

PRELIMINARY APPROVED
by the Resolution of the Board of Directors of
PJSC Detsky Mir May 26, 2016
Minutes No. 7 dated May 23, 2016

APPROVED
by the General Meeting of Shareholders of
PJSC Detsky Mir June 28, 2016
Minutes No. u/n dated June 30, 2016



МАРКА №1
В РОССИИ



ANNUAL REPORT OF PJSC DETSKY MIR FOR 2015



Prepared in accordance with the requirements of the Federal Law "On Securities Market". The financial information contained in this Annual Report relies on the accounting statements prepared in accordance with the law of the Russian Federation

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DIRECT SPEECH OF THE GENERAL DIRECTOR



**Vladimir Chirakhov,
Director General of the Detsky Mir Group:**

"2015 has become one of the key years for the Group's business growth and increase in its efficiency. Detsky Mir has not only adapted to the new economic realities, while maintaining a significant business growth, but has also strengthened its leading position in the children's products market.

The Group has continued to implement its development program and opened 104 new stores, which is a record indicator in the Company's history. The total number of chain stores has increased up to 425 in 2015. We have continued our development in Kazakhstan and opened a new store in Astana.

The revenue of the Group has risen by 33.2% as compared to the same period of the last year. A key driver of the rapid growth in revenue is the sales growth in already opened stores, which is reflected for the sales growth by like-for-like stores by 12.4%, while the number of purchases (number of checks) for like-for-like stores has risen by 3.7 %.

Selling and administrative expenses as a percentage of the revenue have fallen by 2%. This result has been achieved thanks to implementation of a number of projects aimed to improve the operating efficiency. Opening of own warehouse in the Bekasovo village (Moscow region) is one of the key projects in this area. Own warehouse would reduce the logistics costs, increase the supply centralization, improve the stock management efficiency and, ultimately, increase the turnover.

Switching to a single SAP platform played an important role in improving the Group's efficiency that has not only ensured the creation of a common information space and the possibility to obtain analytical information in the online mode, but significantly optimized the key business processes by their automation.

Detsky Mir Group has become a largest taxpayer in the children's products segment in 2015. The total amount of taxes and dues paid for the last year has risen by 11.9% to reach 3.76 bln rubles (including taxes to the budget of the Republic of Kazakhstan, which are 59.6 million rubles, raising by 13.7%).

The Detsky Mir chain remains a largest employer in the children's products segment. In 2015, approximately 1,500 new jobs have been created in dozens of country's regions, the average staffing number has increased by more than 20% up to 8,517 people.

PJSC Detsky Mir has paid a record amount of dividends in 2015 – 3.0 bln rubles, which is another confirmation of the high investment attractiveness of the Company.

We believe that 2016 will provide additional opportunities for further growth of business and improvement of its efficiency. We intend to continue the implementation of the chain development program. In 2016, we are planning to open at least 50 new stores."

1. DESCRIPTION OF THE PRIMARY ACTIVITY

1.1. History of development

1957 – Opening of the first store Detsky Mir in Moscow in a unique building in Lubyanka

1990 – Expansion of the branch chain up to 28 stores

1996 – JSFC Sistema became the major shareholder of JSC Detsky Mir

2001 – Commencement of the regional expansion, opening of the first regional store in Orel city

2003 – Opening of the first hypermarket in the Moscow region in the trading and entertainment complex MEGA

2005 – Expansion of the chain representation up to 17 cities in Russia

2008 – Closing of the building in Lubyanka for reconstruction.
Opening of the 100th store of the Company

2011 – Opening of the first store in Kazakhstan

2012 – Acquisition of LLC Kub-Market developing the ELC chain in Russia

2013 – Opening of a new concept hypermarket in the trading and entertainment complex MEGA Belaya Dacha

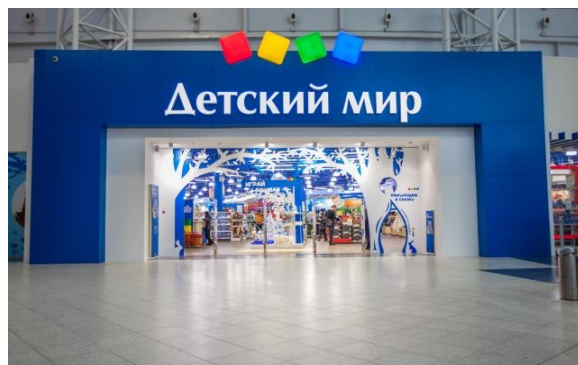
2014 – Opening of a Detsky Mir flagship store in Moscow in Vozdvizhenka with a retail space over 7,000 sq. m.

2015 – Launching of Company's own warehouse in the Bekasovo village (Moscow region) with a total floor area of 70,467 sq. m.

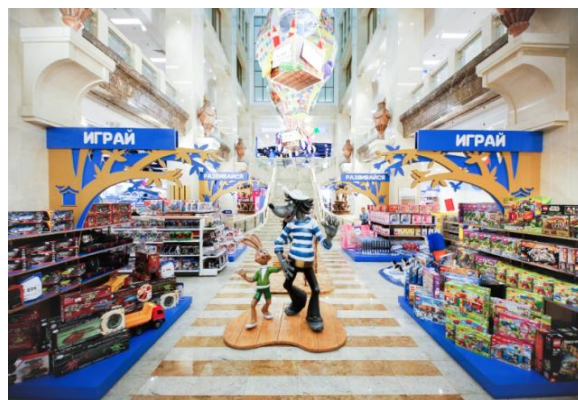
Based on the results of 2015, a record number of stores was opened – 104, including 103 Detsky Mir stores and 1 ELC store



The famous Central Detsky Mir in Lubyanka is the biggest department store of children's goods in post-war Europe, with a retail space of 54 thousand sq. m.



Keeping the traditions alive, Detsky Mir, as in the past, is a store #1 for parents and their children



At the end of 2015, the Group manages 425 stores: 381 Detsky Mir stores in Russia and Kazakhstan, 44 ELC stores. Currently, it is the largest chain of children's products in the CIS.

1.2. Priority areas of activities



The Detsky Mir Group is the largest retailer of children's goods in the CIS. As of December 31, 2015, the Group consisted of PJSC Detsky Mir, Kub-Market LLC, Detsky Mir GmbH, Detsky Mir-Kazakhstan LLP.

PJSC Detsky Mir is a holding management company that owns the Detsky Mir trademark and manages all stores of the retail chain by implementation of the unified policy in the area of purchases, marketing, information technology, logistics, support and development of the chain.

The priority area of PJSC Detsky Mir activities is to open and support the new stores of children's goods on the territory of Russia and other CIS countries. In the coming years, the Company plans to open at least 50 stores under the Detsky Mir brand, increasing its market share and offering customers the best prices for the widest assortment of goods by the following categories: toys, goods for newborns (including baby food, diapers, baby cosmetics, etc.), clothing, footwear and stationery.

1.3. Situation in the industry

Detsky Mir is a leading retailer of children's goods in the CIS

Against a backdrop of economic hard times in the country, the trade in children's goods remains one of the most promising retail segments. Despite the decrease in the consumer's activity, based on the results of 2015, the children's products market showed a growth of approximately 2.2% (according to Synovate Comcon).

The demographic situation continues to play a key role in the children's products market development – the government-sponsored family and motherhood support programs, as well as the high birth rate in the past few years will have a positive impact on the children's goods market. The increase in the average annual market growth rate up to 2.5% are forecast in 2016–2017.

The Detsky Mir chain is a player number 1 in the children's goods market with a share of 13% in 2015, that is 3.2 percentage points higher as compared to 10.0% in 2014. The main growth drivers of the market share in 2015 are such segments as "Toys" and "Goods for newborns", where the Detsky Mir market share has risen from 17.6% to 23.7% and from 11.8% to 18.2%, respectively.

1.4. Development prospects



In 2016, the Detsky Mir chain will continue to consolidate the market by opening new stores throughout Russia. The Company plans to open at least 50 stores. Maintenance of low prices will remain a chain priority for 2016, since will ensure a new customers inflow and increase in the loyalty of the existing ones.

A key area in the Detsky Mir development as part of multi-channel strategy is E-commerce. Since June 2015, when purchasing goods in the online store www.detmir.ru, customers have an opportunity to receive their order in-store pick-up. This function, combined with the multiplier effect from the opening of new stores in 2016, will significantly reduce the delivery expenses and increase in the conversion.

In 2015, the Detsky Mir Group has implemented a number of projects aimed at improving the operating efficiency, the positive effects from which are expected already in the next year. In 2016, Detsky Mir will continue to automatize the Company's business processes.

The geographical structure of openings will not change and will continue to focus on the Moscow region, St. Petersburg and cities with a population over 50 thousand people. Management estimates the Company can open about 200 new stores in the coming years.



2.1. Risks associated with the acquisition of issue-grade securities to be placed (placed)

The risk management policy of PJSC Detsky Mir is based on the fact that the Russian market is a developing one and, therefore, is exposed to significant risks, in contrast to the markets of more developed countries, including significant economic, regulatory, tax, political and social risks that are offset by high growth rates of the major business areas, in particular, retailing. Investors should also keep in mind the rapid evolution of the developing economy of the Russian Federation.

2.2. Industry risks

Traditionally, the retail trade is very sensitive to the macroeconomic situation in the country, since the inflation rate directly correlates with the dynamics of prices for goods on the shelves of stores, and the employment rates affect the income amount and the overall consumer demand. At the same time, the retail industry has a heterogeneous nature and its different sectors are affected by the economic crisis phenomena in different ways. Thus, the children's goods sector along with food products is one of the sectors called "protected" one that are least of all affected by the fall in the consumer's demand, especially against the backdrop of clothing and electronics retailing. As noted above, in 2015, household goods sales have dropped by 5%, electronics – by 14%, cars – by 16%, while expenses for children's goods have risen by 2%. Thus, the children's goods retail sector is stable enough to the risk of drop in demand.

By virtue of the fact that retailing is very sensitive to imports, relations with foreign exporters, as well as the schemes to optimize costs for goods transportation and customs clearance, play a major role in running a business and its results. In this case, there is a risk of unfair competition of market players who use "gray import" schemes for the goods import across the Russian border. The structured retail growth is a factor that in the future will constrain this risk occurrence (retail chains, shopping malls, e-commerce). The Detsky Mir chain takes an advantage of these trade channels development by opening a majority of its stores in shopping centers, as well as by developing a multi-channel strategy that includes a combination of offline and online retail (including mobile applications, online stores, pick-up in-stores, electronic kiosks).

Competition growth in the retail sector and, in particular, in the children's goods sector that is accompanied by increase in retail chains of the existing players, entry of foreign operators into the market, as well as development of the franchising market in Russia, may create a risk of fall in the Company's gross margin and loss of the market share. Taking into account the fact that Detsky Mir is the largest retail chain with the largest volume of purchases from suppliers and the widest geography of stores, this allows to receive the significant discounts from manufacturers and suppliers and hold the lowest prices in the industry.

2.3. Country and regional risks

Political and public threats to Russia may have a negative impact both on the situation in the country as a whole, and results of activities and financial position of the Company. Deterioration of macroeconomic indicators may also have a negative impact on the results of activities of PJSC Detsky Mir, which is registered as a taxpayer and operates in the whole territory of Russia. At present, PJSC Detsky Mir is the largest taxpayer among companies in the children's goods market. In 2015, the Company has increased its tax payments (including corporate income tax, personal income tax, insurance contributions, customs duties) by 12% to reach the indicator of 3,8 bln rubles.

According to Standard&Poors rating agency, the Russian Federation was assigned with the long-term credit rating in foreign currency “BB+” (forecast "Negative"), according to Fitch rating agency – “BBB-” (long-term credit rating in foreign currency, forecast "Negative"), according to Moody's rating agency – “Ba1” (forecast "Stable").

Change in the foreign policy situation related to complication of relations with the countries of Western Europe and the United States and exacerbation of conflicts regarding Russia's role in the post-Soviet space, expansion of military blocs and/or the creation of collective security systems may indirectly influence the activities of Detsky Mir Group. Indirect influence is caused by the fact that the Company purchases extremely small share of goods in Western Europe and in the United States, and also does not operate in these countries, thus, the direct impact of these risks shall be excluded. However, the political differences may influence the behavior of investors who, in spite of the prospects and the rapid growth of the Russian market, may limit their investments in the Russian economy. The capital outflow may result in further devaluation of the ruble, which, in its turn, affects the cost of goods to be purchased and rent payments under contracts concluded in a foreign currency (see the section "Financial Risks" for more details).

The Russia's economic structure now has a strong focus on the foreign markets, first of all, on hydrocarbon crude sales. In this context, the decline in the world prices for these resources is the country risk inherent to Russia. Should this risk occur, the consequences may include the decrease in the consumer's demand, employment and household disposable income. As noted in the previous section, the children's goods retail sector is the most resistant to such changes.

Given the wide geographical extent of the country, the instability in one of its regions may influence the Company's activities. Manifestations of this instability may include natural disasters, emergencies, and climate changes. Nevertheless, the Detsky Mir Group business is geographically diversified, being represented in 149 cities of Russia and 4 cities of Kazakhstan. In addition, the chain, working on improvement of the operating efficiency, considers various stores clustering options allowing to adapt the assortment of stores in each region, city or district for the current needs of customers, which makes the Company more resistant in the event of the occurrence of the above mentioned risks. The Detsky Mir chain stores are located far from the border areas, which at least theoretically could be considered as possible locations of military conflicts.

2.4. Financial risks

The retail sector is traditionally sensitive to changes in the national currency rate, primarily in the field of import goods procurement and rent payments, rates for which are denominated in foreign currencies. Some retail chains are seeking to minimize this risk by construction of their own stores, in particular, chains that develop a hypermarket format, as well as by reduction in import purchases.

The Detsky Mir Group conducts its primary activity in Russia and receives most of its revenue in rubles. The Company receives in Kazakhstan slightly more than 1% of its revenue. In its settlements with suppliers, Detsky Mir focuses on the local currency and uses foreign currencies only for direct purchases abroad (about 15% of the volume in purchase prices), which mainly refer to the procurement of goods under its private labels in the clothing and footwear categories. Given the fact that Detsky Mir is the largest retailer with the largest volume of purchases, which allows it to receive high discounts and offer the best prices in the market, the Company may in the last turn pass the prices growth caused by ruble's devaluation on the customers, later than the other market participants.

As regards rent relations, the Detsky Mir Group is seeking to minimize the currency risk associated with fluctuations in exchange rates. At the end of 2015, the Detsky Mir chain did not have any contracts with lessors, where the foreign exchange rate was not fixed or limited by the upper level of fluctuations. Lessors perceive Detsky Mir as an anchor lessee and are ready to cooperate with the Company, taking advantage of the new interactive concept in order to attract visitors to shopping centers.

The retail sector is characterized by a high turnover and a rather short operating cycle as compared to other industries. This requires from the companies operating in this sector to pay high attention to the liquidity management. Taking into account the political factors impact, the rates in bank loan markets and stock exchange bond markets may grow, which may result in interest expenses rising for the Company and make more difficult to borrow. To minimize this risk, the Detsky Mir Group serves loan facilities with several banks, which allows it to use effectively banking products, depending on the objectives and terms of financing. In this matter, the Company also has a strategic support from its main shareholder – Sistema JSFC. The Detsky Mir Group for many years closely collaborates with the largest Russian banks and has a reputation of a reliable borrower and one of the most efficient companies in the retail.

The Company continues to improve its own efficiency, which is reflected in the operating margin growth and, as a consequence, the net profit. Against the backdrop of competitors' development programs, Detsky Mir will operate as a player who consolidates the market using opportunities for its own natural development, reduction in the unstructured retailing share and general growth in children's goods market. The largest Russian financial institutions are ready to provide support for Detsky Mir in this respect.

2.5. Legal risks

PJSC Detsky Mir bases its activities on the strict compliance with the tax, customs and currency legislation, monitors and promptly responds to any changes therein, as well as seeks for a constructive dialogue with regulatory authorities regarding interpretation of the legislation. In the foreseeable future, the risks associated with changes in the currency, tax, customs and licensing regulation, which may result in deterioration in the financial position of the Company, are minor.

The Russian economy has a risk of changes in the tax conditions, in which the Company operates: reformation of the tax legislation, ambiguities in interpretation of the existing tax laws. The Company may be subject to regular tax audits. Given the uncertainty of the tax legislation, it may result in imposition of penalties (fines), obligations to make additional tax payments. The above consequences may negatively affect the financial indicators of the Company.

The Russian tax system is insufficiently developed. Increase in tax liabilities may have a negative impact on the results of Company's activities. Russian tax laws, regulations and judicial procedures frequently undergo changes and are subject to ambiguities in interpretation and selective application. In some cases, the Russian tax authorities apply changes for a passed date, despite the fact that it may be considered as a Russian law violation.

The issue regarding the tax accrual correctness may be examined by the tax authorities for three years, meanwhile the legislation and the existing judicial practice make it possible not to apply the period of limitation, if the court finds that a taxpayer has prevented or obstructed a tax audit.

Having regard to the above, the Company monitors regularly any changes in the legislation and law enforcement practice, pays high attention to the tax planning, which allows it to carry out its financial and economic activities, taking into account changes in the tax legislation and law enforcement practice in taxation.

External market

The Company regards risks associated with changes in the tax legislation in the foreign market as minimum ones, since these risks affect the Company's business to the same extent as the other market participants.

The Company operates in the domestic market, since it is to a small extent exposed to risks associated with changes in the customs regulations and customs duties. Changes in the customs regulation rules may affect the Company's suppliers engaged in the foreign economic activity that will have the same impact on all market participants.

Risks associated with the changes in requirements for licensing of the Company's primary activity are minimal, since its activity is not currently subject to licensing, and the objects with a limited turnover (including natural resources) are not used.

The Detsky Mir Group is not involved in any judicial proceedings that could materially affect its financial and operating activities. There are no risks arising from changes in the judicial practice with respect to the issues related to the Company's activities that may affect the results of its activity in the external market.

3. REPORT OF THE JOINT STOCK COMPANY'S BOARD OF DIRECTORS (SUPERVISORY BOARD) ON THE RESULTS OF THE JOINT STOCK COMPANY'S DEVELOPMENT BY THE PRIORITY AREAS OF ITS ACTIVITIES

Federal Law *On Joint Stock Companies* assigns to the Board of Directors the most important role to ensure the shareholders' rights, to create and implement the Company's development strategy, as well as ensure its successful financial and operating activities. The Board of Directors of PJSC Detsky Mir held 12 meetings in 2015, 8 of which in absentia, where 67 issues were considered. In addition, 13 meetings of the committees of the Board of Directors were held, where 38 issues were considered.

The activities of the Board of Directors were arranged in accordance with the approved work plan, and the implementation of decisions were regularly monitored. In exercising of its powers, all the Board of Directors members acted in the Company's interests, in good faith and reasonably, participated energetically in all the Board of Directors meetings and committees under the Board of Directors.

In the years following, the Board of Directors will give priority to improving the business management quality, company's capitalization growth, as well as strengthening the financial stability and competitiveness of the Company.

3.1. Principal results of activities in 2015

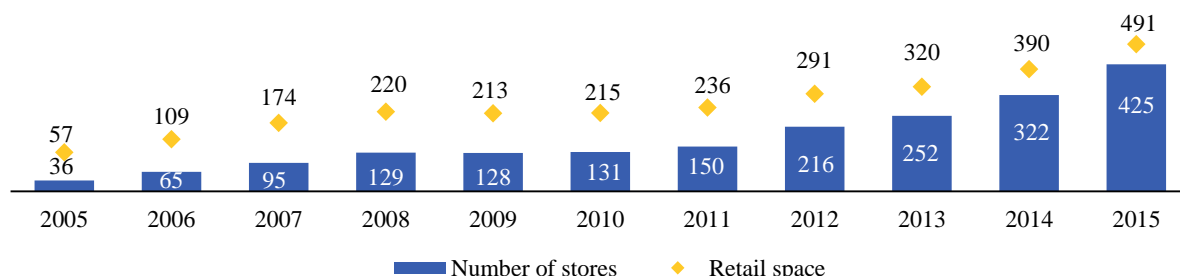
3.1.1. Chain development

At the end of 2015, Detsky Mir Group consisted of 425 stores, among which 381 stores are under the Detsky Mir brand (including 374 stores in Russia and 7 stores in Kazakhstan), 44 stores – under the ELC brand, and 1 premium-segment store Yakimanka Children's Gallery.

Over the past year, 104 stores were opened: 103 Detsky Mir stores and 1 ELC store. Detsky Mir showed the highest rates of development in the Moscow region (33 new supermarkets), Saint Petersburg and the Leningrad region (13 new stores). The Detsky Mir chain has continued to develop in Kazakhstan and opened a new store in Astana.

The Group's retail space has increased by 101 thousand sq. m in 2015 (+ 26% (YoY) year-on-year) up to 491 thousand sq. m as compared to 390 thousand sq. m a year earlier.

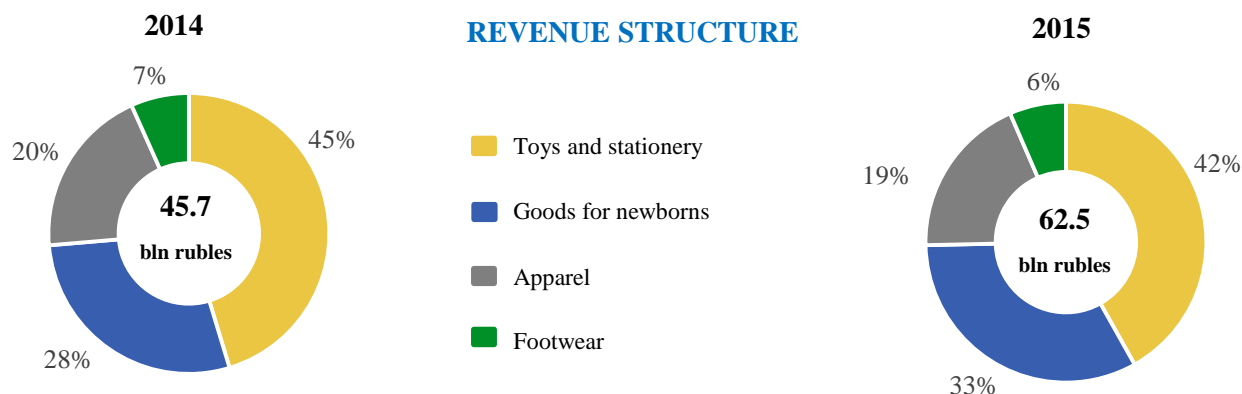
In June 2015, the logistics center Detsky Mir in the Moscow region (Bekasovo village) with a retail space of 70 thousand sq. m was launched. The new distribution center has become the largest one in the segment of specialized children's goods retail. In addition, in the mid-year, all stores offered the "in-store pick-up" service allowing the customer to pick up his/her online order in any store of the chain.



3.1.2. Assortment management

The assortment management strategy of the Detsky Mir chain was aimed at optimization of the commodity matrix, reduction in non-liquid SKUs and increase in the private labels share, as well as growth of the market share in all segments, especially in the category of traffic generating goods: diapers and food. In 2015, the share of baby products in the turnover has increased by 5%, which significantly influenced the growth of the number of checks in like-for-like LFL stores (+ 3.7%).

The private labels share in the "Apparel" category has risen from 67% to 71%, in the "Footwear" category – from 65% to 69%.

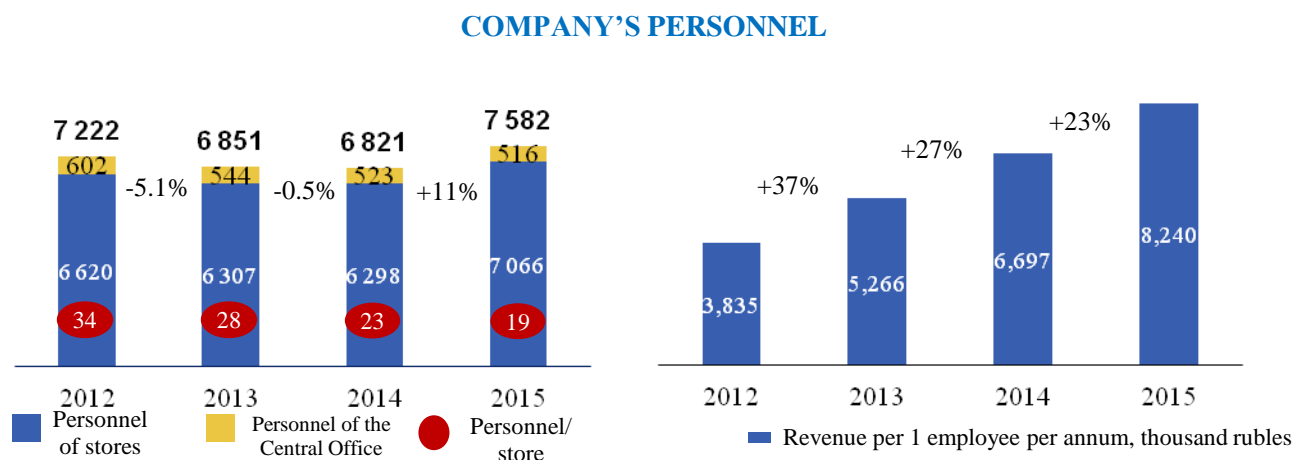


Data of the financial statements of PJSC Detsky Mir according to RAS

3.1.3. HR management

In 2015, the Detsky Mir Group has continued to work toward improvement of the personnel efficiency. The implemented automation projects allowed to rise the revenue per employee by 27% in 2014 and by 24% in 2015.

The number of salespeople has dropped from 23 persons to 19 persons per store, it is more than 1,000 persons across the entire chain.



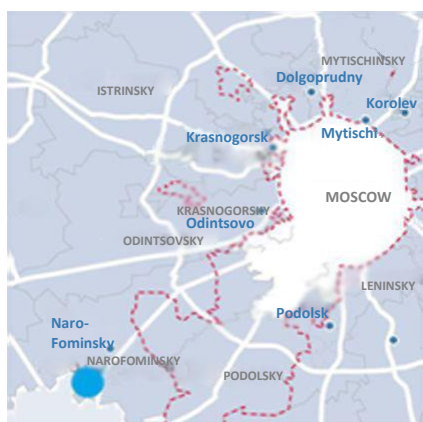
Data excluding a warehouse and BSC data

Data excluding a warehouse and BSC data

3.1.4. Logistics

In May 2015, the Detsky Mir Group commissioned its own warehouse in the Moscow region (Bekasovo village, Naro-Fominsk district) with a retail space of 70 thousand sq. m. The Company estimates the opening of own warehouse in a few years will allow to improve the logistics centralization (inventory turnover share passed through the warehouse) from 30% to 70-80%, which, in its turn, will allow to increase in goods turnover in the stores, to eliminate the so-called "stock-outs" (a situation where a certain product is out of stock), and to create a good logistics platform for further business scaling. The warehouse opening will allow to create 2,000 jobs in the Moscow region in the coming years and will contribute to the development of roads and social infrastructure.

During 2015-2016, warehouse operations of the Detsky Mir online store, as well as ELC subsidiary (Early Learning Center) will be switched from external 3PL operators to the existing warehouse in Krekshino with a floor area of 20 thousand sq. m, which the Company rents under a long-term lease agreement.



Warehouse area	70.467 sq.m (+100 sq.m of the checkpoint)
Location	Bekasovo village (Naro-Fominsk district of the Moscow Region)
Direction	Southeast, Kiyevskoye shosse, 50 km from the Moscow Ring Road
Operation commencement date	June 23, 2015
Corporate approval	Board of Directors of OJSC Detsky Mir (Minutes No. 22 dated May 30, 2014)

3.1.5. Electronic commerce

The online store www.detmir.ru was launched at the end of 2011. It is an important business development channel of Detsky Mir as part of its multi-channel strategy, combining the online store and offline stores of the chain with an opportunity to make orders in the online store and pick-up goods in any retail store of the chain (in-store pick-up).

Since the launch of this online store, its revenue has risen more than thirty times, and the average annual growth rate of revenue for this period was 137%. In 2015, the online channel revenue has risen by 184% up to 1,260 mln rubles as compared to 444 mln rubles in 2014. The key event of the reporting year in the Detsky Mir online channel development was achievement a positive OIBDA indicator.

In addition, in 2015, the store expanded the assortment of goods up to 30 thousand units (SKU), making a special focus on goods for newborns (diapers), clothing and footwear. Since June 2015, the "in-store pick-up" function was launched in all Detsky Mir chain stores, where customers may pick up the goods which they have acquired via the Internet.

3.1.6. Marketing

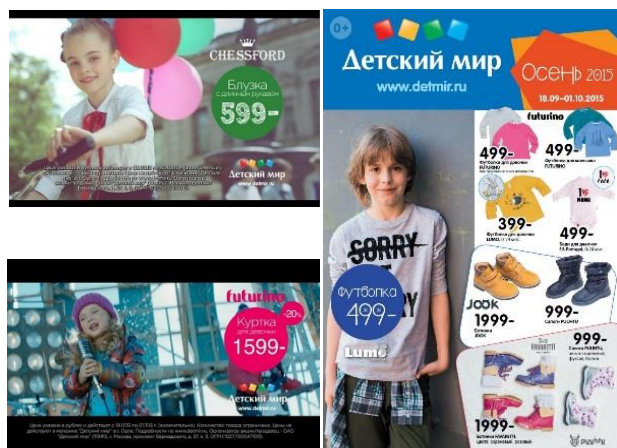
In 2015, the Detsky Mir chain continued to develop its own loyalty program «Yo-Yo», the number of participants of which exceeded 10 million persons. More than 6.5 million of the participants used the card for purchases in 2015. The data base of contact persons (telephone and/or mail) included more than 6 million people by the year end.

Throughout 2015, the targeted campaigns were carried out among the participants of the bonus program, which allowed to earn additionally more than 60 mln rubles.

Based on the results of 2015, the revenue of the Detsky Mir chain stores from sales of gift cards and electronic certificates has risen by 34% up to 1.3 bln rubles.

In 2015, the Company started the customers' satisfaction survey (NPS). It resulted in development of the brand positioning, which formed the basis for creation of the New Year advertising campaign. For the purpose of the effect assessment, the brand health tracking was started.

During the year, the broad support was provided to seasonal campaigns (gender holidays, school, New Year); special price programs "3=2"; "days of the brand" (by a toy), etc. The support, depending on the campaign type, was provided directly in the stores, through a special newspaper/flyer, by sending SMS and emailing, as well as by TV advertising. These actions, inter alia, allowed to ensure the LFL traffic growth in 2015/2014 by 2.3%.



3.1.7. IT

In 2015, the Detsky Mir Group has completed the switching to a single SAP-based IT platform, which completely replaced the previously existing platform, consisting of several Oracle Retail-based integrated IT-systems and covering key business processes. The existing platform could serve without failures 300-400 stores of the Detsky Mir chain, and the new SAP-based platform can double this figure. The IT-platform allows the Company to receive on a daily basis the full analysis based on the results of sales of each store, which makes it possible to efficiently manage each individual store.

A single SAP platform will include SAP merchandising (assortment management), SAP Forecasting and Replenishment (planning and ordering), SAP EWP (warehouse management), POS Data management (place of sales data analysis), Business Objects (business analysis) and SAP HCM (human resource management).

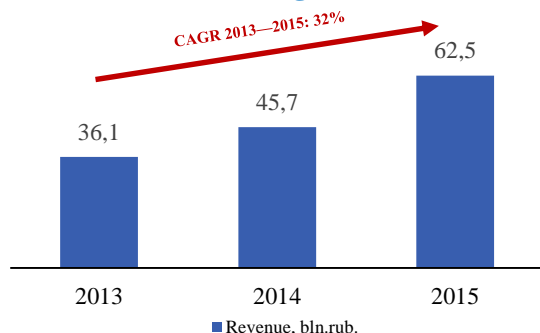
The plans for 2016 include SAP solutions roll-out for Detsky Mir-Kazakhstan LLP to provide seamless integration between the parent Company and the subsidiary in the Republic of Kazakhstan.

PJSC Detsky Mir continues to increase the volume of electronic document flow both with external suppliers, and within the Company. In 2016, it is planned to implement the electronic document flow in logistics centers, as well as the switching of certificates of bonus calculation and marketing to the electronic document flow.

3.1.8. Financial results

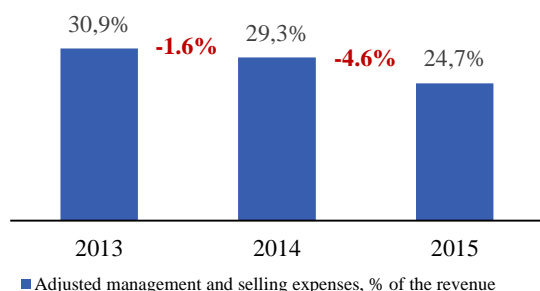
Dynamics of key indicators

Revenue growth



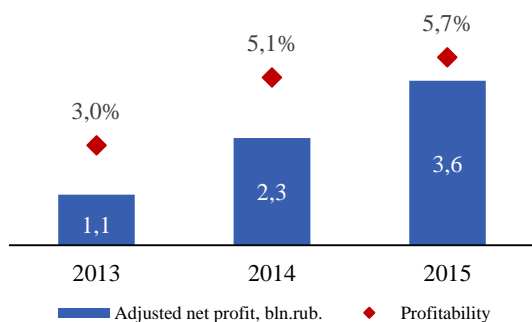
- ✓ Revenue has risen by 36.8% in 2015;
- ✓ The main driver of the revenue growth was achievement of the full capacity operation of 56 Detsky Mir stores opened in 2014;
- ✓ LFL stores of the Detsky Mir chain amounted to 12.4%;
- ✓ The main driver of the LFL revenue growth became the ATV growth – 8.4% with the increase in the number of purchases by 3.7%;
- ✓ LFL turnover growth dynamics in pieces is 6.1%.

Adjusted SG&A expenses¹



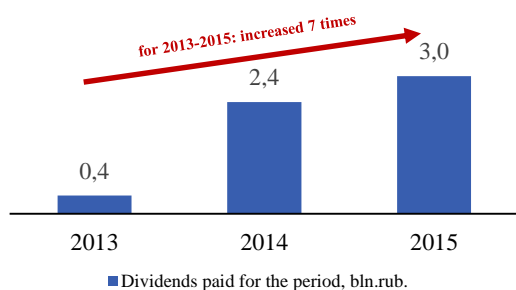
- ✓ Reduction in the adjusted SG&A expenses in % of the revenue from 39.3% to 24.7% was caused by an increase in the operating efficiency:
 - introduction of a single SAP platform allowed to ensure continuous information interaction for the entire chain of stores
 - cashier services modernization and sales personnel work automation
 - Opening of own warehouse with a floor area of 71 thousand sq. m.

Growth of the adjusted net profit¹



- ✓ Adjusted net profit has increased by 54% in 2015;
- ✓ Adjusted net profit margin has increased from 5.1% to 5.7%;
- ✓ Net profit growth was caused by an increase in the operating efficiency and the aggressive revenue growth.

Dividends



- ✓ In 2015, the Company has paid to shareholders 3.0 bln rubles as dividends
 - Amount of dividends has risen 7 times as compared to 2013

Source: the audited financial statements according to RAS, data of PJSC Detsky Mir

¹ Indicators of the adjusted selling, administrative and management expenses and the adjusted net profit do not include one-time effects related to the payment of remuneration within the scope of the long-term incentive program LTI

3.2. Assessment by the business community

The successes and achievements of the Company are regularly reflected in the prestigious Russian public awards and prizes, business rankings.

In 2015, Detsky Mir was awarded in the following public competitions and ratings:

- 136th rank on the Forbes “Top 200 Largest Private Companies” (+15 points as compared with 2014, and +35 points as compared with 2013)
- 203rd rank on the RBC magazine “Top 500 Largest private and public companies of Russia”
- 27th rank (+2 points) on the “INFOLINE Retailer Russia TOP-100”.
- Winner of the “Customer eXperience Awards Russia 2015” in the nomination "The best customer's experience in the non-food retail sector"
- Seven managers of the Detsky Mir Group, including General Director, Vladimir Chirakhov, were included in the rating "TOP-1000 Russian Managers".
- Detsky Mir won the national prize of the children's goods industry "Zolotoy Medvezhonok" (Golden Teddy Bear) in two nominations: "Social Project of the Year" ("Toys Operation" project) and "Store of the Year" (opening of the flagship store of Detsky Mir in Vozdvizhenka, 10).
- As noted in the survey RBC.research "Russian market of clothing for children and teenagers-2015", the most popular chain for purchase of children's clothing is Detsky Mir. Over the past six months, the half of buyers of children's goods purchased children's clothing in of Detsky Mir stores.



3.3. List of transactions concluded by the Joint Stock Company in the reporting year

3.3.1. List of major transactions

The Company made no major transactions in the reporting year.

3.3.2. List of related-party transactions

The Company made no related-party transactions in the reporting year.

3.4. Information on the volume of each energy resource used in the reporting year

Energy resource type	2014		2015	
	mln rubles	units	mln rubles	units
Electricity (kWh*h)	309	69,295,715	413	87,375,985
Heat-water-gas supply (Gcal)	67	40,749*	78	45,244*

*Data on heat power. The heat power share in "Warm-water-gas supply" expenses in average with the Company is 92.7%

4.1. Report on the Joint Stock Company's compliance with the principles of the Corporate Governance Code

4.1.1. Statement of the Board of Directors of PJSC Detsky Mir on compliance with the corporate governance principles set forth in the Corporate Governance Code.

As regards the corporate governance, PJSC Detsky Mir adheres to the principles set forth in the Corporate Governance Code, the provisions of which are aimed to increase in the Company's investment attractiveness, to improve the joint stock company management, to achieve a transparency of the Company's financial activity, to ensure the legitimate rights and interests of shareholders. PJSC Detsky Mir considers a transparency of information on the Company's activities and financial results as a mechanism to ensure control by shareholders, government and society as a whole and as a tool for enhancement of counterparties' and investors' trust. The detailed information on compliance with the corporate governance principles is set forth in the schedules to this report.

4.1.2. Brief description of the most significant aspects of the corporate governance model and practices in the Company.

The corporate governance model of PJSC Detsky Mir has not changed significantly for the last year. 75% of the voting shares of PJSC Detsky Mir is controlled by Sistema JSFC, together with its affiliates. The structure of the Company's management bodies is a three-tier and includes: General Meeting of Shareholders, Board of Directors, Collegial Executive Body (Management Board) and Sole Executive Body (Director General). The Company's Board of Directors has the maximum extended competence and plays a key role in the management of the Company. The main issues resolved by the Board of Directors include: the strategic business development, control over the implementation of financial and budgetary plans of the Company, risk management, motivation and remuneration of the personnel and the top management, internal control and audit, major and material transactions. The number of the Board of Directors members shall be established by the general meeting of shareholders. In 2015, the Board of Directors included 10 members: 2 independent directors, 1 executive director. The Board of Directors establishes committees for audit, nominations and remuneration, and strategy. The internal control and audit function is assigned to a separate structural unit – the Internal Control and Audit Department. Head of the Department shall be accountable to the Board of Directors, as well as shall be appointed and dismissed by its decision.

4.1.3. Description of the methodology used by the Company to assess the compliance with the corporate governance principles enshrined in the Code.

Assessment was conducted on the basis of the methods for the corporate governance quality self-assessment in public companies and joint stock companies, approved by Order of the Federal Agency for State Property Management No. 306 dated August 22, 2014. In accordance with those methods, the maximum score amounts to 548 points (100%), while the minimum allowed score is 356.2 points (65%). The score obtained as a result of assessment of the corporate governance quality in PJSC Detsky Mir is 379 points (69.2%).

4.1.4 Planned actions and measures of the Company to improve the corporate governance model and practices.

A new edition of the Company's Articles of Association was approved at the beginning of 2016. In 2016, it is planned to amend the Company's internal documents regulating the activities of the Company's management bodies.

4.2. Board of Directors

The Board of Directors is a collegial management body of the Company; it performs the general management of its activity except for the resolution of the issues which fall within the competence of the General Meeting of Shareholders of the Company; and it is regulated by the legislation of the Russian Federation, the Articles of Association of the Company, resolutions of the General Meeting of Shareholders, the Regulation on the Board of Directors and other internal regulatory documents of the Company.

4.2.1. Membership of the Board of Directors

**Christopher Alan Baxter**

Year of birth 1963
Higher education
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0, 43%

Chairman of the Board of Directors, Non-Executive Director

**Vladimir Chirakhov**

Year of birth 1974
Higher education
Chief Executive Officer of PJSC Detsky Mir
Shareholding interest – 1.08%
Holding of ordinary shares in the Company -1.08%

Executive Director

**Valentin Korchunov**

Year of birth 1982
Higher education
Investment Director of JSFC Sistema
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0.49%

Non-Executive Director

**Andrey Kamensky**

Year of birth 1972
Higher education
Executive Vice President of JSFC Sistema
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Non-Executive Director

**Andrey Berezhnoy**

Year of birth 1965
Higher education
Founder and Director General of Ralf Ringer company
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Independent Director

**Christopher Allan Parks**

Year of birth 1963
Higher education
Adviser to the General Director of M.Video Management LLC
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Independent Director

**Oleg Mubarakshin**

Year of birth 1968
Higher education
Vice President, Head of the Legal Affairs Complex of JSFC Sistema
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Non-Executive Director

**Vladimir Uvakin**

Year of birth 1975
Higher education
Executive Vice President of JSFC Sistema
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Non-Executive Director

**Andrey Terebenin**

Date of birth 1962
Higher education
Senior Vice President of JSFC Sistema
Shareholding interest, 0%
Holding of ordinary shares in the Company, 0%

Non-Executive Director

**Leonid Khanik**

Date of birth 1970
Higher education
Managing Partner Concept group
Shareholding interest – 1.08%
Holding of ordinary shares in the Company, 0%

Non-Executive Director

4.3. Chief Executive Officer

The Director General is the Company's sole executive body, acting permanently, the main task of whom is to perform management of the current activity of the Company for the purpose of ensuring the Company's profitability and competitiveness, its financial and economic stability, shareholders' rights and social guarantees for the personnel of the Company.

4.4. Management Board

The Management Board is a collegial executive body governed by the law, the Company's Articles of Association and the Regulation On the Management Board.

4.4.1. Membership of the Management Board

**Vladimir Chirakhov**

Year of birth 1974
Higher education
Chief Executive Officer of PJSC Detsky Mir
Shareholding interest – 1.08%
Holding of ordinary shares in the Company -1.08%

Chairman of the Management Board

**Tatiana Mudretsova**

Year of birth 1973
Higher education
Marketing Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Maria Davydova**

Year of birth 1974
Higher education
Deputy Director General for Commercial Activity of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Maria Volodina**

Year of birth 1973
Higher education
Commercial Director of PJSC Detsky Mir of the "Clothing and Footwear" Line
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Anna Garmanova**

Year of birth 1976
Higher education
Chief Financial Officer of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Farid Kamalov**

Year of birth 1980
Higher education
Operations Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Vyacheslav Khvan**

Year of birth 1983
Higher education
Deputy Director General for Business Development of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Larisa Kvasova**

Year of birth 1966
Higher education
HR Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Sergey Kondarev**

Year of birth 1965
Higher education
IT Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Vladimir Ilmetov**

Year of birth 1958
Higher education
Security Department Director of PJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

4.5. Report on payment of dividends on shares

In 2015, by resolution of the general meeting of shareholders, the dividends were paid in the amount of:

- the net profit for the financial year 2014: 2,1010 rubles per registered ordinary share, the total amount of dividends is 1,552,639,000 rubles.
- the net profit for 9 months of the financial year 2015: 1,9215 rubles per registered ordinary share, the total amount of dividends is 1,419,988,500 rubles.

4.6. Criteria for determination and remuneration amount of the Director General, the Board of Directors Members and the Management Board

Director General and the Management Board members of PJSC Detsky Mir are the Company's staff-members. Remuneration of the above persons consists of the salary and annual bonus for achievement of the key targets set by the Board of Directors. The salary amount of these persons shall be determined according to the manning table. The amount of other payments such as additional payments, compensations and bonuses shall be determined by the Regulation on Remuneration, the Regulation On Bonuses and the Regulation on Logistical Support. The total remuneration paid to members of the Management Board of PJSC Detsky Mir in 2015 is 689,206 thousand rubles. The amount of compensations paid to members of the Management Board of PJSC Detsky Mir in 2015 is 3,276 thousand rub.

Payment of the remuneration to the Board of Directors members of PJSC Detsky Mir shall be regulated by the Regulation On Remuneration and Compensations to the Board of Directors Members of PJSC Detsky Mir. In accordance with this Regulation, a fixed remuneration shall be paid only to the independent members of the Board of Directors.

In 2015, the remuneration paid to the Board of Directors members of PJSC Detsky Mir was 6,671 thousand rubles.

4.7. On transactions with the Company's shares made by members of management bodies in the reporting year.

Members of the management bodies made no transactions with shares in the reporting year.

5. SOCIAL RESPONSIBILITY

Social responsibility is an integral part of the corporate culture of Detsky Mir Company.

Detsky Mir implements both its own charitable projects, and joint projects with its partners: charitable foundations and voluntary associations. Today, the Company has more than 450 charity recipients in Russia and Kazakhstan.

The most famous project of the Company is the All-Russian Campaign "Get Involved!", within which the Detsky Mir chain stores collect gifts for children with a difficult real-life situation. This campaign gives the customers an opportunity to contribute to a good deed. It is important that each contributor may always get to know where his/her gift was sent – all stores of the chain provide detailed information on the charity receivers under the project.

In 2015, the Company has implemented 3 stages of the campaign:

- in the spring – ahead of Children's Day
- in the late summer – before the start of a new school year
- in the winter – ahead of a New Year and Christmas

In 2015, the charity amount exceeded 145 mln rubles.

The main charity recipients are child care centers, children's homes and boarding schools for orphans, disabled children and children having a difficult real-life situation.

The charitable foundation implements programs aimed at adaptation and socialization of children, the scope of which includes support of festivals and exhibitions, and opening of children's rooms in hospitals and social institutions.

In 2015, Detsky Mir, as part of the "Toys Operation" project, has opened 59 children's rooms in 20 medical and social institutions of the country. New children's rooms appeared in 12 cities across the country: St. Petersburg, Kaliningrad, Kazan, Smolensk, Tula, Rostov-on-Don, Perm, Ivanovo, Nalchik, Pskov, Yaroslavl, and Tomsk. Since the project start in 2013, Detsky Mir has opened about 100 children's rooms.

At the end of 2014, the Company established the Volunteer Corporate Puppet Theater, the actors of which are the Company's employees. The theater troupe performs in the sponsored child care centers, charity fairs and festivals. The project allowed to engage new employees in charitable projects implemented by the Company, and increased the brand loyalty. For the year, 20 performances have been shown.

In 2015, the Company has continued the implementation of the project "Co-Financing of Charitable Programs", where each employee may donate a portion of salary to charity projects. The target audience of this project are children of the Company's employees who need expensive medical care. For the past year, the aid has been provided to 13 children, including payment for the expensive treatment and examination, as well as purchase of the necessary equipment. Since 2013, a total of about 5,000,000 rubles has been transferred to the foundation by the employees, and 500 persons have participated in the project.

All Company's charity campaigns are widely covered by the mass media, thus contributing to raising awareness of the problems of children and adolescents who found themselves in difficult real-life situations, and the increase in the audience of the people involved, creating a culture of assistance and involvement.

6. APPENDICES

6.1. Membership of the Board of Directors

Members elected on June 30, 2014

1. Christopher Alan Baxter – Chairman of the Board of Directors
2. Berezhnoy Andrey Alexandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Alexandrovich
5. Mubarakshin Oleg Saydashevich
6. Parks Christopher Allan
7. Chirakhov Vladimir Sanasarovich
8. Uvakin Vladimir Mikhaylovich

Members elected on January 19, 2015

1. Christopher Alan Baxter – Chairman of the Board of Directors
2. Berezhnoy Andrey Alexandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Alexandrovich
5. Mubarakshin Oleg Saydashevich
6. Parks Christopher Allan
7. Uvakin Vladimir Mikhaylovich
8. Khanik Leonid Alexandrovich
9. Chirakhov Vladimir Sanasarovich

Members elected on June 30, 2015

1. Christopher Alan Baxter – Chairman of the Board of Directors
2. Berezhnoy Andrey Alexandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Alexandrovich
5. Mubarakshin Oleg Saydashevich
6. Parks Christopher Allan
7. Terebenin Andrey Borisovich
8. Uvakin Vladimir Mikhaylovich
9. Khanik Leonid Alexandrovich
10. Chirakhov Vladimir Sanasarovich

6.2. Membership of the Management Board

Date of Board of Directors resolution	Full Name	Ownership of shares
From January 01, 2015 to February 02, 2015	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	2. Gorodilova Anna Viktorovna	
	3. Churilov Andrey Alexandrovich	
	4. Vyacheslav Robertovich Khvan	
	5. Kamalov Farid Shamilievich	
	6. Kondarev Sergey Pavlovich	No ownership
	7. Volodina Mariya Valeriyevna	
	8. Tatyana Petrovna Mudretsova	
	9. Kvasova Larisa Evgenievna	
from February 03, 2015 to October 31, 2015	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	2. Davydova Maria Sergeevna	
	3. Vyacheslav Robertovich Khvan	
	4. Kamalov Farid Shamilievich	
	5. Kondarev Sergey Pavlovich	
	6. Volodina Mariya Valeriyevna	No ownership
	7. Tatyana Petrovna Mudretsova	
	8. Kvasova Larisa Evgenievna	
	9. Ilmetov Vladimir Mikhaylovich	
from November 01, 2015 to December 31, 2015	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	2. Davydova Maria Sergeevna	
	3. Vyacheslav Robertovich Khvan	
	4. Kamalov Farid Shamilievich	
	5. Kondarev Sergey Pavlovich	
	6. Volodina Mariya Valeriyevna	No ownership
	7. Tatyana Petrovna Mudretsova	
	8. Kvasova Larisa Evgenievna	
	9. Ilmetov Vladimir Mikhaylovich	
	10. Garmanova Anna Sergeevna	

6.3. Balance sheet As of December 31, 2015 according to RAS

Indicator name, thousand rubles	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012
ASSETS				
I. NON-CURRENT ASSETS				
Intangible assets	12,615	12,584	12,894	13,184
Property, plant and equipment	7,057,679	2,790,377	1,868,261	1,796,422
Financial investments	5,522,601	5,146,983	5,978,487	1,747,822
Deferred tax assets	281,652	156,043	121,942	103,550
Other non-current assets	2,561,508	1,866,022	572,454	237,375
Total for Section I	15,436,055	9,972,009	8,554,038	3,898,353
II. CURRENT ASSETS				
Inventories	19,793,451	12,128,461	8,864,287	7,105,883
Input				
value added tax	458,273	203,384	137,106	60,555
Accounts receivable	5,810,984	2,576,751	1,740,219	1,596,919
Financial investments (excluding cash equivalents)	10,398	27,337	356,170	437,731
Cash and cash equivalents	1,766,019	1,428,074	793,884	1,534,900
Other current assets	207,551	80,807	179,416	119,996
Total for Section II	28,046,676	16,444,814	12,071,082	10,855,984
BALANCE	43,482,731	26,416,823	20,625,120	14,754,337
EQUITY AND LIABILITIES				
III. CAPITAL AND RESERVES				
Authorized capital	296	296	296	296
Non-current assets revaluation	0	0	145	145
Additional paid-in capital (without revaluation)	6,850,134	6,850,134	7,698,184	7,698,184
Reserve capital	23	23	23	8
Uncovered loss	(3,109,567)	(2,981,403)	(3,199,648)	(3,908,207)
Total for Section III	3,740,886	3,869,050	4,499,000	3,790,426
IV. LONG-TERM LIABILITIES				
Borrowings	5,465,125	3,506,848	4,350,000	2,397,563
Deferred tax liabilities	54,613	25,917	479	674
Total for Section IV	5,519,738	3,532,765	4,350,479	2,398,237
V. SHORT-TERM LIABILITIES				
Borrowings	12,947,777	5,936,071	1,523,944	607,799
Accounts payable	20,245,771	12,836,721	10,010,564	7,825,435
Provisions	1,028,559	242,216	241,133	132,440
Total for section V	34,222,107	19,015,008	1,775,641	8,565,674
BALANCE	43,482,731	26,416,823	20,625,120	14,754,337

6.4. Profit and loss statement for 2015 according to RAS

Indicator name, thousand rubles	2015	2014	2013
Revenue	62,477,223	45,681,425	36,079,512
Cost of sales	(44,353,860)	(31,027,774)	(23,906,987)
Gross profit	18,123,363	14,653,651	12,172,525
Selling expenses	(13,144,946)	(10,461,401)	(9,609,896)
Management expenses	(3,320,338)	(2,455,649)	(1,526,512)
Sales profit	1,658,079	1,736,601	1,036,117
Income from participation in other organizations	2,657	16,139	22,375
Interest receivable	639,744	562,972	305,938
Interest payable	(1,902,683)	(837,798)	(469 539)
Other income	5,611,727	3,699,652	2,193,304
Other expenses	(2,270,664)	(1,799,222)	(1,445,635)
Profit before tax	3,738,860	3,378,344	1,642,560
Current income tax	(1,104,848)	(728,812)	(527,444)
<i>including permanent tax liabilities</i>	(262,340)	(46,193)	(209,169)
Change in deferred tax liabilities	(28,697)	(25,438)	195
Change in deferred tax assets	125,609	34,101	18,392
Other	(214)	(35,438)	(4,667)
Net profit	2,730,710	2,693,633	1,129,036
FOR REFERENCE			
Result from other operations not included into the net profit of the period	-	-	-
Total financial result of the period	2,730,710	2,693,633	1,129,036
Basic earnings per share, thousand rubles	-	-	382
Diluted earnings per share, thousand rubles	-	-	382

6.5. Report on compliance with the principles of the Corporate Governance Code

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
1. Shareholders' rights and equality of conditions in the exercise of their rights		
1.1. The Company shall ensure the fair and equitable attitude to all shareholders when exercising by them rights to participate in the Company's management.	partially observed	
1.1.1. The Company is recommended to create for shareholders the maximum favorable opportunities to participate in general meetings, the conditions to develop an evidence-based position on the general meeting agenda, coordinate their actions, as well as an opportunity to express their opinion on the issues under consideration.	observed	
1.1.2. The notification procedure for holding a general meeting and provision of materials for a general meeting should allow the shareholders to prepare properly for participation therein.	partially observed	Materials for a general meeting shall be sent individually to each shareholder and shall not be placed on the Internet
1.1.3. In the course of preparation and holding of a general meeting, the shareholders shall be able, easily and timely, to receive any information on a meeting and materials for the same, ask questions the executive bodies and the Board of Directors members, and communicate with each other.	partially observed	When preparing for a meeting, the shareholders shall have an opportunity to ask questions the members of executive bodies and Board of Directors, as well as express publicly their opinion on the meeting agenda. Since the number of shareholders does not exceed 6 persons, a special telephone channel, a special e-mail address or forum on the Company's website is not required for this purpose.
1.1.4. Exercise of the shareholder's right to demand the convening of the general meeting, to nominate candidates for the company's bodies and to make proposals on the agenda of the general meeting shall not be associated with unjustified difficulties.	observed	
1.1.5. Each shareholder shall have an opportunity to freely exercise the right to vote by the most simple and convenient way.	observed	
1.1.6. The holding procedure for a general meeting that is established by the company shall provide an equal opportunity to all persons present at the meeting to express their opinions and ask questions.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
1. Shareholders' rights and equality of conditions in the exercise of their rights		
1.2. Shareholders shall have an equal and fair opportunity to share the company's profits by receiving dividends.	partially observed	
1.2.1. The Company shall develop and implement a transparent and clear mechanism for determination of the amount of dividends and their payment.	partially observed	The dividend policy and internal documents do not specify a minimum amount of dividends.
1.2.2. The company is not recommended to make a decision on payment of dividends, if such decision, while formally not violating the restrictions imposed by the law, is economically unreasonable and may result in misrepresentation of the company's activities.	observed	
1.2.3. The Company shall not allow the deterioration of dividend rights of the existing shareholders.	observed	
1.2.4. The company shall seek to prevent the use by the shareholders of other ways to obtain income (profit) at the expense of the company, except for dividends and the disposal value	observed	
1.3. The corporate governance framework and practices shall ensure fair treatment for all shareholders – who owns shares of one category (type), including minority (small) shareholders and foreign shareholders, and equal company's attitude to them.	observed	
1.3.1. The company shall create the conditions for fair attitude of the company's management and supervisory bodies to each shareholder, including the conditions to prohibit any abuse by major shareholders with respect to minority shareholders.	observed	
1.3.2. The company shall not take any actions that result or may result in an artificial redistribution of the corporate control.	observed	
1.4. Shareholders shall be provided with reliable and efficient methods for accounting of their rights to shares and an opportunity for free and easy disposal of shares held by them.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
2. Board of Directors		
2.1. The Board of Directors shall carry out the strategic management of the company, determine the basic principles of and approaches to the social risk management and internal control system, control the activity of the executive bodies of the company, as well as perform other key functions.	partially observed	
2.1.1. The Board of Directors shall be responsible for making decisions related to the appointment and dismissal of the members of the executive bodies, including due to improper performance of their duties. The Board of Directors shall also monitor that the executive bodies of the company act in accordance with the approved development strategy and the core areas of activities of the company.	observed	
2.1.2. The Board of Directors shall establish the basic guidelines for the company's activities for the long-term run, assess and approve the key performance indicators and major business goals of the company, and assess and approve the strategy and business plans by the company's operating activities.	observed	
2.1.3. The Board of Directors shall determine the principles of and approaches to the risk management and internal control system in the company.	observed	
2.1.4. The Board of Directors shall determine the company's policy for remuneration and/or cost reimbursement (compensation) of the members of the Board of Directors, executive bodies and other key executives of the company.	partially observed	The Regulation on remuneration and compensations for the Board of Directors members shall be approved by the General Meeting of Shareholders, and for the executive bodies and other key employees shall be approved by the Board of Directors.
2.1.5. The Board of Directors shall play a key role in prevention, identification and resolution of internal conflicts between the company's bodies, shareholders and employees.	observed	
2.1.6. The Board of Directors shall play a key role in ensuring the transparency of the company, timeliness and completeness of information disclosed by the company, and unhindered access of the shareholders to the company's documents.	observed	
2.1.7. The Board of Directors shall control implementation of the corporate governance practices in the company and play a key role in significant corporate events of the company.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
2. Board of Directors		
2.2. The Board of Directors shall be accountable to the shareholders of the company.	partially observed	
2.2.1. Information on the Board of Directors performance shall be disclosed and made available to the shareholders.	partially observed	The company's annual report does not disclose the main results of assessment of the performance of the Board of Directors and executive bodies of the company.
2.2.2. Chairman of the Board of Directors shall be available for communication with the shareholders of the company.	observed	
2.3. The Board of Directors shall be an effective and professional management body able to make objective and independent judgments and make decisions that meet the interests of the company and its shareholders.	partially observed	
2.3.1. It is recommended to elect as a member of the Board of Directors a person who has an impeccable business and personal reputation and having the knowledge, skills and experience required to make decisions within the competence of the Board of Directors and required for the effective performance of its functions	observed	
2.3.2. Election of members of the Board of Directors shall be made using a transparent procedure that allows the shareholders to receive information on the candidates, sufficient to form an opinion on their personal and professional abilities.	partially observed	Preliminary discussion by the shareholders of candidates proposed for nomination to the Board of Directors is not held.
2.3.3. The membership of the Board of Directors shall be balanced, including by the qualification, experience, knowledge and professional qualities of its members, and have the shareholders' confidence.	observed	
2.3.4. The number of the Board of Directors members shall provide an opportunity to arrange the Board of Directors activities in the most efficient manner, including the possibility to form the Board of Directors committees, as well as provide major and minority shareholders of the company with an opportunity to elect to the Board of Directors a candidate for whom they vote.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
2. Board of Directors		
2.4. The Board of Directors shall include a sufficient number of independent directors.	partially observed	
2.4.1. It is recommended to recognize as an independent director a person who has sufficient professional knowledge, experience and independence to form their own opinion and are able to make objective and honest judgments, independent from the influence of the executive bodies, separate groups of shareholders or other stakeholders. It should be noted in this respect that in the normal conditions a candidate may not be regarded as an independent one (elected member of the Board of Directors), if such candidate is associated with the company, its major shareholder, major counterparty or competitor of the Company or associated with the state.	observed	
2.4.2. It is recommended to conduct assessment of the conformity of candidates for members of the Board of Directors to the criteria of independence, as well as to carry out a regular analysis of the conformity of independent members of the Board of Directors to the independence criteria. The substance of assessment shall prevail over form of such assessment.	observed	
2.4.3. It is recommended that independent directors constitute at least one third of the elected members of the Board of Directors.	partially observed	Independent directors constitute less than one third of the elected members of the Board of Directors.
2.4.4. Independent directors shall play a key role in the prevention of internal conflicts in company and implementation of the company's significant corporate actions.	observed	
2.5. Chairman shall promote the most effective implementation of the functions assigned to the Board of Directors.	partially observed	
2.5.1. It is recommended to elect an independent director as Chairman of the Board of Directors or to determine from among the elected independent directors a senior independent director who coordinates the activities of independent directors and communicates with the Board of Directors Chairman.	partially observed	Rights and obligations of a senior independent director, including its role in resolving conflict in the Board of Directors, are not formulated in the Company's internal documents.
2.5.2. Chairman of the Board of Directors shall ensure the constructive atmosphere during the meeting, free discussion of issues included in the agenda of the meeting, control over the implementation of decisions made by the Board of Directors.	observed	
2.5.3. Chairman shall take all necessary measures to provide timely information to the Board of Directors members that is necessary for making decisions on the agenda items.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
2. Board of Directors		
2.6. The Board of Directors members shall act in good faith and in a reasonable manner in interests of the company and its shareholders on the basis of sufficient information, with due care and diligence.	partially observed	
2.6.1. Reasonable and bona fide actions of members of the Board of Directors imply making decisions based on all available information, in the absence of a conflict of interest, taking into account the equal attitude to all company's shareholders, as part of the inherent business risk.	partially observed	The company has no procedure providing the Board of Directors members with an opportunity at the company's expense to seek professional advice on issues related to the Board of Directors competence.
2.6.2. Rights and obligations of the Board of Directors members shall be clearly defined and enshrined in the internal documents of the company.	observed	
2.6.3. The Board of Directors members shall have enough time to perform their obligations.	observed	
2.6.4. All members of the Board of Directors shall equally be able to access documents and information of the company. The newly elected members of the Board of Directors shall in the shortest possible time be provided with sufficient information on the company and the Board of Directors performance.	observed	
2.7. Meetings of the Board of Directors, preparation therefor and participation therein of the Board of Directors members shall ensure the effective operation of the Board of Directors.	observed	
2.7.1. It is recommended to hold the Board of Directors meetings as may be necessary, taking into account the activities scale and the challenges the company faces in a certain period.	observed	
2.7.2. It is recommended to develop and specify in the internal documents of the company the procedure for preparation and holding of meetings of the Board of Directors allowing the members of the Board of Directors to prepare adequately for the meeting.	observed	
2.7.3. Form of the meeting of the Board of Directors shall be determined taking into account the importance of agenda items. The most important issues shall be resolved in the meetings held in presentia.	observed	
2.7.4. It is recommended to make decisions on the most important issues of the company in the Board of Directors meeting by a qualified majority or a majority of votes of all elected members of the Board of Directors.	observed	The company's Articles of Association do not provide a special quorum of three-fourths majority of votes to make a decision on the most important issues of the company's activity.

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
2. Board of Directors		
2.8. The Board of Directors shall establish committees for preliminary consideration of the most important issues of the company's activity.	partially observed	
2.8.1. It is recommended to establish an audit committee composed of independent directors for preliminary consideration of issues related to control over the company's financial and economic activities.	partially observed	The Audit Committee consists of one independent director.
2.8.2. For preliminary consideration of issues related to the development of efficient and transparent remuneration practices, it is recommended to create a Remuneration Committee consisting of independent directors and chaired by an independent director who is not the Chairman of the Board of Directors.	partially observed	The the Remuneration and Nomination Committee does not include independent directors.
2.8.3. For preliminary consideration of issues related to the staff planning (succession planning), the professional membership and the Board of Directors performance, it is recommended to create a Nomination Committee (nominations, personnel), formed in majority by the independent directors.	partially observed	The the Remuneration and Nomination Committee does not include independent directors.
2.8.4. Given the scope of activities and the risk level, the company is recommended to establish other committees of the Board of Directors (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, HSE Committee, and others).	observed	
2.8.5. It is recommended to determine the committees composition so that it allowed to carry out comprehensive discussions of the issues under preliminary consideration, taking into account the different opinions.	observed	
2.8.6. Chairmen of the committees shall regularly inform the Board of Directors and its Chairman of their committees work.	observed	
2.9. The Board of Directors shall ensure assessment of the work quality of the the Board of Directors and its committees and members.	partially observed	
2.9.1. Assessment of the work quality of the Board of Directors shall be aimed at determining the degree of performance of the Board of Directorse, the Board of Directors' committees and members and conformity of their work with the company's development needs, to stimulate the Board of Directors performance and identify the areas for its improvement.	observed	
2.9.2. Assessment of performance of the Board of Directors, the Board of Directors' committees and members shall be made on a regular basis at least once per annum. For the purpose of independent assessment of the Board of Directors work quality, it is recommended on a regular basis, but at least once every three years, to engage an external organization (consultant).	partially observed	An independent assessment of the Board of Directors performance is not made

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
3. Corporate Secretary		
3.1. Effective day-to-day interaction with shareholders, coordination of the company's activities for protection of the rights and interests of shareholders, support of the effective work of the Board of Directors shall be ensured by the Corporate Secretary.	observed	
3.1.1. The Corporate Secretary shall have the knowledge, experience and qualification sufficient to fulfill duties assumed, the impeccable reputation and the shareholders' trust.	observed	
3.1.2. The Corporate Secretary shall have sufficient independence from the executive bodies and have the necessary powers and resources to achieve objectives.	observed	
4. Remuneration procedure for Board of Directors members, executive bodies and other key executives of the company		
4.1. The level of remuneration paid by the Company shall be sufficient to involve, motivate and retain persons with the competence and qualification necessary for the company. Remuneration to the Board of Directors members, executive bodies and other key company's managers shall be paid in accordance with the remuneration policy adopted in the company.	observed	
4.1.1. It is recommended that the level of remuneration paid by the Company to the Board of Directors members, executive bodies and other key managers creates a sufficient motivation for them to work effectively, allowing the company to involve and retain competent and skilled specialists. At the same time, the company shall avoid the remuneration level in excess of the necessary one, as well as unjustifiably large gap between the remuneration levels of these officials and company's employees.	observed	
4.1.2. The remuneration policy shall be developed by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, with support of the Remuneration Committee, shall ensure control over the introduction and implementation in the company of the remuneration policy and, if necessary, review and amend such policy.	observed	
4.1.3. The remuneration policy shall include clear mechanisms for determining the remuneration level for the Board of Directors members, executive bodies and other key company's managers, as well as regulate all types of payments, benefits and privileges provided to such persons.	observed	
4.1.4. It is recommended for the company to determine the expenses reimbursement (compensation) policy specifying the list of reimbursable expenses and the service level, to which the Board of Directors members, executive bodies and other company's key executives may claim. This policy may be part of the company's remuneration policy.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
4. Remuneration procedure for the Board of Directors members, executive bodies and other key executives of the company		
4.2. The remuneration procedure for the Board of Directors members shall ensure convergence of directors' financial interests with the long-term financial interests of shareholders.	observed	
4.2.1. The fixed annual remuneration is a preferred remuneration form for the Board of Directors members. It is not recommended to pay a remuneration for participation in certain meetings of the Board of Directors or its committees. It is not recommended in respect of the Board of Directors members to use any form of short-term motivation and additional material incentives.	observed	
4.2.2. Long-term ownership of shares in the company is the most stimulating factor for convergence the financial interests of the Board of Directors members with the long-term interests of shareholders. At the same time, it is not recommended to stipulate the right to sell shares by achievement of certain performance indicators or participation of the Board of Directors members in option programs.	observed	
4.2.3. It is not recommended to include any additional payments or compensations in the event of early termination of powers of members of the Board of Directors in connection with the change of control over the company or other circumstances.	observed	
4.3. The remuneration procedure for the executive bodies and other Company's key executives shall provide the remuneration depends on the result of Company's activity and on their personal contribution to this result achievement.	observed	
4.3.1. Remuneration of executive bodies and other key executives of the company shall be determined so as to ensure a reasonable and justified ratio of fixed remuneration and variable remuneration depending on the results of the company and the employee's personal (individual) contribution to the final result.	observed	
4.3.2. For the companies with shares qualified for on-exchange trading, it is recommended to introduce the program of long-term motivation of executive bodies and other key executives of the company, using the company's shares (options or other derivative instruments the underlying asset of which is the company's shares).	observed	
4.3.3. The amount of compensation (golden parachute) paid by the Company in the event of early termination of the executive bodies or key executives powers on the company's initiative and in the absence of their fraud shall not exceed two-fold a fixed part amount of the annual remuneration.		

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
5. Risk management and internal control system		
5.1. The company shall establish an effective risk management and internal control system aimed at ensuring the reasonable assurance in achieving the company's objections.	observed	
5.1.1. The Board of Directors of the company shall determine the principles of and approaches to the risk management and internal control system in the company.	observed	
5.1.2. The executive bodies of the company shall ensure the creation and maintenance of an effective risk management and internal control system in the company.	observed	
5.1.3. Risk management and internal control system in the company shall ensure an objective, fair and clear understanding of the current state and prospects of the company, the integrity and transparency of the company's statements, the reasonableness and acceptability of the risks assumed by the company.	observed	
5.1.4. The Board of Directors is recommended to take necessary and reasonable measures to make sure that the current risk management and internal control system in the company meets certain the principles of and approaches to its organization established by the Board of Directors and functions effectively.	observed	
5.2. For a systematic independent assessment of reliability and efficiency of the risk management and internal control system and corporate governance practices, the company shall conduct an internal audit.	observed	
5.2.1. It is recommended to conduct an internal audit by establishment of a separate structural unit (Internal Audit Department), or with the involvement of an independent external organization. To ensure an independence of the internal audit department, its functional and administrative accountability shall be delineated. It is recommended the internal audit department shall be functionally subordinated to the Board of Directors and administratively – directly to the company's sole executive body.	observed	
5.2.2. During internal audit, it is recommended to make assessment of the internal control system effectiveness, assessment of the risk management system effectiveness, assessment of the corporate governance, as well as to apply the generally accepted standards of internal audit.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
6. Disclosure of information on the company, information policy of the company		
6.1. The Company and its activities shall be transparent to shareholders, investors and other stakeholders.	observed	
6.1.1. An information policy shall be developed and introduced in the company to ensure effective information interaction between the company, shareholders, investors and other stakeholders.	observed	
6.1.2. The Company shall disclose information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	observed	
6.2. The Company shall timely disclose the complete, current and accurate information on the company to enable shareholders and investors to make sound decisions.	observed	
6.2.1. The company shall disclose information in accordance with the principles of regularity, consistency and efficiency, as well as the availability, accuracy, completeness and comparability of the data to be disclosed.	observed	
6.2.2. The Company is recommended to avoid a formal approach to information disclosure and to disclose important information on its activities, even if the disclosure of such information is not required by the law.	observed	
6.2.3. The annual report, being one of the most important tools of the information interaction with shareholders and other stakeholders, shall contain information allowing to assess the results of Company's activity for the year.	observed	

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial compliance with the principles
7. Significant corporate actions		
7.1. Actions that significantly affect or may affect the structure of the share capital and the financial position of the company and, accordingly, the position of shareholders (significant corporate actions) shall be made under fair conditions that ensure observance of rights and interests of shareholders and other stakeholders.	observed	
7.1.1. Significant corporate actions shall be deemed the reorganization of the company, the acquisition of 30 percent or more of the voting shares (takeover), the company's major transactions, the increase or decrease in the company's share capital, the listing and delisting of the company's shares, as well as other actions that may result in a significant change of the shareholders' rights or violation of their interests. It is recommended that the company's Articles of Association should specify the list (criteria) of transactions or other actions that are significant corporate actions, and assign a consideration of such actions within the Board of Directors competence .	observed	
7.1.2. The Board of Directors shall play a key role in making decisions or making recommendations regarding significant corporate activities, based on the position of the company's independent directors.	observed	
7.1.3. When performing significant corporate actions, which affect the rights and legitimate interests of shareholders, it is recommended to ensure the equal attitude to all company's shareholders and, if the mechanisms provided for in the law that are aimed at protecting the rights of shareholders are insufficient, – to ensure further measures to protect the rights and legitimate interests of company's shareholders. In this case, the company shall be governed not only by the compliance with the formal requirements of the law, but also the corporate governance principles set out in this Code.	observed	
7.2. The company shall ensure the procedure for performance of significant corporate actions that allow shareholders to receive timely complete information on such actions, giving them an opportunity to influence the performance of such actions and ensure the compliance and the adequate level of protection their rights in the performance of such actions.	observed	
7.2.1. It is recommended to disclose information on significant corporate actions with an explanation of the reasons, conditions and consequences of such actions.	observed	
7.2.2. The rules and procedures regarding the implementation by the company of significant corporate actions are recommended to set forth in the internal documents of the company.	observed	