent downturn in the Russian economy and general slowdown in the global economy, or an uncertain economic outlook, could adversely affect consumer spending habits and the Group’s operating results.

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Russian Federation tax and regulatory environment

Laws and regulations affecting business in the Russian Federation continue to change rapidly. 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 proceeding 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.

The Group has identified possible tax contingencies for the three-year period ended 31 December 2018. Management has estimated that possible exposure in relation to such tax risks, if they were to materialize, would not exceed 20% of the Group’s profit before income tax expense.

Customs

During the years ended 31 December 2018 and 2017, the Group purchased a significant portion of its foreign manufactured goods on the territory of the Russian Federation from Russian legal entities, including Russian wholesalers or resellers, which may or may not have imported the goods into the Russian Federation directly. As the Group was not involved in clearing customs for the goods purchased on the territory of the Russian Federation, management cannot be certain that the entities which imported the goods into the Russian Federation were in full compliance with the applicable regulations of the Russian customs code.

As described above in Russian Federation tax and regulatory environment section, the relevant authorities may take a more assertive position in their interpretation of the applicable laws.

Under Russian law a company in possession of goods that were imported with proven violations of

the customs law may be subject to significant administrative or civil penalties and/or confiscation of the goods, if it was involved in, aware of, or should have known that violation of the customs code were occurring. To date, the Group has not been subject to any notification of violations of the customs code.

Management believes that the Group entities were acting in compliance with all applicable tax and legal requirements in respect of imported products, were not involved, not aware and could not be expected to know of any significant violations of the applicable customs code by the Russian wholesalers or resellers. Accordingly, management did not recognize any provisions in respect of such contingencies in these consolidated financial statements and determined that with current limitations in access to customs clearance documents it is not practicable to estimate the likely potential financial effect, if any, of such contingent liabilities.

License agreements

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Generally, the Group’s principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group’s operations. The Group has trade and other receivables and cash and short-term deposits that arrive directly from its operations.

The main risks arising from the Group’s financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group’s senior management oversees the management of these risks. The Group’s senior management provides assurance to the Group’s Board of Directors that the Group’s financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group’s policies. The Board of Directors

As at 31 December 2018 The Group had non-cancellable contractual commitment of 981 for technical support services with respect to existing SAP licenses and software during the period till 2022 (31 December 2017:1 278).

The Group uses SAP software for finance, supply chain and human resources functions.

Litigation

In the normal course of business, the Group is subject to proceedings, lawsuits, and other claims. While such matters are subject to other uncertainties, and outcomes are not predictable with assurance, the management of the Group believes that any financial impact arising from these matters would not exceed amount disclosed as a provision for litigation and fines in Note 25.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its environmental obligations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental matters.

Financial guarantees

In the normal course of its operating activity the Group from time-to-time enters into financial guarantee contracts with banks. Under these contracts banks provide guarantees in favour of the Group’s suppliers and the Group may be required to pay under those contracts only if it fails to make timely payments to its suppliers. As at 31 December 2018 the Group entered into such guarantee contracts for the total amount of 9 311 (as at 31 December 2017: 4 734). On the 31 December 2018 and 2017 the Group has not pledged any assets as collateral under these guarantee contracts.

reviews and agrees policies for managing each of these risks which are summarized below.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in objectives, policies or processes during the years ended 31 December 2018 and 2017.

The capital structure of the Group consists of issued capital (less treasury shares), additional paid in capital and retained earnings.

The primary objective of the Group’s capital management program is to maximize shareholder value while minimizing the risks associated with the loan portfolio. The consumer

electronics business is a cyclical business and as such requires short-term fluctuations in capital to purchase goods to satisfy the seasonal demand. The Group uses a combination of short-term loans and supplier credit terms to meet the seasonal capital needs. The store expansion program adds to the capital needs as the capital and pre-opening costs associated with the new stores put additional pressure on the Group’s financial resources. While the Group has not established any formal policies regarding debt

to equity proportions the Group reviews its capital needs periodically to determine actions to balance its overall capital structure through shareholders’ capital contributions or new share issues, return of capital to shareholders as well as the issue of new debt or the redemption of existing debt.

Categories of financial instruments

The carrying values of financial assets and liabilities grouped by each category of financial instruments as at 31 December 2018 and 2017 were as follows:

	2018	2017
Financial assets		
Assets carried at amortized cost	55 220	36 618
Financial liabilities		
Liabilities carried at amortized cost	213 806	82 335

Foreign currency risk management

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group’s exposures to foreign currency risk arise from cash and cash equivalents held in US Dollars and Euro as well as from lease payments tied-in to currencies other than functional currency. At 31 December 2018 approximately 15% (at 31 December 2017: 18%) of the Group’s operating lease agreements for stores and warehouses were tied-in to either US Dollars or Euro and these contracts accounted for approximately 26% (2017: approx. 32%) of the Group’s operating lease expenses for the year ended

31 December 2018. The Group minimizes, to the extent possible, the risk arising from foreign currency-denominated lease contracts by negotiating a fixed exchange rate or a cap for an exchange rate with the lessors.

During the years ended 31 December 2018 and 2017 the Group did not use forward exchange contracts to eliminate the currency exposures.

The carrying amount of the Group’s foreign currency-denominated assets and liabilities at the reporting date are as follows:

	US Dollar		Euro	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Assets				
Cash and cash equivalents	55	2	5	-
Total assets	55	2	5	-
Liabilities				
Accounts payable and accruals for operating leases (shown within other accounts payable)*	(1 951)	(1 984)	(405)	(322)
Total liabilities	(1 951)	(1 984)	(405)	(322)
Total net position	(1 896)	(1 982)	(400)	(322)

\* Although accrued liabilities for lease payments calculated on a straight-line basis over the lease term do not represent financial instruments they have been included in the table above since they subject the Group to foreign currency risk.

Foreign currency sensitivity analysis

As mentioned above, the Group is mainly exposed to changes in the exchange rates of the US Dollar and Euro. The following table details the Group’s sensitivity to a 10% (31 December 2017: 10%) change of the Russian Ruble against these two currencies. As at 31 December 2018 the sensitivity rate of 10% represents management’s assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign

currency denominated assets and liabilities at year end and adjusts their translation for a movement in foreign currency exchange rates. Positive numbers below indicate an increase in profit and respective increase in equity where the Russian Ruble appreciates against the relevant currency. For a depreciation of the Russian Ruble against the relevant currency, there would be an equal and opposite impact on profit and equity.

USD				EUR
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2018	10%	(189)	10%	(40)
	-10%	189	-10%	40

USD				EUR
	Changes in exchange rate, %	Effect on profit before income tax	Changes in exchange rate, %	Effect on profit before income tax
2017	10%	(198)	10%	(32)
	-10%	198	-10%	32

Interest rate risk management

The Group is exposed to insignificant interest rate risk as entities in the Group borrow funds on fixed rates primarily. The Group is exposed to risk of fair value of financial liabilities changes because of changes of market interest rates.

The Group’s exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The following analysis of changes in the fair value was performed for non-derivative financial instruments at the reporting date. In purpose of preparing risk management reports for key managers of the Group, the assumption of a change in interest rate of 1 basis point is used, which is in line with management’s expectations regarding reasonably possible fluctuations in interest rates.

The increase/(decrease) of market interest rate by 1%, if other conditions remain constant, would lead to decrease/(increase) of bank borrowings fair value by 1 653/(1 728). The Group is exposed to risk of floating fair value of bank borrowings with fixed rates.

Credit risk management

The table below shows the balances that the Group had with 4 of its major counterparties as at 31 December 2018 and 2017:

Counterparty	Currency	Rating	Carrying amount	
			2018	2017
PJSC Bank VTB	RUB	Baa3	6 516	5 022
Alfa-bank	RUB	Ba1	4 974	3 649
Sovcombank	RUB	Ba3	1 900	-
Sberbank	RUB	Ba2	889	3 931
Other	RUB	-	646	148
Total			14 925	12 750

The carrying amount of financial assets recorded in the consolidated statement of financial position, 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 2018 and 2017.

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 subject the Group to credit risk consist primarily of bonuses receivable from suppliers, other receivables, short-term investments as well as cash on current and deposit accounts with banks and other financial institutions.

Bonuses receivable from suppliers are either offset against respective accounts payable or paid

in cash. At 31 December 2018 bonuses receivable from four major suppliers comprised 29% of the Group’s consolidated accounts receivable and prepaid expenses (31 December 2017: 35%). 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.

The 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.

Liquidity risk management

The Group’s treasury monitors the risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets

(e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group’s objective is to maintain a continuity of funding and flexibility through the use of bank overdrafts and bank loans. Each year the Group analyses its funding needs and anticipated cash flows, so that it can determine its funding obligations. The seasonality of the business, the store expansion plan, capitalized projects and the anticipated working capital requirements form the basis of the evaluation. When necessary the Group

uses long-term instruments (loans and borrowings) to cover its base liquidity needs. The Group uses short-term loans and bank overdrafts to cover seasonality needs. Every quarter the Group updates its liquidity needs and secures facilities with several banks to ensure that the Group has a sufficient amount of approved undrawn borrowing facilities.

As at 31 December 2018 the Group obtained uncommitted standby borrowing facilities in the total amount of 24 600 (31 December 2017: 16 000).

The table below summarizes the maturity profile of the Group’s financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments:

As at 31 December 2018	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade accounts payable	137 425	17 995	-	-	155 420
Borrowings	1 249	16 383	37 507	22 065	77 205
Other accounts payable and accrued expenses	12 997	294	-	-	13 291
Total	151 671	34 672	37 507	22 065	245 916

As at 31 December 2017	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade accounts payable	66 116	11 582	-	-	77 698
Other accounts payable and accrued expenses	4 637	-	-	-	4 637
Total	70 753	11 582	-	-	82 335

Fair value of financial instruments

Management consider that the carrying amounts of financial assets and financial liabilities recorded in the Group’s consolidated

statement of financial position as at 31 December 2018 and 2017 approximate their fair values, except bank borrowings as at 31 December 2018 with fair value 56 749 which is less than its carrying amount by 2 151.

39. SUBSEQUENT EVENTS

Reorganization of LLC “Eldorado” and LLC “MVB Trade” by way of accession to LLC “MVM” took place on February 25th, 2019.



# ABOUT THE REPORT

This Annual Report contains information on material aspects of the operations of M.Video–Eldorado Group (hereinafter also referred to as the “Group”). The term “M.Video–Eldorado Group” refers to PJSC M.Video (hereinafter also referred to as the “Company”) along with its subsidiaries and affiliates.

This Annual Report includes information on the Group’s strategy, business model, operating and financial results, risks, management and corporate governance system in 2018 and as of 31 December 2018. In some cases, the report provides information on material events that took place after the reporting date. The report pays considerable attention to ensuring the sustainable development of M.Video–Eldorado Group, including the Group’s social and charitable projects and its initiatives in the area of environmental protection.

The Annual Report contains PJSC M.Video’s consolidated financial statements for 2018, as well as data from the Group’s management reporting.

The information contained in this Annual Report is for all Group stakeholders.



**An interactive version  
of this Annual Report is available  
on the Company’s website at:**  
[http://invest.mvideo.ru/eng/.](http://invest.mvideo.ru/eng/)

## Key Group companies mentioned in this report

The key Group companies as of 31 December 2018 were the following:

- PJSC M.video is the Group’s holding company;
- LLC MVM (known as LLC M.Video Management until 31 October 2018) is the Group’s operating company;
- LLC ELDORADO (merged with LLC MVM in February 2019 as part of the integration of Eldorado’s business into the Group);
- LLC Marketplace;
- BOVESTO LIMITED is a holding company acquired in 2018 as part of the acquisition of control of Eldorado;
- LLC BT Holding (formerly LLC MEDIA-SATURN-RUSSLAND LLC) is a holding company acquired in 2018 as part of the deal to acquire the Russian business of MediaMarkt.

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## Disclaimer

This Annual Report contains statements regarding M.Video–Eldorado Group’s anticipated plans, as well as forecasts concerning the Group’s financial and non-financial performance. These statements and forecasts are based on the long-term estimates and opinions of Group management and, by their nature, are subject to risks and other uncertainties, including those that are beyond the Group’s influence. In this regard, the Group cannot guarantee that these statements and forecasts will not be revised or adjusted in the future.

This report includes information available to the Group at the time of its preparation, including information and forecasts received from third parties. M.Video–Eldorado Group made all possible efforts to ensure the accuracy and reliability of this information; however, the Group cannot confirm and does not guarantee that this information will not be further adjusted or revised.