



Detsky Mir
detmir.ru

Annual Report

2017

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Chief Executive Officer's Statement



*Dear partners, colleagues,
and shareholders,*

2017 was a special year for Detsky Mir, marking the 70th anniversary of our renowned brand. Russia's first children's department store was established in Moscow during the difficult post-war years, when the country was striving to return to a normal and peaceful life.



Today, Detsky Mir Group generates double-digit business growth and is strengthening its leading position in the children's goods market in Russia.

Despite providing goods for the smallest members of our society, our retail chain has accomplished massive growth, opening 104 new stores in 2017 and totaling 622 Detsky Mir and ELS stores at the end of the reporting year. The geography of our retail business has expanded to 207 cities across Russia and 12 cities in Kazakhstan. According to Ipsos Comcon, the Company's share of the Russian children's goods market is 20%.

Along with our increased market share, the task set for Detsky Mir is the improvement of operational efficiency. In 2017, Detsky Mir Group achieved the best financial results in the history of the Company, generating a total RUB 97 billion in revenue — a 21.9% increase year-on-year.

Our most successful year was highlighted by the initial public offering of PJSC Detsky Mir, held at the Moscow Stock Exchange in February 2017. We have been strongly encouraged by the significant interest in our business from the Russian stock market, and warmly welcome the high-quality and geographically diversified investor base while sharing our growth and making every effort to generate a high return on investment.

We are continuously improving our customer-oriented business model and are developing an omni-channel proposition integrating all customer platforms and devices. Promotion of e-commerce is a crucial aspect to the new approach and has remained our the fastest growing sales channel since its launch in 2011. Over 133 million visits were made to the Detsky Mir online store in 2017 and more than 2.4 million online orders were placed.

The development of Detsky Mir's private label has enabled us to offer our customers high-quality products at the most attractive prices, with 29 private labels presently in the fashion category. Collections are developed exclusively for Detsky Mir both by in-house design studio and external designers.

Detsky Mir Group fully acknowledges its responsibility to the country and society, and is a stable source of budget revenue. The total amount of taxes and fees paid in 2017 amounted to RUB 4.6 billion.

In line with our focus on sustainable development and corporate social responsibility, Detsky Mir Group's main goal is providing younger generations with safe, high-quality products at affordable prices.

Our internal stability and further development is driven by our key asset — Detsky Mir Group's employees, exceeding 11.6 thousand people. Strong efforts are made to ensure that employees within our central office, retail stores, and logistics centers feel like a single team working toward common goals. Our investments in human capital ensure the continued improvement of the Group's financial results.

Detsky Mir Group lays a strong focus on environmental protection and the preservation of natural resources. Despite the rapid expansion of our retail chain and increase in total selling space, we managed to reduce energy consumption by 5.2% in 2017. We want to remind everyone that a careful attitude toward nature will directly impact the future environmental conditions that we and the future generation — our children — will live in tomorrow.

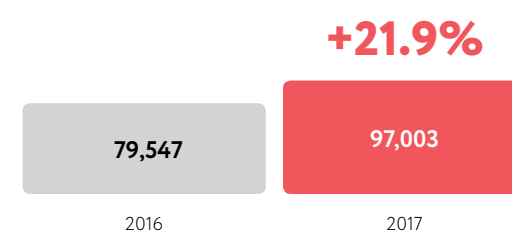
Our social responsibility to the community primarily involves improving the quality of life for children, including those who are disadvantaged. Through social and charitable projects, we strive to improve the living conditions at children's social institutions, raise children's socialization levels, and unlock the creative potential of little Russian citizens. Detsky Mir's Charitable Foundation provided a total RUB 417 million in charitable assistance throughout 2017, comprising funds both raised and donated by the Company.

We intend to continue the dynamic development of our retail chain and plan to open at least 250 stores in the medium term. Detsky Mir is focused on continuously improving our operational efficiency and prepared to meet the current and future expectations of our shareholders.

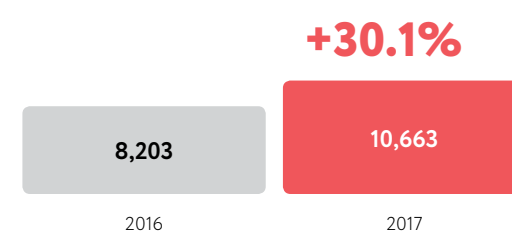
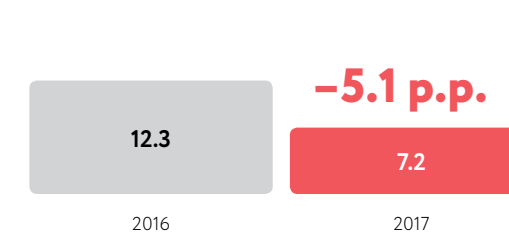
Vladimir Chirakhov,
PJSC Detsky Mir's CEO

Key 2017 Results

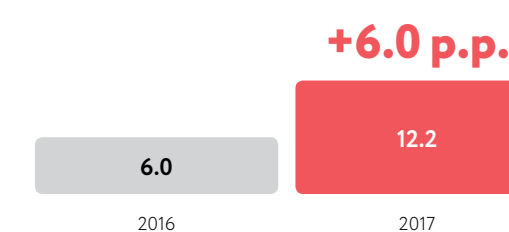
Revenue, RUB m



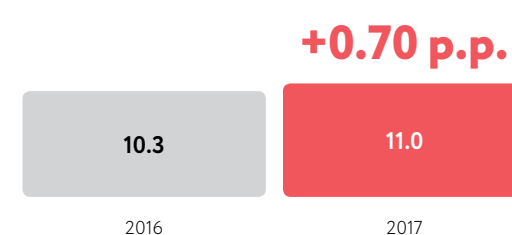
Adjusted EBITDA, RUB m

Like-for-like Sales Growth (LFL)¹, %

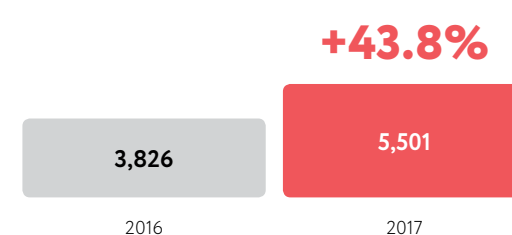
Like-for-like Number of Tickets Growth, %



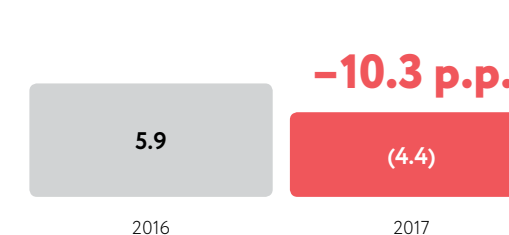
Adjusted EBITDA Margin, %



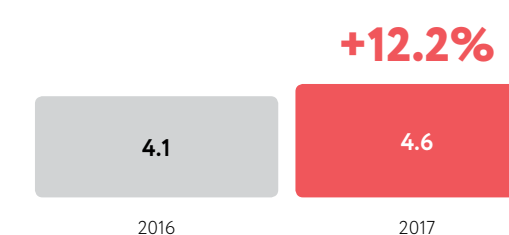
Adjusted Net Profit, RUB m



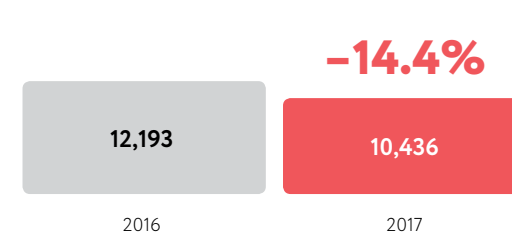
Like-for-like Average Ticket Growth, %



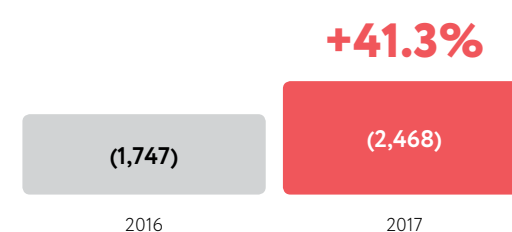
Tax Payments, RUB bn



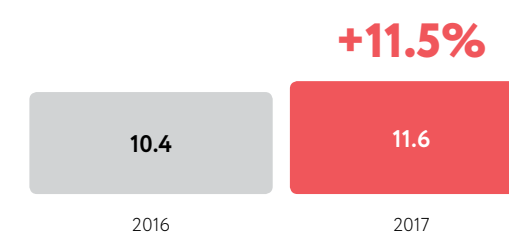
Net Debt, RUB m



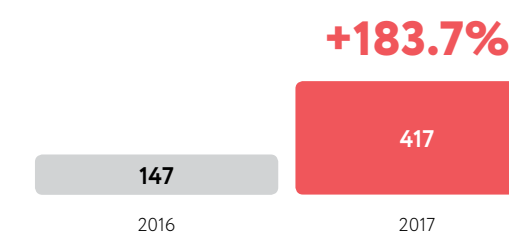
CAPEX, RUB m



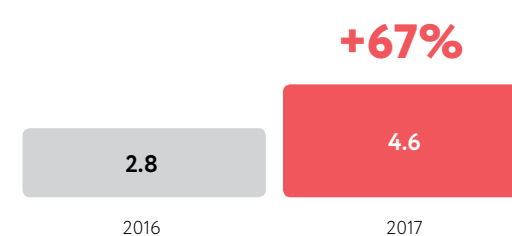
Average Number of Employees, '000 people



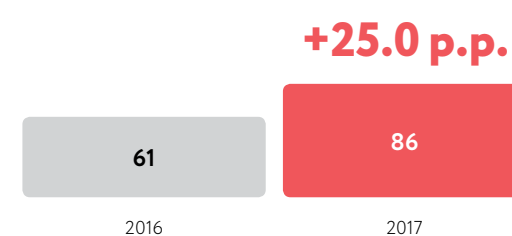
Charitable Support (Raised and Own Funds), RUB m



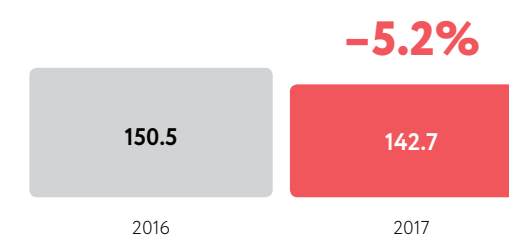
Online Sales, RUB bn



Return on Invested Capital (ROIC), %



Electrical Energy Consumption, kW·h / sq m



¹ Like-for-life sales (LFL) growth, like-for-like number of tickets growth, and average ticket growth were calculated based on the results of the Detsky Mir retail chain in Russia, which were in operation for at least 12 full calendar months preceding the reporting date.

Key 2017 Events

IPO

The successful initial public offering of shares in PJSC Detsky Mir was held at the Moscow Stock Exchange in February 2017. The high investor interest in the Company reflected the efficient work of the Company's management team. The Detsky Mir IPO was an important event for the Russian stock market, demonstrating the high interest of foreign investors in Russian assets. At the time of the IPO, the shareholder yield was 20.4%¹.

Increased Number of Stores and Geography Expansion

In 2017, Detsky Mir Group opened 104 new stores, including 10 stores in Kazakhstan. The Company added 36 cities to its retail chain in Russia.

At the end of the year 2017, the total number of Detsky Mir Group stores was 622, comprising 578 Detsky Mir stores and 44 ELC stores located in 207 cities across Russia and 12 cities in Kazakhstan.

In November 2017, Detsky Mir Group won the "Best Growth" category in the East Capital Awards.

¹ The yield is comprised of dividends and the growth of the exchange value from the moment of the IPO until 31 December 2017.

Placement of Bonds

In April 2017, PJSC Detsky Mir successfully completed book building for the issuance of exchange bonds with a total nominal value of RUB 3 bn and a coupon rate of 9.5% per annum. The bond placement and high demand for the bonds from investors became another highlight in the Company's history, confirming a high assessment of Detsky Mir's growth potential and its solvency.

70 Years of Detsky Mir

The renowned Detsky Mir brand turned 70 years old in September 2017. The first Detsky Mir store was opened on 8 September 1947 in Moscow on Kirov Street (presently Myasnitskaya Street) as a branch of the Central Department Store. In the summer of 2000, the management and new shareholders of Detsky Mir, AFK Sistema, made a decision to build a national chain, and stores within the Detsky Mir retail chain soon began to open in cities across the country.

Detsky Mir ranked second among Russia's most popular children's goods brands, having moved up three places compared to 2016. The "20 Favorite Brands" rating is compiled annually by the Online Market Intelligence agency. Detsky Mir Group also won first place for the third time in the "Children's Goods Retail Chain" category in the No. 1 Brand in Russia award.



Online Store Growth

The online segment remains Detsky Mir Group's the fastest growing sales channel. The revenue generated by the online store increased by 67.0% year-on-year to RUB 4.6 bn in 2017. Over 133 million visits were made to the Detsky Mir online store and more than 2.4 million online orders were placed in 2017. The Company's e-commerce strategy is based on developing its omnichannel approach, expanding its delivery geography, and improving the overall quality of service.



Private Label Development

As of year-end 2017, Detsky Mir owns 29 private labels of apparel and footwear, each of which has its own target audience, range, and price positioning. The share of the Company's private labels in the fashion category is about 80% of Detsky Mir Group's sales, and a 9.8% and 1.7% share each in toys and products for newborns, respectively. On average, the share of the Group's private labels in its full range of products increased from 24% to 27%.

In 2017, Detsky Mir launched several new private apparel labels while continuing the development of existing ones.



Social Project Development

In 2017, Detsky Mir opened 108 playrooms in 30 medical and social institutions in Russia, and new playrooms were set up in 20 cities and villages across the country. Social project investments in 2017 amounted to more than RUB 11.5 million – a 150% increase upon the Company's social investments in 2016.

Detsky Mir Group's charity event named "Participate!" was held in 219 cities throughout Russia and Kazakhstan in 2017, whereby residents donated 7.8 million gifts to disadvantaged children.

The Company began a new project named "Step Forward", in which a carpentry workshop and a plastering and painting shop were opened at two orphan schools in Samara and the Smolensk Regions, providing students the opportunity to learn basic trade skills under the guidance of experienced teachers.

1.1 Detsky Mir's History: 70th Anniversary Of The Brand
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1.5 Strategy
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1.7 Online Retail
1.8 Supply Chain
1.9 Item Safety
1.10 Client-oriented Service

1.11 Purchase Management
1.12 Information Processing Technology

Strategic Report

The key strategic goal of Detsky Mir Group is to consolidate the children's goods market in Russia and Kazakhstan. Its progress towards this goal can be tracked by a number of milestones already achieved by Detsky Mir as it sets itself targets for delivering consistently high growth rates.

Being a leading Russian retailer, the Company expands its store network

every year, opening new stores in new and existing target cities.

Rapid growth of the online segment is driven by ongoing website optimization, development of free traffic generation channels, and increased number of delivery options.

Launches of private labels enable Detsky Mir to offer its customers the goods they want at the best market prices.

Detsky Mir Group consolidates its leading position in the children's goods market in Russia while maintaining robust growth rates combined with high dividend levels.

104 new stores

RUB 97 bn Revenue

1.1 Detsky Mir's History: 70th Anniversary of the Brand

The most well-known among Russian children's retail chains is the Detsky Mir brand, which turned 70 years old in 2017.

1947–1996

Creation of the Detsky Mir Brand

The first Detsky Mir store was opened on **8 September 1947** in Moscow on Kirov Street (presently Myasnitskaya Street) as a branch of the Central Department Store.

In 1957, the new Central Detsky Mir opened next to the Lubyanka metro station.

In 1992, the Moscow government established JSC Detsky Mir, which owned and operated the Detsky Mir department store in Lubyanka in Moscow under the name Lubyanka Store Operator.

In 1994, AFK Sistema acquired a 43% stake in Lyubanka Store Operator, which at the time had no other stores under the same brand or using the "Detsky Mir" name.

1997–2002

Establishment of Detsky Mir Group

In 1997, AFK Sistema established OJSC Detsky Mir — Center, the predecessor of Detsky Mir Group, for children's retail trade asset management.

In the summer of 2000, the management and new shareholders of Detsky Mir, AFK Sistema, made a decision to build a national chain, and stores within the Detsky Mir network began to open in cities across Russia.

2003–2011

Retail chain Expansion

In 2003, AFK Sistema approved a five-year plan to develop the Detsky Mir retail chain, subsequently opening 85 new stores in Russia from 2003 to 2007 and increasing the Group's total selling space by approximately 145 thousand sq. m.

In 2007, the "Detsky Mir" trademark was registered, and is still in use today.

In 2011, the first store in Kazakhstan opened in Astana, and LLP Detsky Mir — Kazakhstan was formed.

In 2011, Detsky Mir launched its online store (www.detmir.ru).

2012–2017

New phase of Development

In 2012, Detsky Mir acquired 100% of the Cyprus company Sparthema Limited and owner of LLC Kub-Market, which develops franchised stores of the British retail toy chain, ELC, in Russia.

In the second half of 2012, new Company management was appointed as part of a new growth strategy, headed by Vladimir Chirakhov, CEO of PJSC Detsky Mir.

In December 2015, Floette Holdings Limited and Exargo Holdings Limited acquired a 23.1% stake in PJSC Detsky Mir from AFK Sistema for RUB 9.75 billion.

In 2017, a successful initial public offering of shares in PJSC Detsky Mir was held at the Moscow Stock Exchange. The total volume of the offering, not including the over-allotment option, was approximately RUB 18.4 billion, corresponding to 29% of the Company's share capital. As a result, AFK Sistema retained a controlling stake of 52.1% (72.6% before placement), and free floated 30.5%.

1.2 About the Company

Detsky Mir Group is the largest children's product retailer in Russia and Kazakhstan, uniting stores under the Detsky Mir and ELC brands.

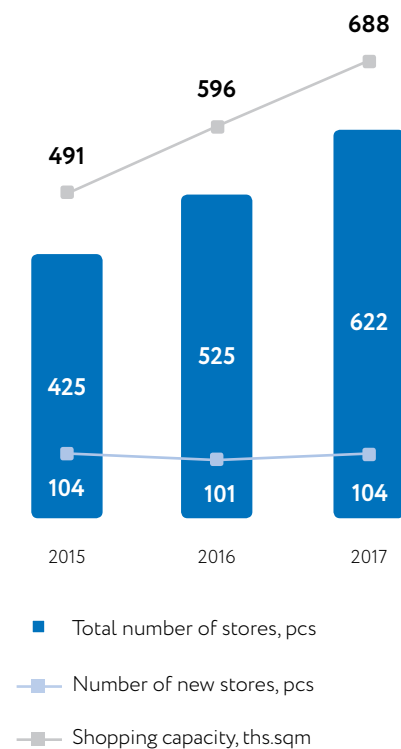
As of at 31 December 2017 the Group was comprised of PJSC Detsky Mir, LLC Kub-Market (ELC), LLP Detsky Mir – Kazakhstan, JSC Detsky Mir – Orel, LLC DM NORTH-WEST, and LLC DM Capital. PJSC Detsky Mir owns the “Detsky Mir” trademark and manages all stores within its retail network.

Detsky Mir Group is also developing a chain of ELC stores in Russia. To date, the ELC retail chain is represented by stores in Moscow and 18 Russian cities.

Combining a modern business approach and our recognizable brand spanning 70 years of history ensures Detsky Mir Group's unique character and leading position in the Russian market.

At the end of the reporting year, the total number of Detsky Mir Group stores was 622, comprising 578 Detsky Mir stores and 44 ELC stores in 219 Russian and Kazakhstani cities, while the total selling space reached 688 thousand square meters.

Number of Detsky Mir Group's Stores



A typical supermarket within the Detsky Mir retail network features around 20–30 thousand SKUs of children's goods priced in the medium range: toys, apparel and footwear, products for newborns, stationery, art and craft sets, recreational goods, car seats, and furniture. The Company's target audience are medium-income families, representing the majority of shopping mall visitors.

Detsky Mir Group is strengthening its leading position in the children's goods market and has maintained high rates of development over recent years. A total 104 new Detsky Mir stores were opened in 2017, and 36 Russian cities were added to the Detsky Mir retail chain. In the fourth quarter, 62 new Detsky Mir stores were opened, reaching a new record in the Company's history.

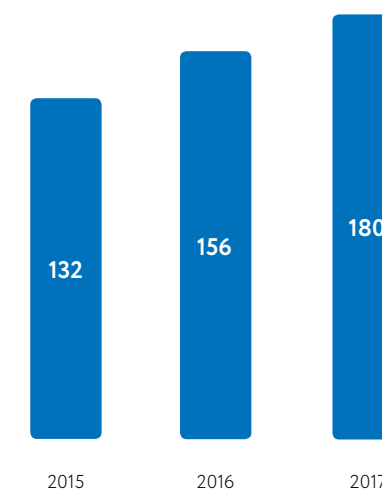
The development program in Kazakhstan continued throughout 2017, and our retail chain almost doubled from the opening of 10 new stores in Aktau, Zhanaozen, Atyrau, Petropavlovsk, Semei, Almaty, Uralsk, Shymkent, and Kostanai. The total number of Detsky Mir stores in Kazakhstan is currently 22, across 12 cities.

Detsky Mir stores achieved over 180 million of visitors in 2017, and their number continues to grow.

>180 m

visitors of Detsky Mir retail chain in 2017

Detsky Mir visitors, million



Detsky Mir Group's revenue in 2017 increased by 21.9% year-on-year, amounting to RUB 97 billion (for more details see the Financial Results section).



ELC retail chain

ELC – Early Learning Center is a dynamically developing retail chain that unites an online store (<http://www.elc-russia.ru/>) and 44 branded stores in Russia.

The British brand ELC is well-known worldwide: for more than 30 years the Early Learning Center has been creating high-quality safe toys that contribute to the harmonious development of children while encouraging them to explore the world around them. When developing toys, Early Learning Center cooperates with child psychologists, leading designers, and the most important specialists – children.

Detsky Mir Retail Chain Geography

622

Total stores

104

Total new stores

MOSCOW AND THE MOSCOW REGION

166

23

CITY CENTERS (EXCLUDING MOSCOW AND THE MOSCOW REGION)

92

19

VOLGA REGION

67

9

SOUTHERN RUSSIA

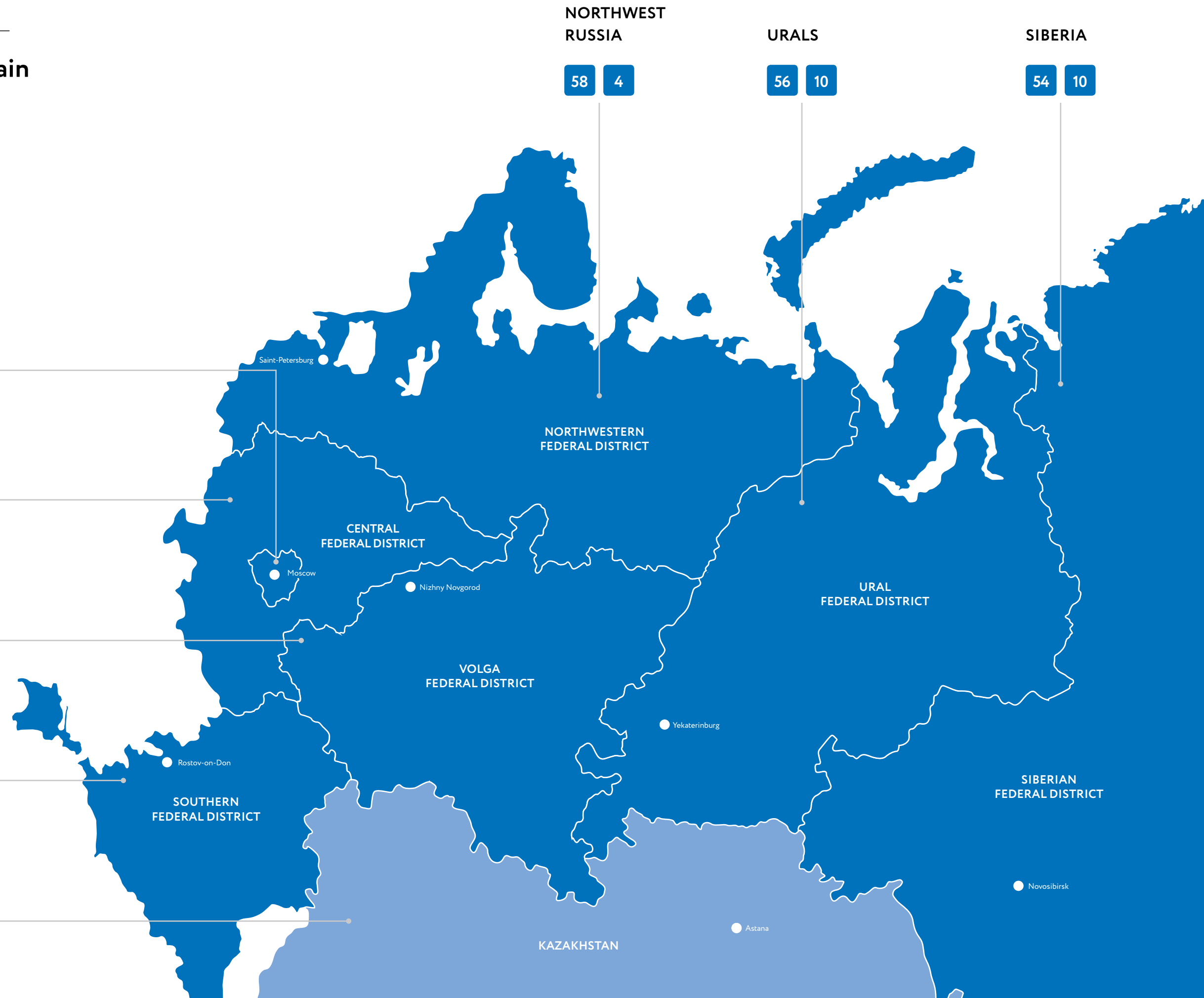
63

19

KAZAKHSTAN

22

10



Numerous Russian public awards and business communities recognize Detsky Mir as a leading national retailer in children’s products.

- 100th place (+16 points) in Forbes TOP-200 Largest Private Companies list
- 1st place in “Best Communication Campaign During the IPO” at the Corporate & Financial Awards, London
- Nine managers from Detsky Mir Group, including CEO Vladimir Chirakhov, listed in the TOP-1000 Russian Managers
- Winner in the Children’s Goods Retail Chain category of the National Consumer Confidence Award, Brand No.1 in Russia
- 140th place (+30 points) in RBC magazine’s The Largest Companies in Russia – TOP-500
- One of the most transparent companies in Russia – Transparent Public Procurement Rating
- 32nd place in RBC magazine 50 Fastest Growing Companies in Russia
- The winner of the “Children’s Goods Stores” category in the Our People’s Award contest
- 17th place (+5 points) in the largest Russian retail chains rating, INFOline Retail Russia TOP-100
- 24th place (+1 point) in the Donors Forum – Leaders of Corporate Charity rating
- 59th place in the TOP-200 Largest Companies by Market Capitalization as of August 1, 2017
- Winner of the national Golden Bear Award for the children’s products industry in both the “Hall of Glory” and “Best Shoes” categories, the latter for the Company’s shoes collection of its private label, BabyGo
- The winner of the East Capital Awards in the nomination “Best Growth”
- The Detsky Mir online store (www.detmir.ru) is recognized as the leader of the Children’s Products
- The Retail Week Awards 2017 winner in The Leader of the Year – Children’s Products Segment

IPO

In February 2017, PJSC Detsky Mir held an initial public offering of shares (IPO) on the Moscow Stock Exchange under the ticker DSKY. The Company’s shares were included in the A1 quotation list.

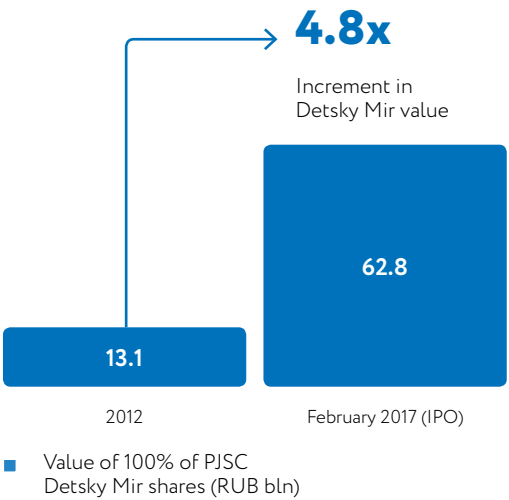
The IPO was the first public placement in three years with international marketing, and the first IPO of a Russian non-food retailer in 10 years. At the commencement of trading, the Company’s market capitalization amounted to approximately RUB 62.8 billion.

The total offer volume was approximately RUB 18.4 billion, not including the over-allotment option. The offer price was set at RUB 85 per share, and the offer included the sale of 216,514,669 shares by existing shareholders (the “Selling Shareholders”), which represented 29.3% of the Company’s current share capital, not including the option of additional placement.

The Selling Shareholders were:

- AFK Sistema owned 72.57% in the Company’s capital prior to the offer;
- The Russian-Chinese Investment Fund (RCIF), the joint fund of the Russian Direct Investment Fund (RFPI), and China Investment Corporation (CIC), through the investment companies, Floette Holdings Limited and Exarzo Holdings Limited, owned 23.10% in the Company’s capital prior to the offer;
- Some individual shareholders, including representatives of the Company’s management and AFK Sistema, owned a combined 4.33% stake in the Company’s capital prior to the offer.

Dynamics of the Company’s Capitalization Growth¹



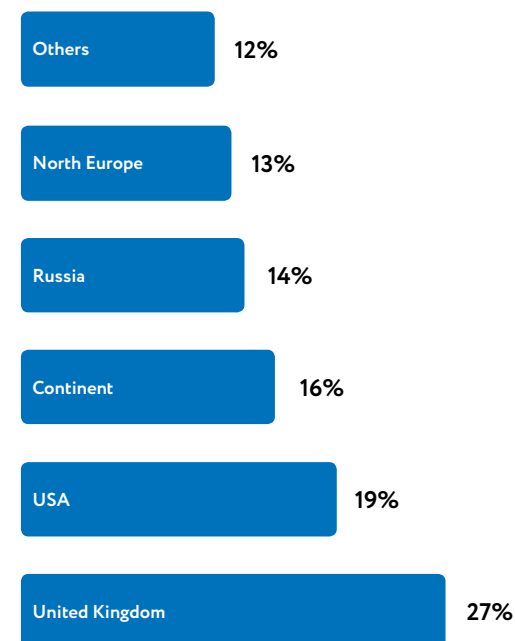
Credit Suisse, Goldman Sachs International, and Morgan Stanley acted as the joint global coordinators and joint bookrunners for the offer. Sberbank CIB and UBS Investment Bank also acted as joint bookrunners. The list of financial analysts is available at corp.detmir.ru

9.0x Multiple EV/EBITDA^{16A}

The number of IPO applications more than doubled the placement volume. Detsky Mir’s Multiple EV/EBITDA ^{16A} was 9.0x and comparable to multipliers of the largest Russian public retailers at the time of the IPO. Over 90% of the final placement was purchased by foreign investors.

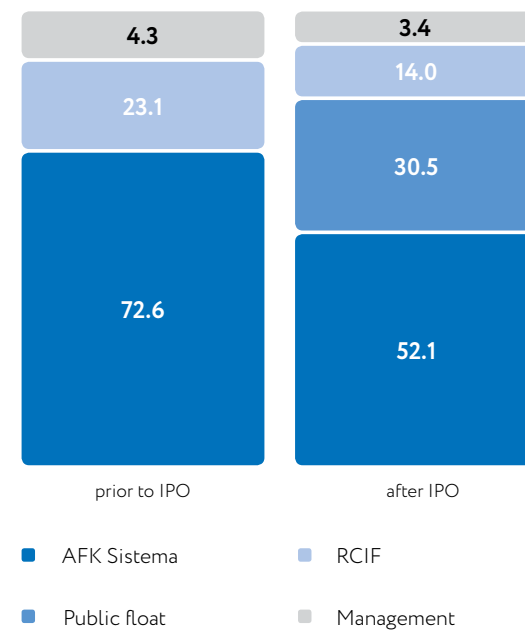
¹ The business assessment report was prepared by a firm from the Big Four.

Total Allocation



Following the IPO, AFK Sistema retained a controlling 52.1% of stakes with a free float of 30.5%. The structure of PJSC Detsky

Composition of Members Prior to and After IPO



Mir's shareholders as of 31 December 2017 is presented in the Corporate Governance section of this report.



Vladimir Chirakhov,
PJSC Detsky Mir's CEO

We are delighted by the strong market interest in our offering of business, and are pleased now to move forward with a high-quality and geographically diverse shareholder base. The IPO caps off an extremely successful year for Detsky Mir. We expect our 2017 financial results will far exceed those of previous years of Detsky Mir's history while we continue to develop, increase our market share, and open new stores.

The Detsky Mir team will make every effort to fulfill our promise to investors and achieve the projected growth rates. We aim at sharing our growth and making every effort to generate a high return on investment for our shareholders.



Mikhail Shamolin,
President of AFK Sistema

¹ Mikhail Shamolin held a position of AFK Sistema's President until 13.03.2018

We are pleased with the success of Detsky Mir's offering, and welcome the expanded family of shareholders to this uniquely attractive business.

Over the last several years we have grown Detsky Mir into a major retailer, while consistently generating strong growth and returns on capital. Today, the Company begins a new chapter in its history with a highly successful IPO – the first in Russia and the largest in EMEA year-to-date – that attracted a highly diversified book of domestic and international investors from Europe, the USA and Asia.

Sistema has maintained its controlling interest in Detsky Mir as we believe that significant further potential remains to be unlocked. The Company is well positioned to continue its growth by capitalising on its market leadership, robust infrastructure, iconic brand and high-growth e-commerce segment under one of the best management team in the Russian market.

MOEX Price per PJSC Detsky Mir Share over 2017



1.3 Market Overview

Detsky Mir Group operates on the children's goods market in Russia and Kazakhstan. According to 2017 results, the Group occupies a 20% share in the children's goods market in Russia in terms of revenue as well as a 9.6% share in the online segment.

Macroeconomic situation

According to the International Monetary Fund, Russia's GDP in 2017 amounted to about USD 1.5 trillion, making Russia the 12th largest economy in the world and the fourth largest in Europe.

Russia's average annual GDP growth rate was 2.4% from 2010 to 2014 resulting from the rising prices of oil and other commodities, as well as a generally favorable macroeconomic climate.

A sharp decline in commodity prices and economic sanctions led to the economic crisis in Russia in 2014. Disposable income and consumer spending in real terms de-

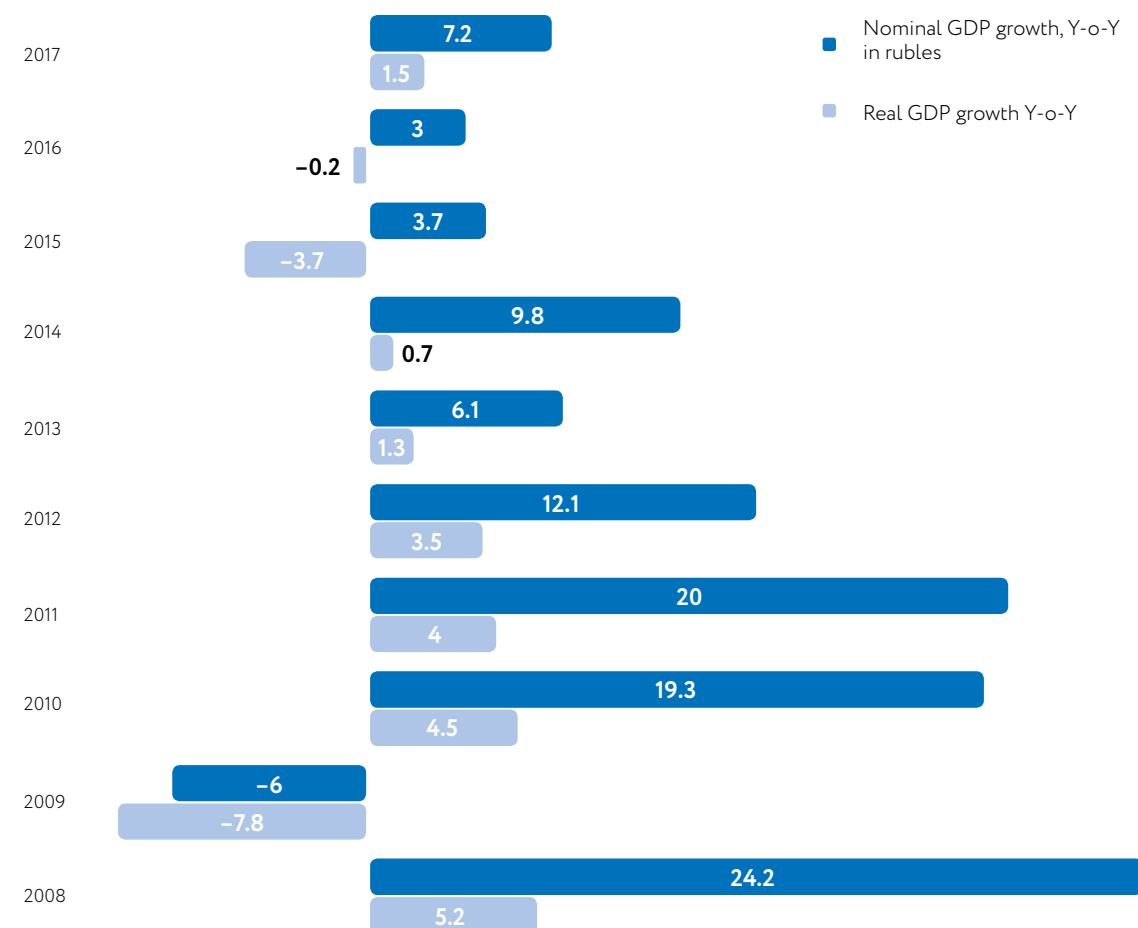
creased (in ruble terms they decreased due to the devaluation of the ruble), while unemployment increased. The devaluation of the ruble also led to a sharp increase in inflation that amounted to 12.9% year-on-year in 2015.

The Russian economy returned to growth as oil prices rose and the macroeconomic environment stabilized in 2017, however irregularities are still present in the growth dynamics. Inflation slowed significantly to 2.5% and the ruble appreciation stimulated a consumption growth of 3.4% year-on-year, although retail prices were subject to additional pressure and real disposable household income remained in the negative, largely due to a change in spending habits.

The Russian economy recession has led to consumers purchasing necessities more cautiously – including children's goods – tending to exclude impulse purchases, cutting costs by reducing consumption and switching to cheaper products, thereby reducing the average retail ticket.

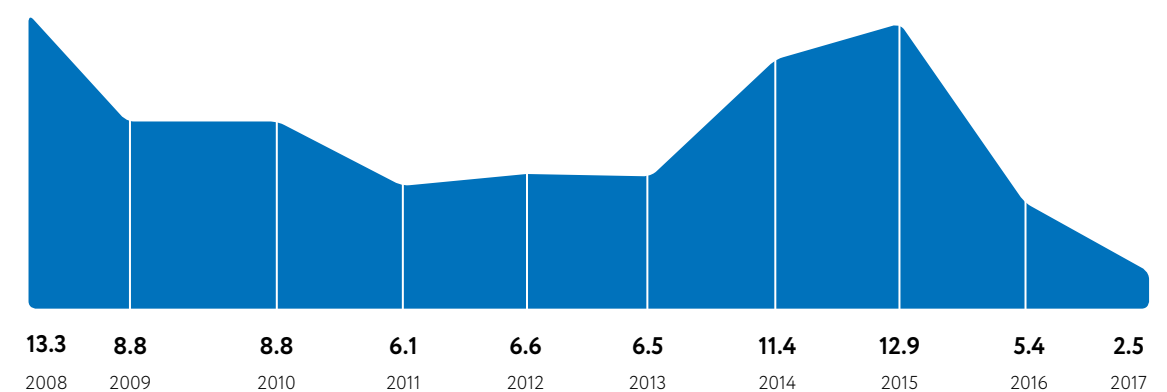
In efforts to mitigate potential negative financial effects of the challenging macroeconomic conditions, Detsky Mir Group adapted its range of products and pricing policy. Like-for-like number of tickets growth and gross profit per square meter grew, facilitated by improved supplier terms and competitive pricing, especially in traffic-generating categories, including goods for newborns.

Russia's GDP Growth Year-on-Year, %



Source: Rosstat

Real Disposable Income in Russia, %



Source: Rosstat

Real Available Money Income in the Russian Federation, %



Source: Rosstat

The Russian children’s goods market

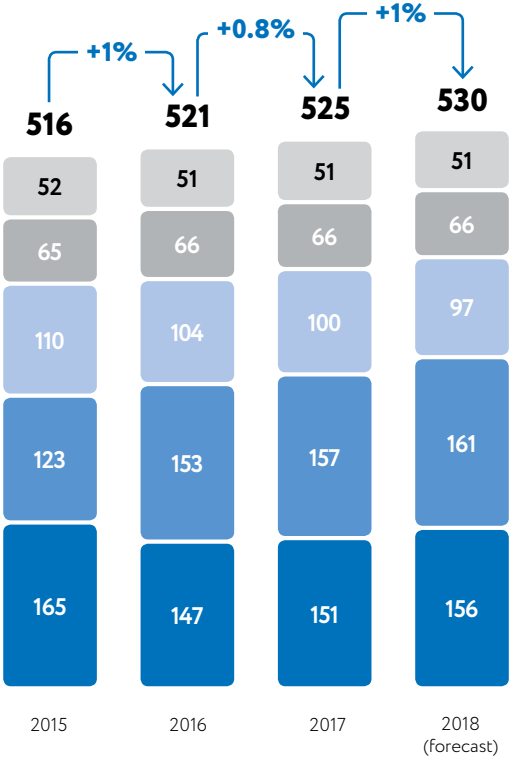
The Russian children’s goods market can be divided into five major categories: toys, apparel, footwear, products for newborns (including large-size products), and stationery, as well as other products for children aged 0–12 years. Seasonal peaks in the market occur twice a year: prior to the start of the school year in September and for New Year gifts in December.

According to the research company, Ipsos Comcon, the size of the children’s goods market in Russia amounted to RUB 525.4 billion in 2017 compared to RUB 303.8 billion in 2008 and showing an average annual market growth rate of 6.9% over the last 10 years. According to analytical forecasts, the market is expected to grow by an average of 1% and total RUB 530.4 billion by 2018.

The apparel and footwear categories traditionally occupy most of the children’s goods market, with a cumulative share of 38.5% (28.8% and 9.7%, respectively) in 2017, while products for newborns and toys were 29.9% and 19.1%, respectively. The overall share of products for newborns grew, reaching RUB 157 billion compared to RUB 81 billion in 2010 at an average annual growth rate of 9.8%.

Following double-digit growth from 2011 to 2013, the market was in a prolonged state of stagnation and the economic climate forced Russians to reconsider their approach to the purchase of children’s goods. Price became the most important purchasing factor in 2015, and consumer behavior changed as the focus shifted toward cheaper products. The flow of consumer demand decreased from the premium and medium price ranges into the mass market and low-price segment. Domestic goods and our own private labels have gained sig-

Volume of the Children’s Goods Market in Russia by Category, RUB bn per Year



- Apparel
- Stationery
- Newborns products
- Footwear
- Toys

Source: Russian Target Group Index, Ipsos Comcon

nificant popularity, as their prices are lower than those of similar foreign or branded goods. Detsky Mir actively develops its own private labels (for more details see the Supply Chain section).

Along with daily necessities, children’s goods is the most resilient industry to the crisis, showing growth even in times of crisis: 2008–2009 and 2014–2016 crises, while other categories such as electronics, furniture, and clothes declined.

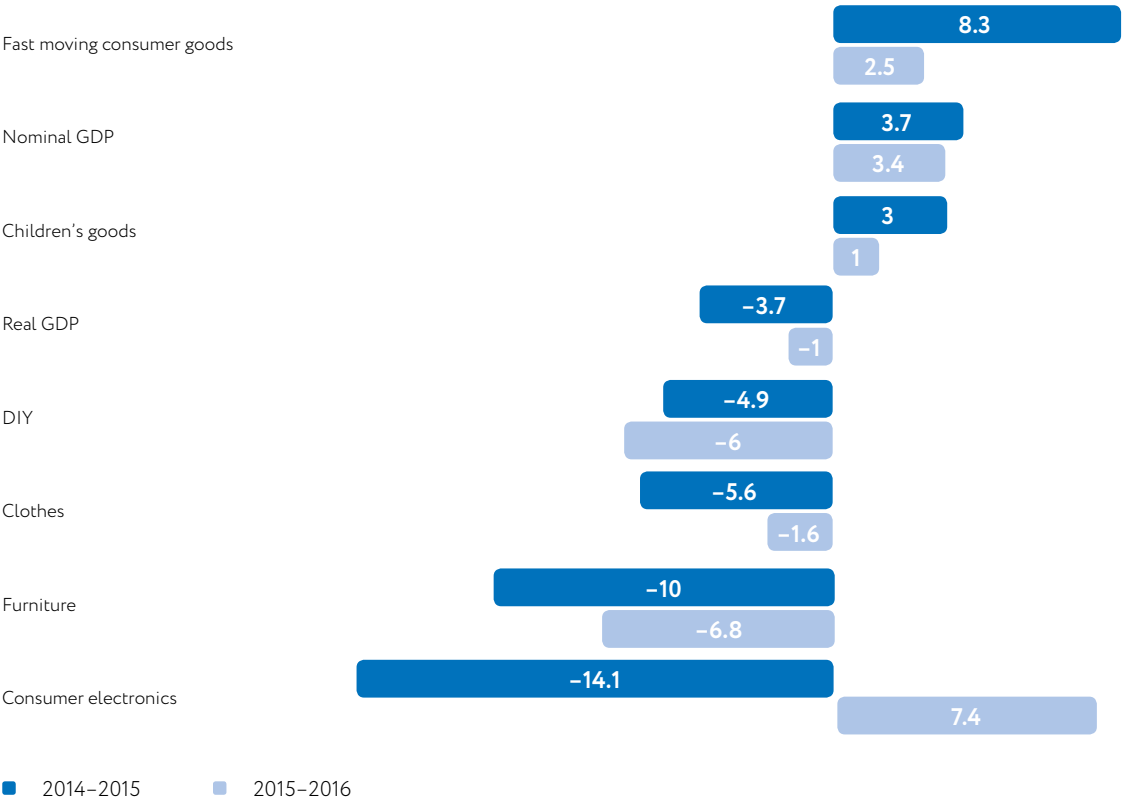
Unorganized retail stores have historically been widely distributed in Russia, leading in sales of most goods, including children’s

goods, and occupying the second place in the children’s goods market with a combined share of 32.2% in 2010. Growing demand for a wider range of goods, the active dissemination of modern retail spaces, and the development of large retail chains led to the sharp reduction of this market share, which fell to 10.4% in 2017, while buyers switched to specialized children’s goods stores and hypermarkets.

In 2016–2017, some specialized retailers left the market while the remaining federal and regional retail chains lost traffic and closed their stores following a significant

decrease in like-for-like sales. Nevertheless, specialized retailers have remained the main sales channel for children’s goods, along with hyper- and supermarkets (in 2017, 39.8% and 39.7%, respectively). The market distribution strongly reflects consumer preferences: according to an Ipsos Comcon survey, the most important factors for buyers are affordable prices (92%), a wide range of products (77%), while proximity to one’s home (the key advantage for food retailers) only comes third. The strong consumer preference toward children’s product range and variety can only be provided by specialized stores.

Nominal Growth Year-by-Year, RUB, %



Source: Rosstat, Ipsos Comcon

Factors affecting the children’s goods market

- Parents’ priority purchases in children’s goods:
Rising educational level of parents and increased access to the internet lead to more conscious purchasing choices.
- The internet is an increasingly popular sales channel offering a wide range of products at attractive prices, as well as the opportunity for purchasers to evaluate, select, and research products. Online shoppers have become a serious target audience, and their number in Russia has grown by 2.5 times over the last three years, with the biggest group residing in regional areas, according to the Data Insight agency.
- Business transformation and digitalization: investing in digital technologies and Big Data.
- Deeper diversification in product ranges and development of economically priced private labels.
- Limited market growth associated with a decline in birth rates, a decrease in disposable household income, and trends in consumer inflation and consumer spending.

What is Important for Buyers when Choosing a Place to Purchase Children’s Goods?

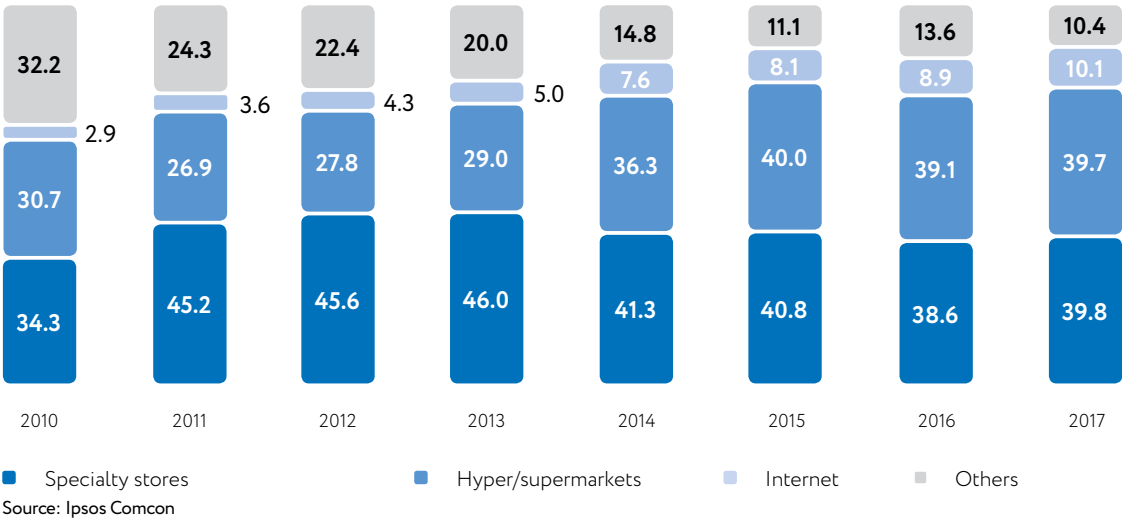


Source: Ipsos Comcon polls

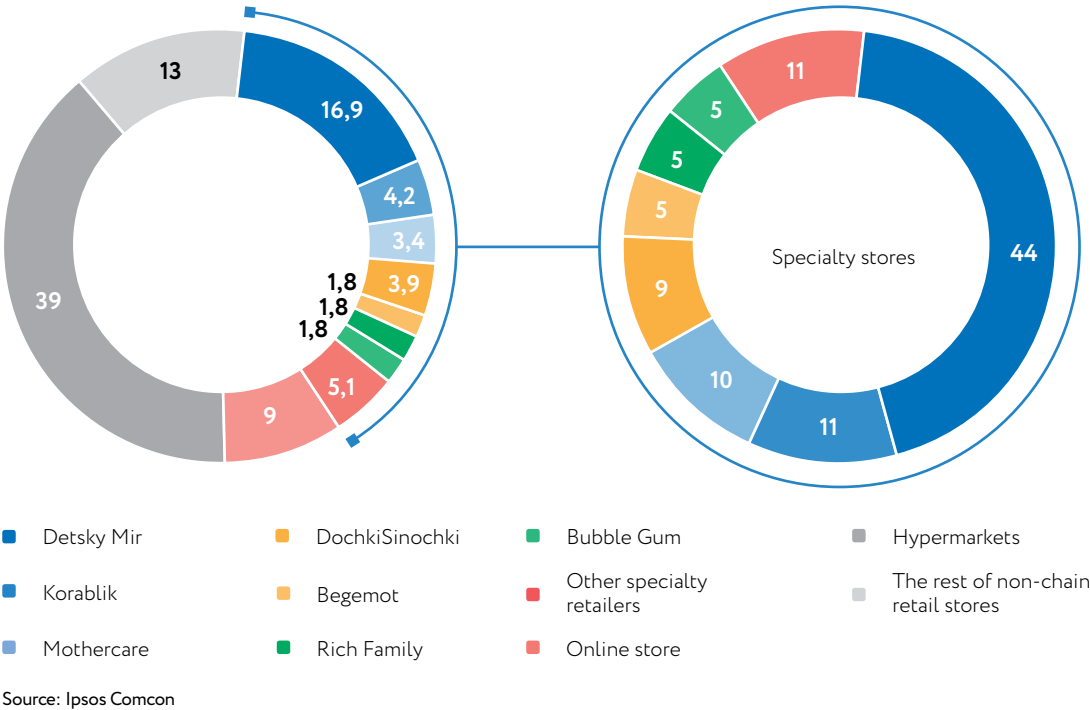
The internet is an increasingly popular sales channel offering both a wide range of products at attractive prices and the opportunity for purchasers to evaluate, select, and research products. The share of online retail in the children’s goods market is steadily growing, at 10.1%, fol-

lowing an annual growth rate of 28% from 2010 to 2017. In terms of value, sales of children’s products from specialized stores increased from RUB 119 billion in 2010 to RUB 209 billion in 2017. Online sales of children’s goods in 2017 amounted to RUB 53.1 billion.

Children’s Goods Market Structure by Sales Channel, %



Key Children’s Goods Retailers in Russia in 2016, %



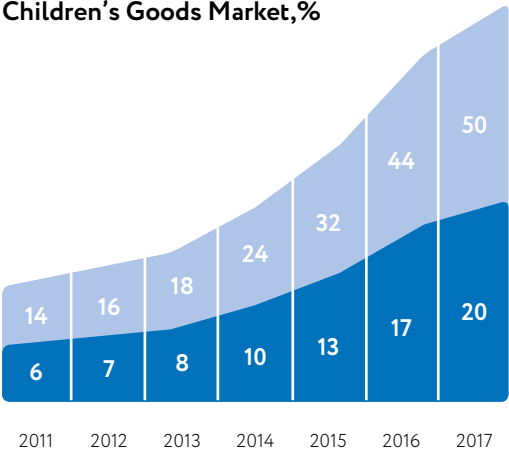
Sales of children’s goods in Russia vary depending on the region and average income. According to Ipsos Comcon, the largest per capita spending on children’s products in 2017 was recorded in Moscow at RUB 11.5 thousand, compared to RUB 6.9 thousand across Russia. More than a quarter (27%) of Russians’ expenses on children’s goods occur in Moscow.

According to Ipsos Comcon, the Company’s revenue share in the Russian market for children’s goods (including instore pickup) in 2017 was 20% (16.9% in 2016), and 9.6% in the online segment, compared to 6.7% in 2016. Detsky Mir Group is the prominent leader among specialized retailers of children’s goods, with a the share of thenearest competitor is four times less.

The Company’s share of the children’s goods market among specialized retailers grew from 14% in 2011 to 50% in 2017, largely due to 406 new chain stores opened from 2012 to 2017.

Growth in the Company’s market share throughout 2017 was primarily driven by cate-

Detsky Mir Group Share of the Russian Children’s Goods Market,%

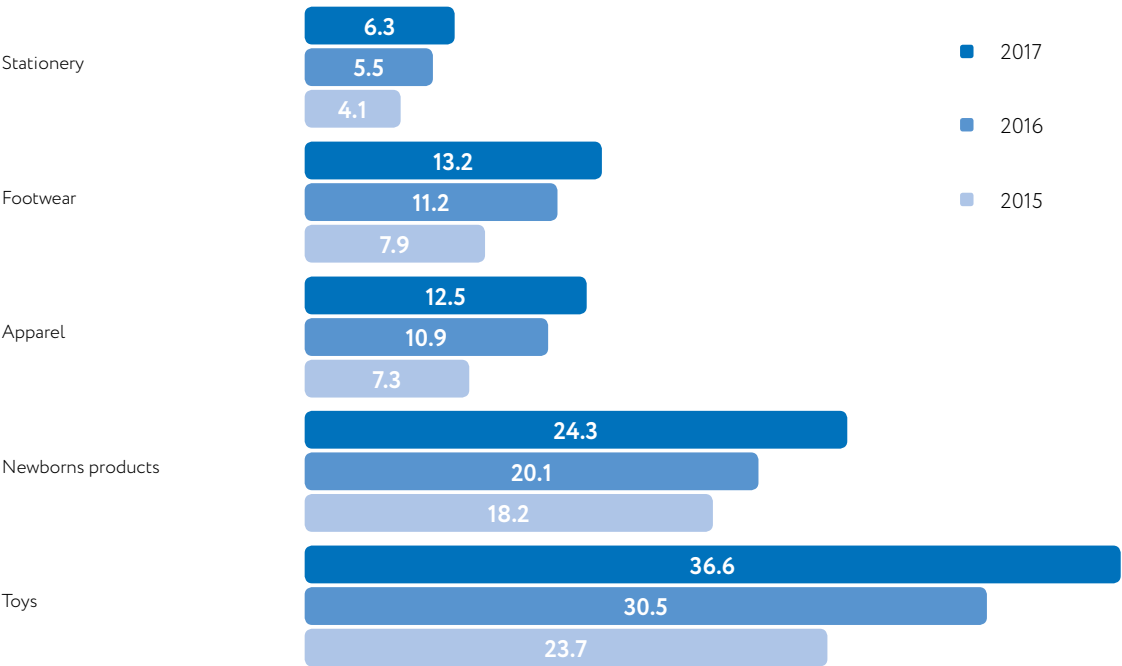


■ Share in children’s goods market
■ Share in children’s goods specialty stores

Source: Ipsos Comcon

gories such as toys, for which the market share increased from 30.5% to 36.6%, and products for newborns, which increased from 20.1% to 24.3%. At the same time, Detsky Mir’s market share in 2017 grew across all children’s product categories.

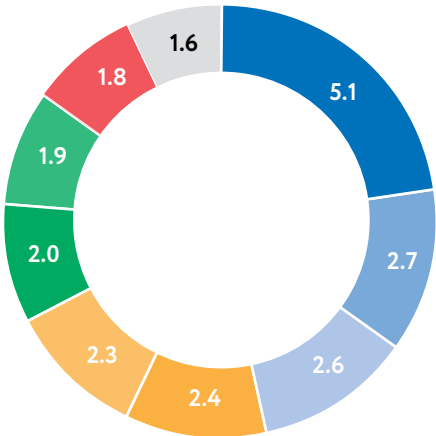
Detsky Mir Group’s Market Share by Category of Children’s Products, %



Source: Ipsos Comcon

The online children’s goods market is highly fragmented and includes several large players as well as numerous online small businesses. In 2016, the Detsky Mir online store became the leader in this market with a share of 6.7%, growing to 9.6% in 2017.

Key Players in the Online Market of Children’s Goods, by Share of Sales in 2016, %



■ Detmir.ru ■ Dochkisinochki.ru ■ Akusherstvo.ru
■ Mamsy.ru ■ Mytoys.ru ■ Korablik.ru
■ OZON.ru ■ Toy.ru ■ Babadu.ru

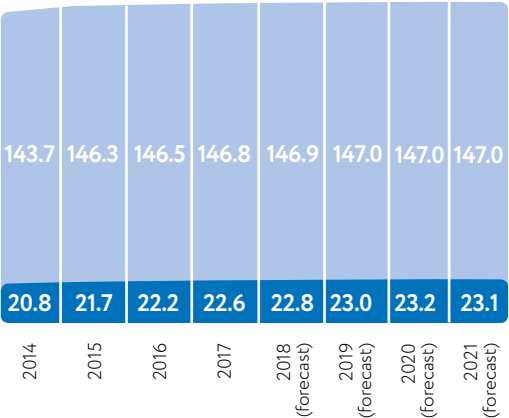
Source: Ipsos Comcon

Russia’s retail market is developing in the same manner as those of more developed countries, whereby the market began to consolidate following the stage of intensive growth. Detsky Mir considers itself a consolidator in the key sales channel. We positively assess organic growth opportunities in the current economic climate against the background of weakening competition and the departure of ineffective retailers from the market.

Demographic situation

The number of children in Russia aged 0–12 years reached 22.6 million in 2017, surpassing all other European countries. However, children make up only 15.4% of Russia’s popula-

Steady Growth of the Number of Children Aged 0–12 Years in Russia¹



■ Population total, m persons
■ Children aged 0 to 12, m persons
Source: Rosstat

tion — a far lower statistic than in many European countries.

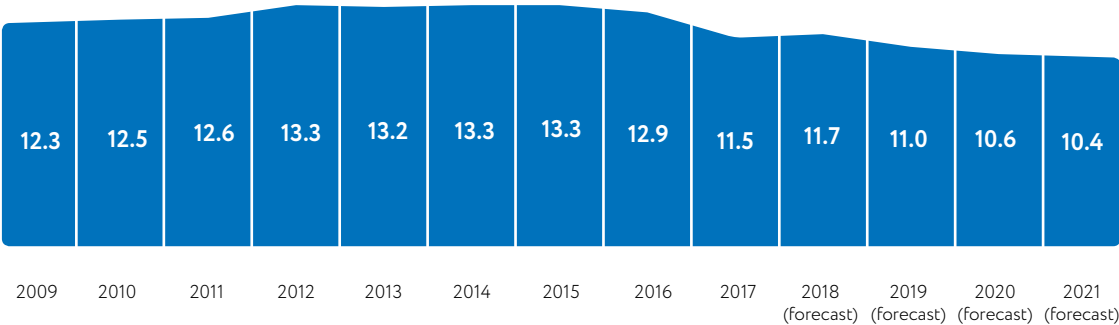
The average annual population growth rate from 2008 to 2017 was 2.5%, exceeding that of many developed and developing countries. In the coming years, the share of children within the Russian population will continue to grow by an average of about 0.6% per year, and the number of children in Russia is expected to reach 23.1 million by 2021 following a slight decrease after 2020 due to the cumulative effect of low birth rates. The birth rate decreased to 11.5% (per 1,000 people) in 2017 compared to 12.9% (per 1,000 people) in 2016, and is expected to further decrease to 10.4% (per 1,000 people) by 2021.

The distribution of children by age group in Russia has remained approximately the same in recent years, with a small decrease in children aged 0–4 years.

However, the Company’s high-performing products for newborns had the fastest sales growth rate despite the lower birth rate.

¹ As at 1 January.

Total Birth Rate¹



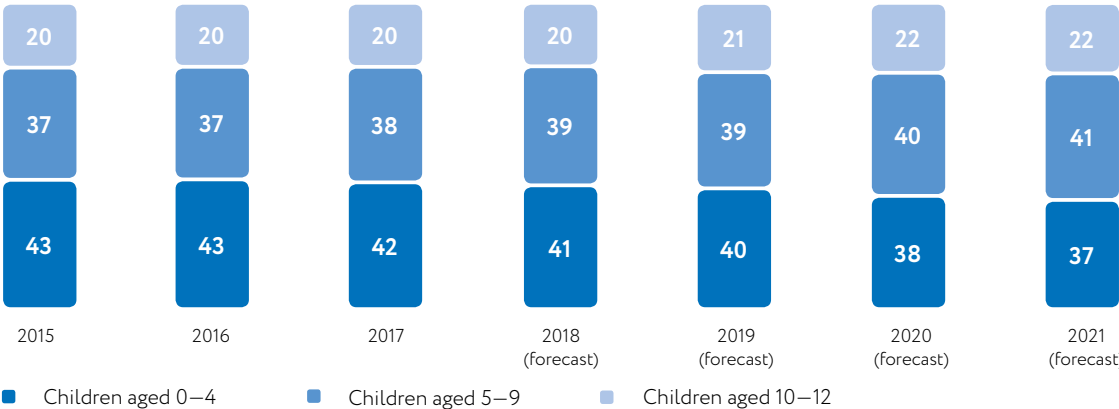
Source: Rosstat, Ipsos Comcon

Population of Children Aged 0–12 Years by Countries in 2017

Country	The number of children, mln	Children' share in total population, %
India	313.7	24.0
China	212.2	15.3
USA	52.7	16.2
Brazil	38.9	18.6
Russia	22.6	15.4
Turkey	16.6	20.8
France	10.2	15.7
Great Britain	10.3	15.6
Germany	9.3	11.2
Poland	5.1	13.2
Kazakhstan	4.6	25.7

Source: Rosstat, U.S. Census Bureau

Child Population in Russia Aged 0–12 Years by age Group, %²



Source: Rosstat

¹ The number of births per 1,000 people.

² On January 1

Kazakhstan

Kazakhstan is one of the largest CIS countries, with a population of about 18.4 million people. In 2008–2016, the average annual growth rate of Kazakhstan’s nominal and real GDP was 14.4% and 3.7%, respectively. The average annual growth rate of the population in the same period was 1.2% and the GDP per capita growth rate was 12.7% per year. Resources from the National Fund of Kazakhstan allowed the country to maintain positive growth in real GDP during the financial crises of 2008–2009 and 2014–2015.

The birth rate in Kazakhstan is currently rising, with about 400,000 children born in the country each year, and the average annual rate of growth in births was about 3% from 2008 to 2015. The number of children in Kazakhstan aged 0–12 years in 2016 was 4.9 million, and an average annual growth rate of 1.2% is expected until 2020.

The total population growth in Kazakhstan had been decreasing in recent years: the natural growth rate was 13 per 1,000 people in 2008 and 11 in 2015, although in 2016 it increased sharply to 16 per 1,000 inhabitants.

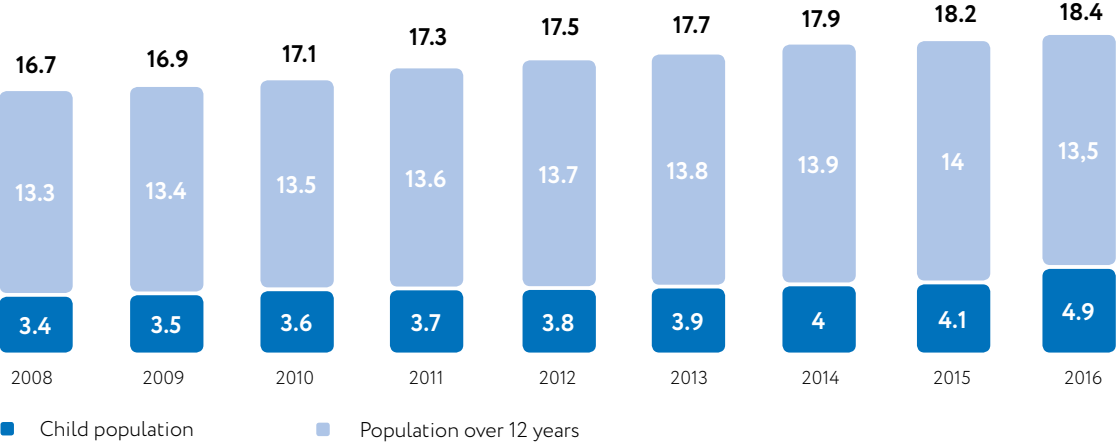
In comparison with European countries, this rate is quite high due to the high total birth rate at 2.3 children per woman in 2016. As a result, children make up a larger part of Kazakhstan’s population compared to some European and developing countries, at 27.4% in 2016.

According to estimates, the children’s goods market in Kazakhstan totals about KZT 400 billion and is dynamically developing with an annual increase of 10–15%. The large market share of unorganized retail creates opportunities for consolidation. As at the end of 2017, 22 stores within the Detsky Mir retail chain had been opened in Kazakhstan.

Competitive Environment in Kazakhstan

Competitors	Number of stores
Marvin	37
Anvar	27
MAGNUM	21
SKIF	20
Ramstore	20

Population of Kazakhstan, m People



Source: U.S. Census Bureau

1.4 The Detsky Mir Retail Business Concept

The concept of retail trade in the Detsky Mir chain combines five main components:

- 1

A children’s goods supermarket with the widest unique assortment
- 2

Carefully planned visual merchandizing, customized for children and parents
- 3

Affordable prices focused on the “medium / medium minus” range
- 4

Building of long-term relations with customers through a loyalty program
- 5

Convenient stores located in modern shopping malls and densely populated residential areas

In cooperation with international marketing agency CampbellRigg, we developed an innovative store design concept in 2013.

The concept features an interactive format, is based on international best practices, and optimizes the use of retail space by integrating gaming and interactive zones into sales areas and product locations.

The concept also includes an improved store layout and a more vivid overall design. All stores have the same zoning arrangements, height-adjustable trading shelves, and widened passages between aisles to ensure more comfort for shoppers with strollers. Products have been laid out in a way that is more understandable, visible, and logically linked. Promo-places for special offers and discounted goods have been organized. Product categories within the store have been as heavily organized as possible.

Interactive zones for children have been installed in flagship stores, enabling the combination of shopping and entertainment and encouraging the whole family to revisit our stores.

Since 2014, new stores within the Detsky Mir retail chain in Russia and Kazakhstan have been opening in line with both the concept and modern interior design standards, while the concept’s requirements are included in renovations of previously opened stores.

Detsky Mir Group’s stores come in five categories depending on the retail space and number of assortment items:

Store size	Selling space, sq.meters	Average number of SKUs (excl. apparel and footwear)
Super Mini	500–600	5,000
Mini	600–800	6,500
Super	800–1,500	11,000–14,000
Hyper	>1,500	16,000
Flagship	>2,000	18,500

The general store format includes a standard product assortment of 20–30 thousand SKUs (including apparel), individual zones for each product category, and a separate zone for advertising.

The average size of the Detsky Mir stores is about 1,400 square meters, and about 63% of stores have a retail area of 1–2 thousand square meters.

The stores are predominantly located in modern shopping malls and in densely populated residential areas, adjacent to main transport routes or near metro and railway stations.

As at 31 December 2017, Detsky Mir Group managed 565 stores in shopping malls and 13 stores outside shopping malls (street retail).



Number of New Concept Stores

Detsky Mir retail chain in Russia and Kazakhstan	2013	2014	2015	2016	2017
Total number of new stores per year	34	55	103	100	104
Number of new concept stores, including stores opened and reconstructed during 2017	1	58	105	101	104
Cumulative number of new concept stores at the end of 2017	1	59	164	265	375
Total number of stores in operation at the end of 2017	226	280	380	477	578
Share of new concept stores in the Company’s chain	0.4%	21%	43%	56%	65%

Detsky Mir Product Assortment¹

Products for Newborns

Products for newborns include baby food, diapers, and childcare products.

Since FMCG (fast-moving consumer goods) are bought repeatedly, the products for newborns category are strategically important, as they generate traffic for key customers.

We believe that we offer a wide range of products for newborns at the best prices compared to our direct competitors.

In addition, products for newborns can reduce the impact of low-peak seasons affecting non-food products that is experienced by all retailers, as sales of products for newborns are not seasonally based.

Share in revenue

33%

Share of private labels

1.7%

SKUs

3,500

DM’s market share

24.3%

Key competitors: grocery store chains

¹ The Company’s share in the market is presented separately for each product category in 2017 as according to Ipsos Comcon.

Toys

Detsky Mir’s leading market position enables the Company to receive special conditions from some suppliers and access to exclusive products.

Exclusive products drive consumer traffic and increase customer loyalty and sales growth for comparable stores, while building resilience to price competition with other retailers.

Share in Revenue

32%

Share of Private Labels

9.8%

SKUs

5,900

DM’s Market Share

36.6%

Key competitors: specialized children’s stores

Large-size Products

These products include children’s car seats, baby carriages, baby carriers, and children’s furniture. We offer branded goods as well as a significant assortment of our own private label products in this category.

Share in Revenue

4%

Share of Private Labels

45.9%

SKUs

200

Key competitors: specialized children’s stores

Stationery and other Products

This category includes books, multimedia, sports goods, and the New Year’s range of products. The sale of stationery is highly seasonal, with peak sales occurring during the “Back to School” period in August–September.

Share in Revenue

6%

Share of Private Labels

27.1%

SKUs

2,500

DM’s Market Share

6.3%

Key competitors: specialized children’s stores



Apparel and Footwear

Our range of apparel includes outerwear, seasonal collections, underwear, socks, and accessories, while our footwear collections include classic and casual styles, athletic and walking shoes, as well as beach and aquatic footwear.

Our footwear collections include shoes from leading international brands such as Lassie (manufactured by Reima) and Blue Seven (manufactured by Obermeyer), as well as a wide range from our private labels, which have a growing share in total sales.

The apparel and footwear categories provide the widest profit margins of our product range, and we are expanding upon the products within these categories in line with our strategy, offering more clothes and shoes from our private labels.

We lay a strong focus on offering a large number of seasonal collections and expanding their range. Eight seasonal collections were provided in 2017: spring, summer, hot summer, school, early fall, fall, winter, and New Year.

Share in Revenue

25%

Share of Private Labels

81% apparel

75% footwear

SKUs

7,500

DM's Market Share

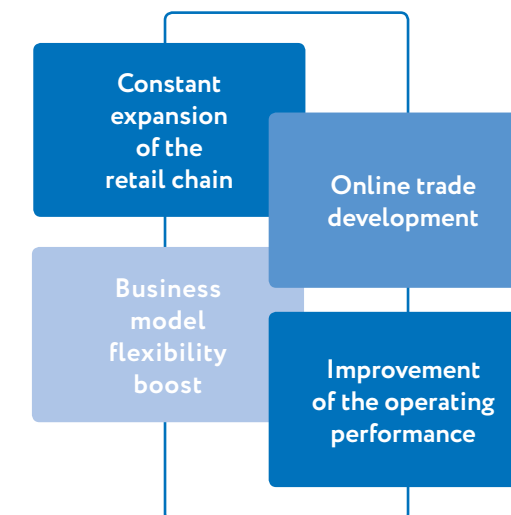
12.5% apparel

13.2% footwear

Key competitors: retail stores for apparel and footwear, sports stores

1.5 Strategy

Strategic tasks of Detsky Mir Group:



The primary strategic goal of Detsky Mir Group is the consolidation of the children's goods market in Russia and Kazakhstan through organic business growth while providing consumers with an affordable and wide range of products, including our private labels. We have developed a series of strategic projects for Detsky Mir that will effectively propel us toward our goal upon successful completion.

Investment attractiveness of Detsky Mir Group:

- The unparalleled leader of the Russian children's goods market — a large, growing, and sustainable segment of the consumer market.
- A recognizable retail brand within the industry, high consumer demand, and a long-standing market presence of 70 years.
- A highly diversified product range that ensures a constant flow of customers as well as the growth and sustainability of sales and profitability.
- The fast-growing online retail business and availability of various sales channels that contribute to the Company's sustainable growth.
- A business model characterized by low capital intensity and high indicators of generated cash flow, ensuring a high level of returns and a consistently high dividends.
- Scalable infrastructure and logistics platform.
- A strong management team with successful business development experience.

Consistent retail chain expansion

Our market share and retail chain can be increased through opportunities provided in various regional markets and opening new stores in new cities as well as cities where Detsky Mir already has a presence.

The current market provides upcoming opportunities to open at least 250 new stores over the next four years, including at least 70 stores in 2018:

- About 65 shopping malls in cities where Detsky Mir is already present that both meet the Company’s strict investment criteria, including a high level of internal rate of return (IRR) of at least 40%
- About 120 cities in which there are neither stores of our retail chain nor those of our key competitors
- About 40 stores of specialized retail competitors who have ceased their development programs and closed their stores
- A minimum of 25 store openings in Kazakhstan (including five in 2018), exceeding results in Russia by demonstrating a 25% growth in like-for-like sales in 2017

The professional team at Detsky Mir Group focuses exclusively on analysis results and potential opportunity assessments for new store openings by combining information based on economic development, disposable income levels of consumers, and the population density in each region and city. The possibility of developing an extra-small format or opening stores in the Far East are yet to be considered in the forecast for new store openings.

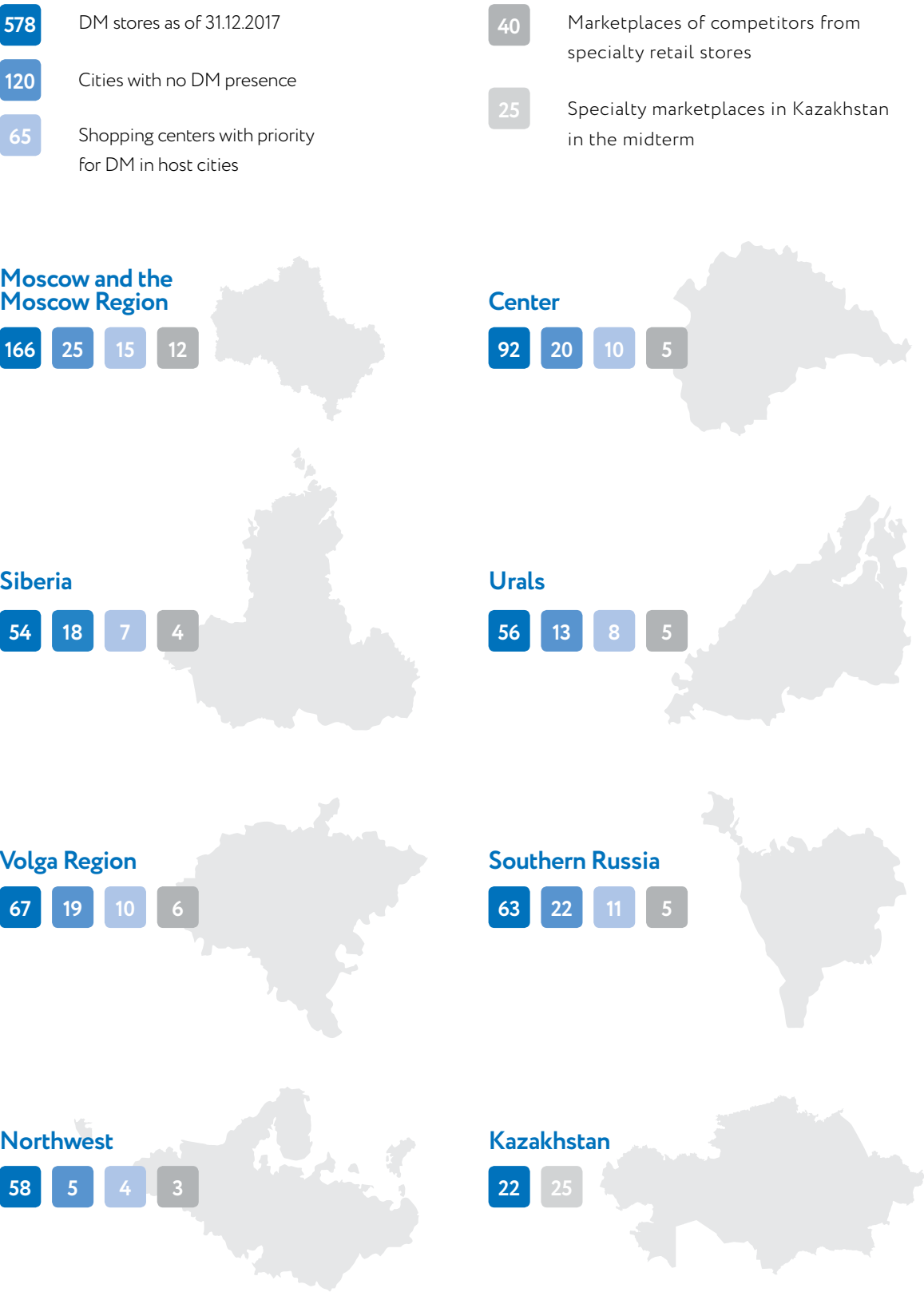
Miniformat stores

Mini and super mini format Detsky Mir stores can be opened in any city in Russia, and will be established in areas in which there is no possibility to open a full-size store. In the coming year, we plan to open mini stores in residential neighborhoods of large cities and small towns in the Moscow Region with populations of about 20 thousand people. We opened our first super mini format store in December 2017, in the city of Krasnoarmeysk (the Moscow Region).

The total area of a mini format store is 600–800 square meters, while a super mini store totals 500–600 square meters. Our mini format stores are stocked with a narrower range of the most popular products, with 6.5 thousand SKUs in the mini format stores and 5 thousand SKUs in the super mini stores, compared to the 11–14 thousand SKUs stocked by standard Detsky Mir supermarkets.

The super mini format stores development plan is yet in the making and depends on retail space availability and progress analysis of our first two super mini format stores. We are ready to replicate this format throughout the country by opening stores in small towns, strengthening our presence in medium and large cities, and opening minishops in commuter towns.

Potential for New Store Openings Within the Detsky Mir Retail Chain



Stores under the Detsky Mir brand as at 31 December 2017.

Online retail development

Detsky Mir Group continues to improve its business model while focusing on the omnichannel sales strategy to develop its online retail segment. Sales volumes have increased following the launch of our delivery service from any Detsky Mir store, available for orders made in our online store. The Detsky Mir online store has a far wider range of available products than our retail stores, and its assortment was increased from 40,000 SKUs in 2016 to 50,000 in 2017, while our retail stores stock about 20,000–30,000 SKUs.

More active use of our in-store pickup service and upsell will be promoted through expanding the online store range, developing delivery options, as well as further reducing the average wait between order confirmation and pickup from any retail store. We also intend to generate even higher internet traffic to our online store through various forms of advertising and further deepening its integration with social networks while increasing our sales conversion rate by optimizing the online store's interface (UX and UI)¹. For more details see the Electronic Commerce section.

Improving infrastructure, maintaining growth, and increasing our business model flexibility

Supply chain and infrastructure are of paramount importance for the supply of retail goods and are particularly crucial to rapidly growing retail companies such as Detsky Mir. We are continuing to use a flexible distribution model that combines a centralized system based on two logis-

tics centers in the Moscow Region (Bekasovo and Krekshino) and direct distribution from suppliers to stores.

To support the Company's expansion in the Ural and Siberian regions of Russia, we made a preliminary decision to open a new logistics center in the Urals with an area of about 46 thousand square meters in 2018, with the potential to expand to 82 thousand square meters. For more details, see the Purchase Management section.

Increasing operational efficiency through optimizing business processes in stores and an asset-light business model

Detsky Mir Group is continuously improving its operational efficiency with the aim of reducing operational costs (primarily in staffing and leasing) by optimizing labor productivity and implementing the asset-light business model².

We are further optimizing our personnel structure, increasing automation, and operating under successful efficiency initiatives we have established over the past four years. Optimization of business processes and the scale of our business growth has allowed us to reduce the percentage of staffing costs in our revenue.

In addition to optimizing purchasing prices and obtaining discounts for wholesale purchases, we are working to further improve the commercial terms with our landlords. Almost all our stores are in leased premises, primarily modern shopping malls. Due to its low capital requirements, we believe that the asset-light model is



the best suited to achieving a high return on capital and allows us to quickly change store locations in response to shifting demand and local foot traffic. Although our model is based on leases for businesses with relatively low capital investments per store, it enables us to operate with a predominantly positive cash flow and the subsequent financial expansion plans that are primarily at our own expense.

When opening new stores, the Company uses a strict set of investment criteria, paying attention to return on investment (ROI):

- An Internal Rate of Return (IRR) of at least 40% in cash flow for seven years without terminal value
- The EBITDA break-even target reached at least four months after the store's opening

- Total maturity period of 18–24 months (including fulfillment of projected indicators such as customer traffic and gross profit per square meter).

When a location is being assessed for the placement of a new Detsky Mir store, the standard delays that occur during development of a new shopping mall are also taken into account. New stores are usually opened in the fourth quarter of the year to take advantage of higher seasonal sales at the end of the year.

We are constantly monitoring the performance of each store in our retail network. If a store does not reach its projected key performance indicators within an appropriate timeframe, we consider its closure or, if possible, relocate to a nearby area with more favorable leasing terms and consumer traffic. Less than 10 stores have been closed or transferred in the past few years.

¹ UI (user interface) and UX (user experience).

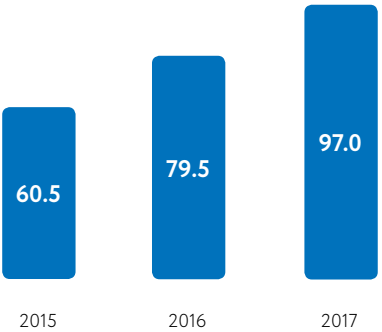
² Asset light model

1.6 Financial Results

In difficult socioeconomic conditions, Detsky Mir Group continues to attract new customers and consolidate the market, showing a double-digit like-for-like growth in the number of tickets during 2017. The Group’s revenue increased by 21.9% as a result of like-for-like sales growth and ramp up of stores that opened a year earlier. Detsky Mir strengthened its position as a leader in the children’s goods market through a significant revenue increase and further expansion of its retail chain.

Despite growth in the children’s goods market and low levels of inflation in the children’s goods market, Detsky Mir Group’s revenue grew by 21.9% to RUB 97 billion by the end of 2017, compared to RUB 79.5 billion in 2016. The online store’s revenue increased by 67% in 2017, amounting to RUB 4.6 billion (for more details, see the Online Retail section).

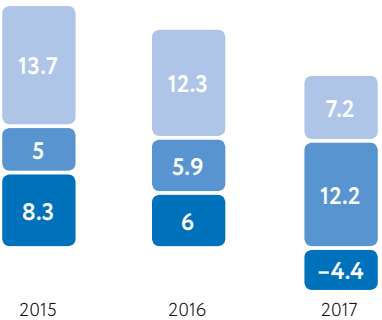
Detsky Mir Group’s Revenue, RUB bn



One of the main drivers of revenue growth was a 7.2% increase in like-for-like sales (LFL)¹ in Detsky Mir chain stores:

- Like-for-like number of tickets growth amounted to 12.2%
- Like-for-like average ticket decreased by 4.4%

LFL Growth



- Like-for-like number of tickets growth
- Like-for-like average ticket growth
- LFL growth

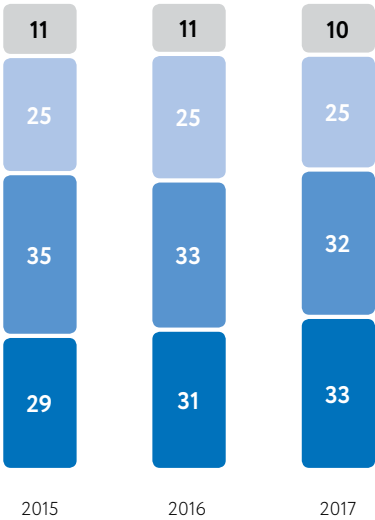
¹ Like-for-life sales (LFL) growth, like-for-like number of tickets growth, and average ticket growth were calculated based on the results of the Detsky Mir chain stores in Russia, which were in operation for at least 12 full calendar months preceding the reporting date.

The Republic of Kazakhstan remains one of the most promising areas for the Group’s business development. Like-for-like sales (LFL) growth in KZT was 25% in 2017.

The significant number of stores opened throughout 2017, as well as the increase upon stores opened in 2016 also contributed to the revenue growth.

The largest portion of Detsky Mir Group’s revenue is comprised of products for newborns (33%) and toys (32%).

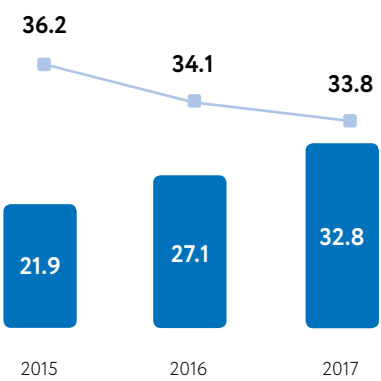
Detsky Mir Group’s Revenue by Product Category, %



- Newborns products
- Toys
- Apparel and footwear
- Large-sized and other goods

Detsky Mir Group’s gross profit grew by 21% year-on-year to RUB 32.8 billion and a gross margin of 33.8%. Gross profit per square meter amounted to RUB 51.1 thousand.

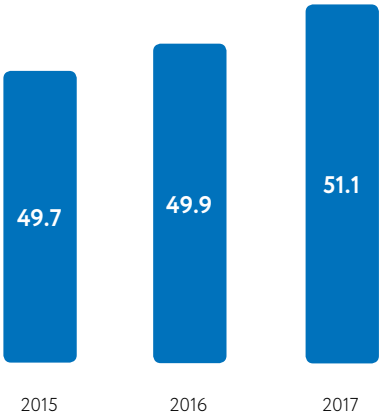
Detsky Mir Group’s Gross Profit



Gross profit RUB bln

Gross margin, %

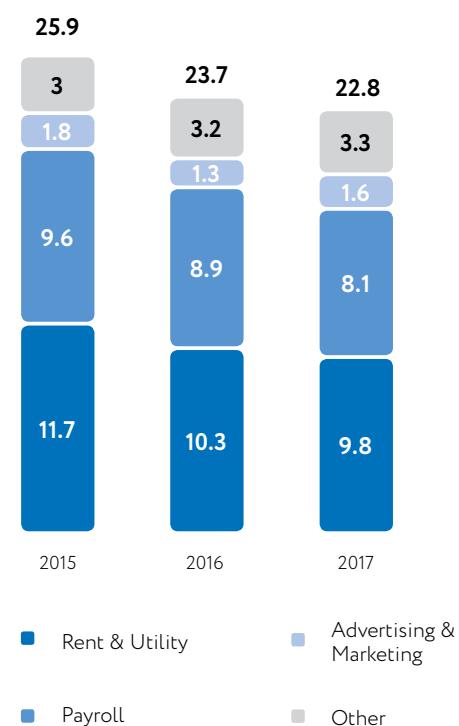
Gross Profit, RUB '000 per sq. m



High incomes have allowed us to continue expanding our store network in recent years, while reducing financial leverage and providing consistently high dividends to our shareholders.

The Company is continuously improving its operational sq. m reduce operational costs (primarily in leasing and staffing) by optimizing labor productivity and improving commercial terms with our landlords. Our recent efforts and projects aimed at improving operational efficiency resulted in Detsky Mir Group's commercial, general, and administrative costs decreasing from 23.7% of the total revenue in 2016 to 22.8% in 2017.

Share of Commercial, General, and Administrative Costs in Revenue¹



¹ Commercial, general, and administrative costs do not include depreciation costs of fixed assets and intangible assets or bonus payments to management within the long-term incentive (LTI) program.

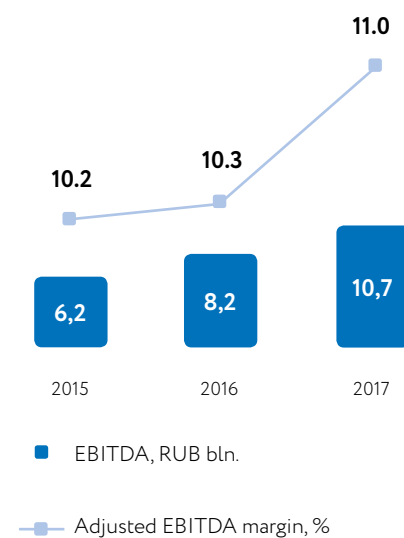
² Adjusted EBITDA is calculated based on profit for the period prior to deductions for income tax, foreign exchange losses, financial income and expenses, depreciation of fixed assets and intangible assets; and has been adjusted for bonus payments made to management within the long-term incentive (LTI) program.

³ Adjusted profit for the period (net profit) does not include bonus payments to management within the long-term incentive (LTI) program accompanying the corresponding tax effect.

Adjusted EBITDA² increased by 30.0% to RUB 10.7 billion compared to RUB 8.2 billion in 2016. The reduction of commercial, general, and administrative costs enabled an increased adjusted EBITDA margin of 11.0%.

Unadjusted EBITDA amounted to RUB 9.8 billion — a 20.1% increase year-on-year. EBITDA margin was 10.1%.

Adjusted EBITDA



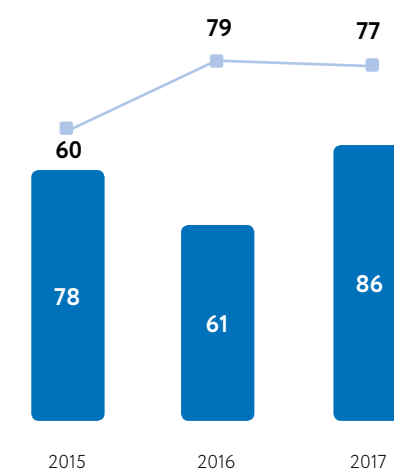
Adjusted profit for the period³ increased by 43.8% year-on-year to RUB 5.5 billion, including by optimizing the value of the Company's debt portfolio. The unad-

justed profit for the period was RUB 4.8 billion. The significant profit increase in 2017 was due to the increased operational efficiency of the business and sharp revenue growth.

Net debt in 2017 amounted to RUB 10.4 billion and the net debt / EBITDA ratio was 1.1.

Our adoption of the asset-light business model provides us with high financial results and profit on capital, and we achieved an adjusted Return on Invested Capital (ROIC) of 86% before tax and a cash conversion of 77% in 2017. We believe that our ROIC indicates a high level of success in comparison with that of the majority of Russian and international retail operators.

Return on Invested Capital

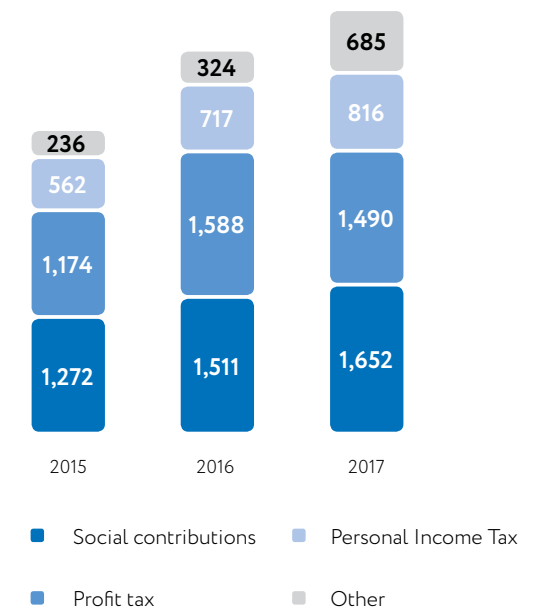


■ ROIC, %

■ Adjusted EBITDA LTM-Adjusted Capex/Adjusted EBITDA LTM, %

¹ Social contributions include the MHIF, FSS and FIU in Russia and social contributions, mandatory pension contributions and social tax in Kazakhstan. Personal Income Tax includes personal income tax in Russia and individual income tax in Kazakhstan.

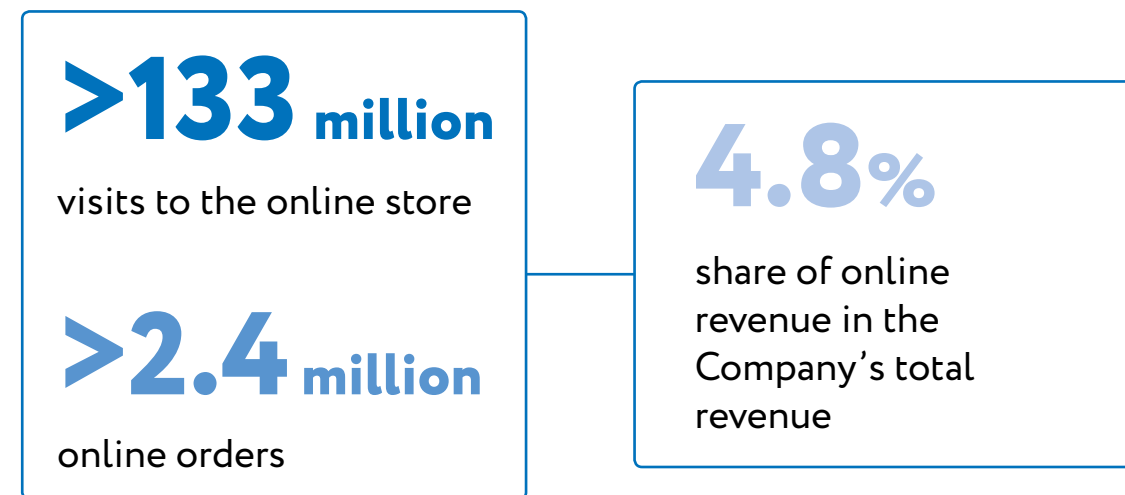
Tax Payments to the Federal and Regional Budgets in 2015–2017, RUB m¹



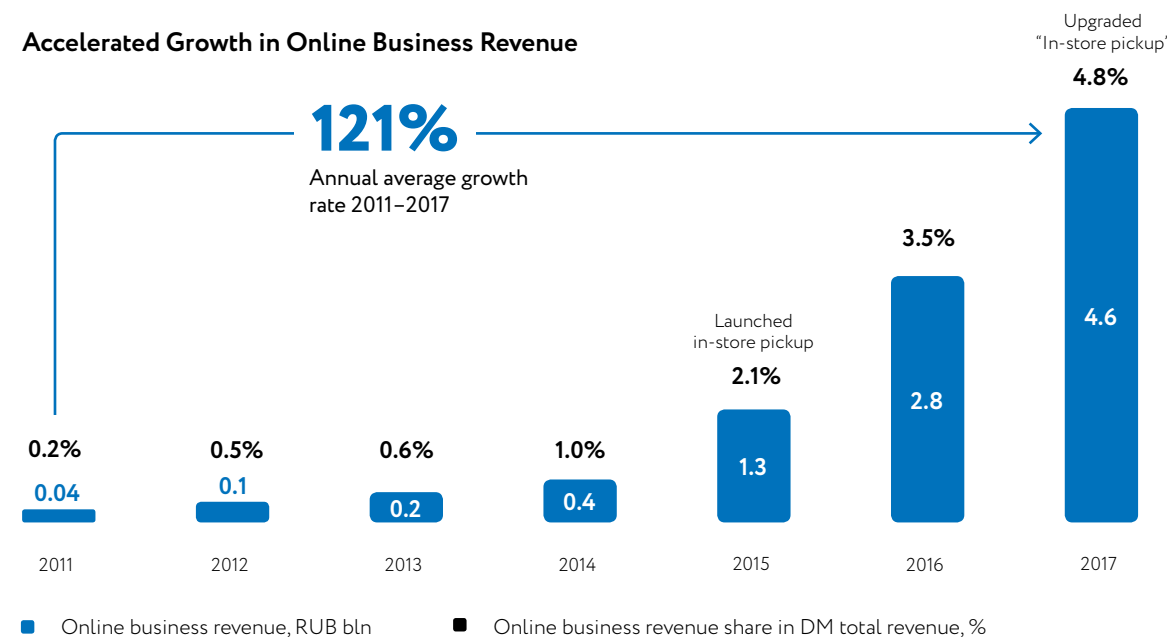
1.7 Online Retail

In addition to retail stores, Detsky Mir Group offers its entire product range for online purchase at www.detmir.ru and www.elc-russia.ru.

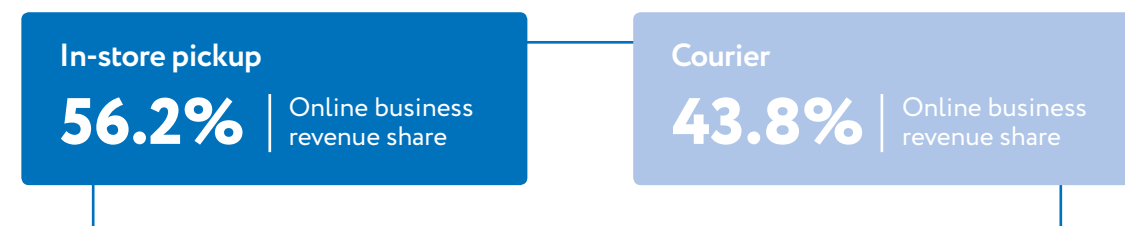
The Company's online segment remains its fastest growing sales channel since launching in 2011. The Detsky Mir online store recorded 133 million visits in 2017 while more than 2.4 million online orders were placed.



Accelerated Growth in Online Business Revenue



Delivery Method 2017¹



¹ Delivery by courier includes delivery to the buyer's address and to a partner's self-pickup point. The online store includes online orders for goods that are presented in off-line stores and goods that are not available at the time of the order, but can be delivered to the store from the warehouse by the choice of the buyer via the Company's logistics system (effective from October 2017).

Several projects improving our online retail business drove a RUB 1.8 billion increase in revenue. The aggregate average annual growth rate in 2011–2017 was 121%.

Detsky Mir's online retail growth is supported by the Company's presence in all key regions, allowing rapid delivery.

A key driver of turnover growth in 2017 was the promotion and expansion of the In-Store Pickup service, whereby the entire online assortment can now be issued to the buyer at a checkout point in-store.

Orders can also be collected at pickup points of our partners, Ozon and Boxberry, adding to the online store's total 1,387 available pickup points at the end of 2017.

As regional delivery and pickup services further develop, the share of orders from Russian regions other than Moscow, the

Moscow Region, and St. Petersburg has grown to 45% in 2017, from 30% in 2015.

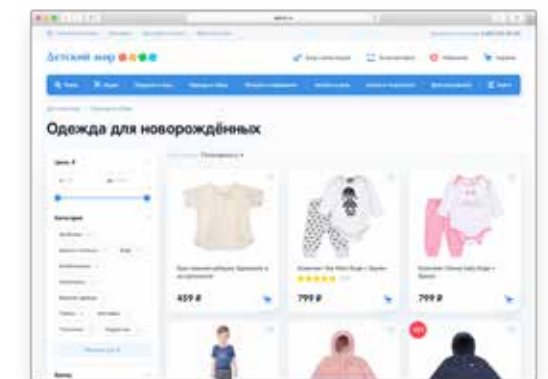
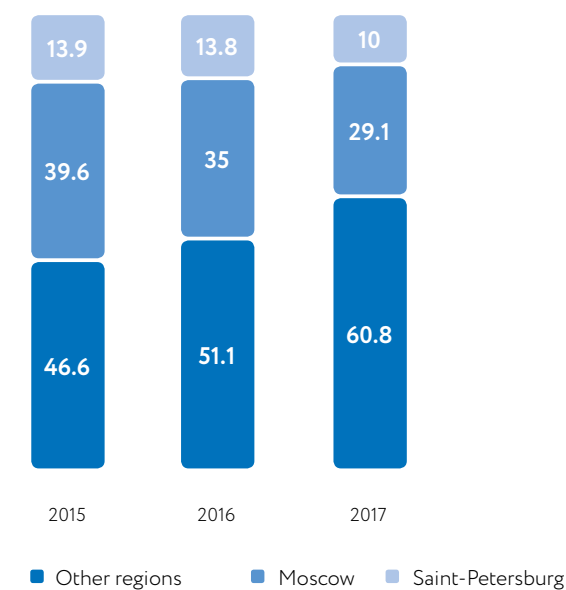
We are constantly seeking new means of communicating with our customers. In March 2017, we successfully completed a project implementing the SAP Hybris eCommerce platform, which enables high-quality personalized interaction with customers via all available channels as well as collection and analysis of customer data from multiple sources. The platform is a strong basis for the online store's continued development and improvement.

PJSC Detsky Mir online store took 28th place in E-Commerce Index TOP-100 2017 and enhanced the position as the number-one player with a share of 10%.

To help increase conversion rates, we re-designed the checkout shopping cart. New versions of the cart and ordering have also been optimized for mobile devices.

A peak event for the Company's online sales was CyberDays, in which price discounts reached 85%. Ten sales were held throughout 2017, each with a duration of 2.5–3.5 days and doubling or tripling order volumes. Eighteen online sales are planned for 2018.

Online Store Orders by Region, %



Registered users of the Detsky Mir website receive a promotional email regarding details and the starting date of the next CyberDays sale two weeks in advance.

We are expanding upon our promotional campaigns via email, increasing order frequencies, and maximizing revenue four-fold from free email communication.

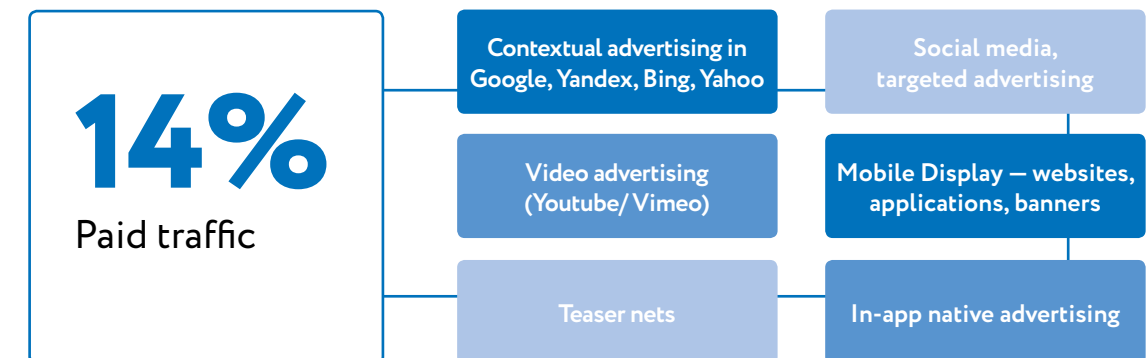
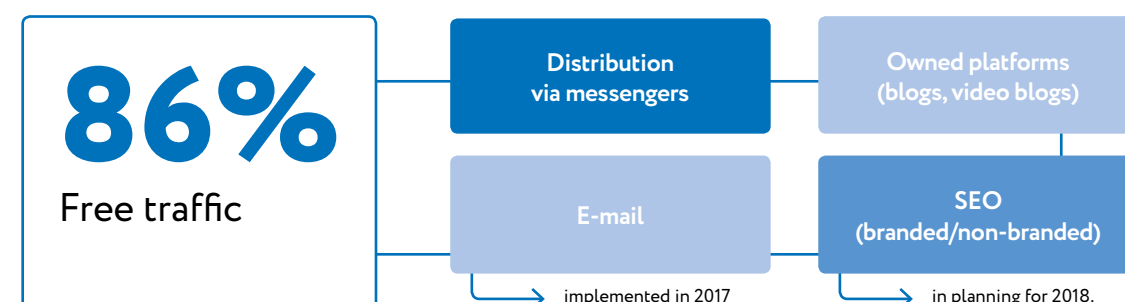
Coordinated information in social networks and targeted newsletters sent through Viber, text message, and email ensures a significant sales increase during CyberDays periods while maintaining our overall sales margin through effective selection of discounted products and supplier participation in our marketing activities.

Our online store (www.detmir.ru) has become a main channel for the annual Black Friday sales. From 20 to 26 November 2017, customers were offered 90% discounts on about 20 thousand items in toys, apparel, footwear, strollers, diapers, and more. Compared to last year's Black Friday, the number of online orders increased by 2.5 times and revenue doubled. Our most purchased products were Pampers, Huggies, and Merries diapers, LEGO construction sets, Monster High dolls, Nutricia and Friso baby food, and Babyton feeding chairs.

The Client Support Center was established in 2017 to collect customer appeals through any communication channel. The independent service operates as a one-stop-shop, whereby comprehensive information regarding all customer activity including purchases, applications, appeals, and resolved and unresolved claims is aggregated, creating dynamic data and providing the highest level of customer service (for more details, see the Client-oriented Service section).

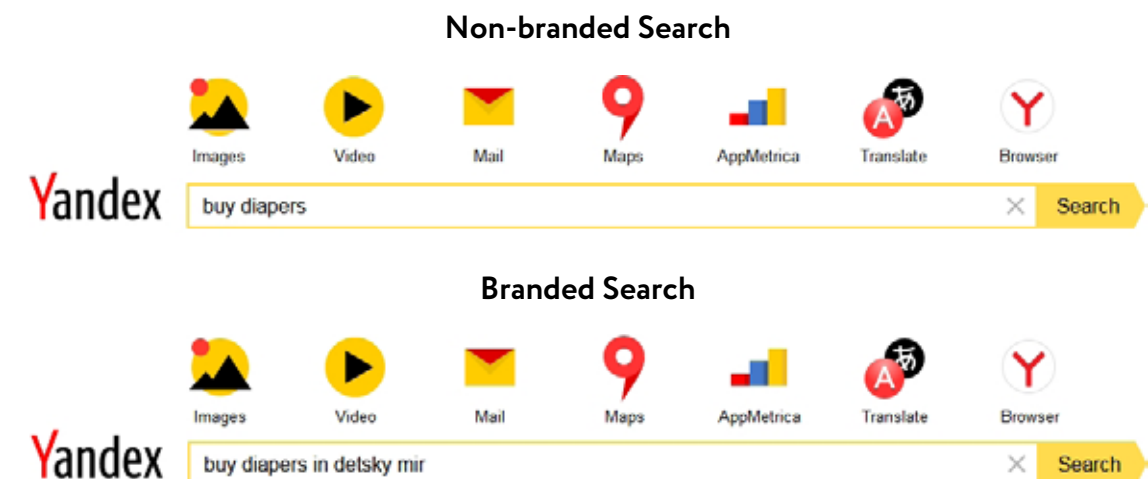
We continue to perfect our strategy focused on developing omnichannel sales. The process of aligning prices in the online store with those in the retail chain, which began in 2016, was completed in the reporting year. A synergistic effect has been created from matching prices and product range, and offering the option to retrieve orders in retail stores through our In-Store Pickup service, while the online store's high brand recognition and high-quality search engine optimization (SEO) drive a large volume of organic traffic.

Our online retail segment is differentiated by a strong focus on attracting traffic through the development of free channels such as SEO and email newsletters, enabling significantly higher operational efficiency and profitability than the average across the eCommerce market.



The frequency of email newsletters was increased in 2017, and SEO is planned for 2018. We expect to increase the share of

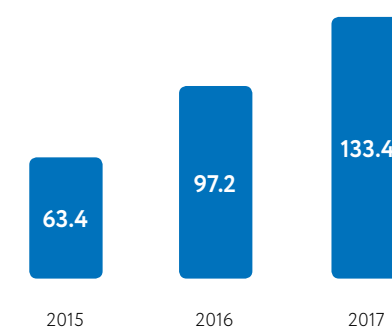
non-brand traffic to 36%, generating a positive impact on turnover.



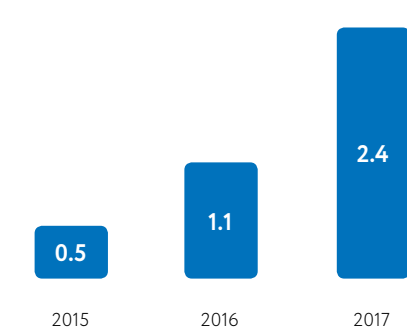
The number of visitors to our online store is constantly growing, with a 33% year-on-year increase in visits and 2.4 million finalized

orders in 2017. About 86% of visits were directed to the website from free and shareware traffic.

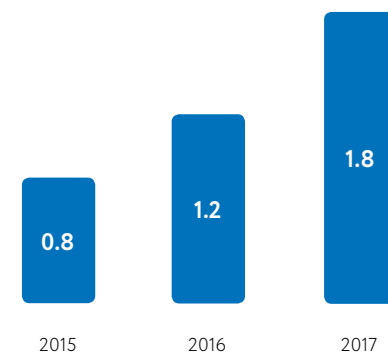
Online Store Visits, million



Finalized Orders, million



Conversion Rate, %



Not stopping at our current achievements, we are continuing to develop the online service and plan to increase the percentage of orders processed “just in time”. For this purpose, the Service Level function was launched, calculated separately for each stage of order processing and in a generalized form. The Service Level average is currently 45% as at the fourth quarter of 2017, and the target for 2018 is 90%.

We are constantly expanding our ability to deliver orders to our customers. Over the past few years, we have significantly expanded the geography of our online sales and increased the share of Russian regions in our total online sales. Our “Last Mile” project scheduled for 2018 will enable express delivery from regional stores and local logistics centers directly to the consumer. This is a unique commercial offer for low-cost and same-day delivery to distant regions. Through our extensive retail chain, we expect to reduce our overall logistics costs associated with delivery to Russian regions.

Developments within our strategy in 2018 include further improvement of our in-store services. The ambitious “Ideal In-Store” project aims to prepare 90% of orders in one hour, and a customer will

be able to retrieve their order from the nearest Detsky Mir Group store within an hour of ordering online.

By integrating all customer platforms and devices used to interact with the Company, we acknowledge the importance of convenience and ease of ordering. The “Redesign” project “is not only a change in the website’s appearance, but also the optimization of its functional structure including the store’s home page, product catalog, and product cards, thereby improving the online store’s strategic position and increasing orders from mobile traffic.

1.8 Supply Chain

Taking into account the industry specificity of the market, Detsky Mir Group’s global reach and objectives require increasingly effective supply chain management and building long-term partner relationships with suppliers.

Direct contracts

Solutions for optimizing purchasing prices, efficient assortment management, and improving quality control are ensured through signing contracts directly with



large specialized producers or their representatives in Russia while reducing the share of contracts signed with distributors. Direct partnerships with producers allow us to fix more profitable prices, minimize the risks associated with foreign currency exchange, and also provide direct access to products. As a result, margins and revenues increase, and our Service Level grows from the subsequently increased uninterrupted deliveries. An exclusive assortment also allows us to differentiate ourselves from competitors and strengthen our image of a specialized children’s goods store with the widest product range.

Over 73% of our products were produced abroad in 2017, mainly in China, India, Vietnam, and Bangladesh. However, about 65% of them are purchased from local representatives of international companies or their distributors, and the remaining 35% (predominantly our private labels) are shipped directly from foreign manufacturers.

Suppliers of our apparel and footwear comprise about 90 companies from 15 countries: Russia, China, India, Bangladesh, Finland, Germany, and many others. The 10 largest suppliers of apparel and footwear accounted for 28% of the total category, and the top 10 suppliers of toys, products for newborns, and large-size products comprise 40%. We maintained the same share of Russian suppliers of apparel and footwear at 20% of revenue in this apparel and footwear category suppliers in 2017.

Significant progress was made in direct toy supplies in 2017 — their share increased from 1% in 2016 to 6% in 2017, positively affecting our toy category’s profitability at a level comparable to that of our private labels during the same period.

A total of 68 direct suppliers were among our toy suppliers as at 31 December 2017, 30 in products for newborns, 60 in large-size products, and 26 in stationery and other products.

Direct Import Contracts (Toys category) in 2017



RASTAR GROUP



Aurora World HK Ltd.



Just Play (HK) Ltd.



TOMY UK CO., Ltd



SLUBAN (HK) LIMITED



JADA TOYS CO, LTD



JAKKS Pacific (HK) Limited



GONHER S.A.



HTI Toys HK Limited



Procos Paper Products and Household Good



Bandai America Incorporated



Toy State International Limited



RASTAR GROUP



Aurora World HK Ltd.



Just Play (HK) Ltd.



TOMY UK CO., Ltd



SLUBAN (HK) LIMITED



JADA TOYS CO, LTD



JAKKS Pacific (HK) Limited



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TOMY UK CO., Ltd



SLUBAN (HK) LIMITED



JADA TOYS CO, LTD



JAKKS Pacific (HK) Limited



GONHER S.A.



HTI Toys HK Limited



Procos Paper Products and Household Good



Bandai America Incorporated

We also strive to consolidate special terms with our suppliers for a unique product range that increases traffic, promotes like-for-like sales growth, increases customer loyalty, and strengthens us against price competition during the pre-sale period. So far, special terms have been arranged with Mattel, Hasbro, Lego, Maclaren, and Art-sana.

Detsky Mir remains one of the largest school uniform retailers in Russia. In 2017, we launched a project to design a wide and dynamic variety of discounted school uniform collections in stores, and also tested the cross-category design of promotional zones (apparel, footwear, and stationery) at discounted prices in a single

block in the entrance area of each store. Sale assortments were also increased, including basic formal apparel and footwear at heavily discounted prices. We are continuing to develop our Chessford private label of school uniforms and collaborate with uniform suppliers on a tender basis, which allows us to offer competitive prices.

For three years, Detsky Mir Group has supported Russia’s national school uniform contest, organized by the Ministry of Industry and Trade of the Russian Federation alongside the Ministry of Education and Science of the Russian Federation to promote Russian-made textiles and light industry goods.

Our private labels

Private label development is a strategic direction of Detsky Mir Group. We currently own 29 private labels in apparel and footwear, each with its own target audience, product range, and price positioning. Collections are developed by our in-house design studio, launched in July 2016, and external designers exclusively for Detsky Mir Group.

Private label development enables large volumes of production while our customers are provided products in high demand at unbeatable market prices.

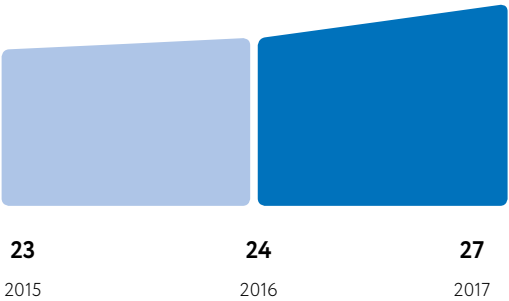
We are able to determine the pricing for our private label apparel and footwear produced by Russian and foreign manufacturers, and the ability to control quality standards and materials significantly speeds up inventory turnover.

In turn, our private label manufacturers are benefited through a stable flow of orders and a reduction in branding and logistics costs. As a result, we are able to offer our customers high-quality products at the most attractive prices.

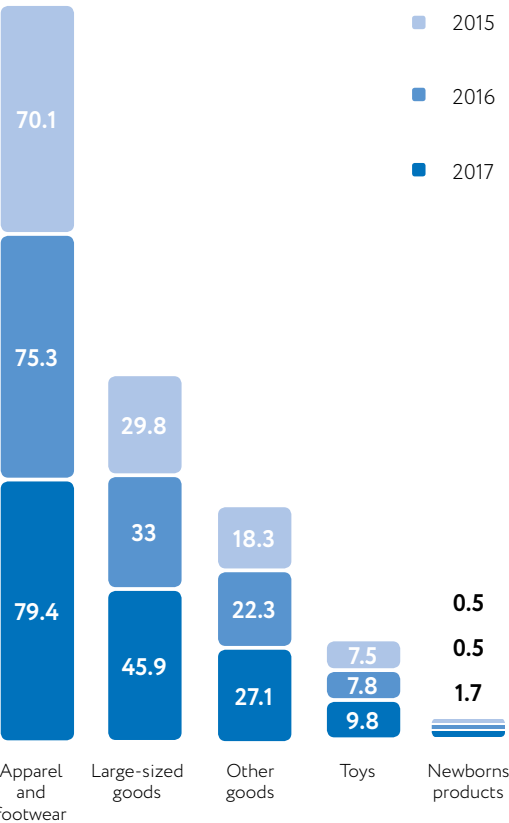
The share of our private labels in Detsky Mir Group’s commodity turnover for apparel and footwear is about 80%, in con-

trast with toys at 9.8% and products for newborns at 1.7%. On average, private labels accounted for 26.7% of Detsky Mir’s full product range in 2017.

Private Labels in Detsky Mir’s Turnover, %



Private Label Turnover by Category, %



Children’s Fashion Festival

Detsky Mir presented its fall-winter 2017–2018 collection at the 34th season of Mercedes-Benz Fashion Week Russia in March 2017.

A live rock music concert was held at the show, accompanied by professional sound and lighting. Various kinds of rock music decorations and original accessories fit the atmosphere and were an invaluable addition to the young rocker theme, emphasizing the style of the collection.







































Mercedes-Benz
FashionWeek
RUSSIA



High valuation of the Company’s private labels

In March 2017, Detsky Mir won the Golden Bear national children’s goods industry award for “Best Footwear” with its shoe collection under the BabyGo private label.

Own Private Labels
FMCG, Apparel and Footwear Category

 Attivio	 BabyGo	 BABYTON	 Jomoto	 Jook	 Demi Star	 Erhaft	 Orsolini
 Global Bros	 Just Mom Ulla	 Kreiss	 LAFFI	 Mobicaro	 Tombi	 WAPPO	
 Моя Горошинка	 Favaretti	 Attivio	 BabyGo	 BABYTON	 Jomoto	 Jook	 Demi Star
 Erhaft	 Orsolini	 Global Bros	 Just Mom Ulla	 Kreiss	 LAFFI	 Tombi	
 Mobicaro	 Tombi	 WAPPO	 Моя Горошинка	 Favaretti	 Attivio	 BabyGo	 BABYTON



Apparel and footwear

In 2017, we launched two new private labels in the category “Footwear”:

- Tombi –comfortable, high-quality footwear for children up to 7 years in the mid-price range, made entirely of natural materials
- Puuhtu teens –modern, fashionable, and warm footwear for children aged 7 years and up

A new, economically-priced clothing line by Detsky Mir’s in-house design studio was

developed and produced for our Futurino Fashion brand reflecting the latest trends for children aged 2–12 years.

Our Chessford brand has been refreshed with a special line of inexpensive high-quality clothes for school, produced by the Russian company, Sky Lake.

A special Futurino line named Futurino Cool is planned for launch in 2017, with a focus on elaborate and functional design, attention to detail, and sleek European style.

Sportswear

In response to trending demands, Detsky Mir Group has increased its sportswear range, now offering clothes for sports not only at the beginning of the academic year, but all year round. Our technical sportswear brand, Jomoto, is still present in the brand line and is highly popular among customers due to its high-performance natural fabrics, basic and concise designs, and attractive prices.

Our new Futurino Sport brand was introduced in 2017, comprising high-demand sportswear for training, physical education classes, kindergartens, and extracurricular sports.

The products are priced in the “medium minus” range, allowing consumers to purchase high-quality clothes at affordable prices while Detsky Mir Group continues to significantly increase its presence in the sporting goods market.

Newborns products

In 2016, our first private label in hygiene, BabyGo, was developed and its line of diapers was subsequently put into production in 2016, with the first shipments arriving in October that same year. The brand is in the low-price range, and 90% of its wares are produced in Russia. The share of Baby Go in the turnover of diapers during 2017 was 3.8% compared to 1.1% in 2016.

We plan to develop and promote the BabyGo brand in 2018 through rebranding, active promotional events, and improving quality without price changes.

Maternity clothing

Since 2015, Detsky Mir Group has been providing clothing for pregnant woman under its private label, Just Mom Ulla, with affordable bright clothes in comfortable styles that are made using soft fabrics. We increased the number of stores carrying this line in 2017 and launched its sales in Kazakhstan.

Large-sized goods

Under our Babyton label, we offer a range of large-sized products in the low and medium price ranges. Products include car seats and strollers from external designers, as well as highchairs and playpens designed by our in-house studio.

Future plans

We plan to widen the Detsky Mir chain product range in the medium term, including by increasing our assortment depth, developing upon the quality of our private labels, and increasing the share of products in the “medium minus” price range.

In addition, we aim to reduce procurement and retail prices and improving payment terms in favor of Detsky Mir.

We will also continue to develop a merchandizing project providing positive LFL sales by reducing the width of the product range, optimizing trade equipment, and simplifying in-store procedures.

1.9 Product Safety

Children's products belong to a category of goods subject to increasing quality and safety requirements. A key obligation to our customers is ensuring that our wares are safe and of a high quality, as well as a crucial factor in increasing our customers' confidence in our retail chain. Our business activities are in full compliance with the Consumer Protection Law, and Trade Rules.

One of the main challenges for the children's products industry is the presence of counterfeit products, which pose potential threats to the health of the younger generation. Detsky Mir Group purchases products directly from the largest international manufacturers and suppliers to guarantee high quality wares on its store shelves. We actively collaborate with in-

dustry associations aimed at limiting the trafficking of illegal products.

Quality and safety control system for goods

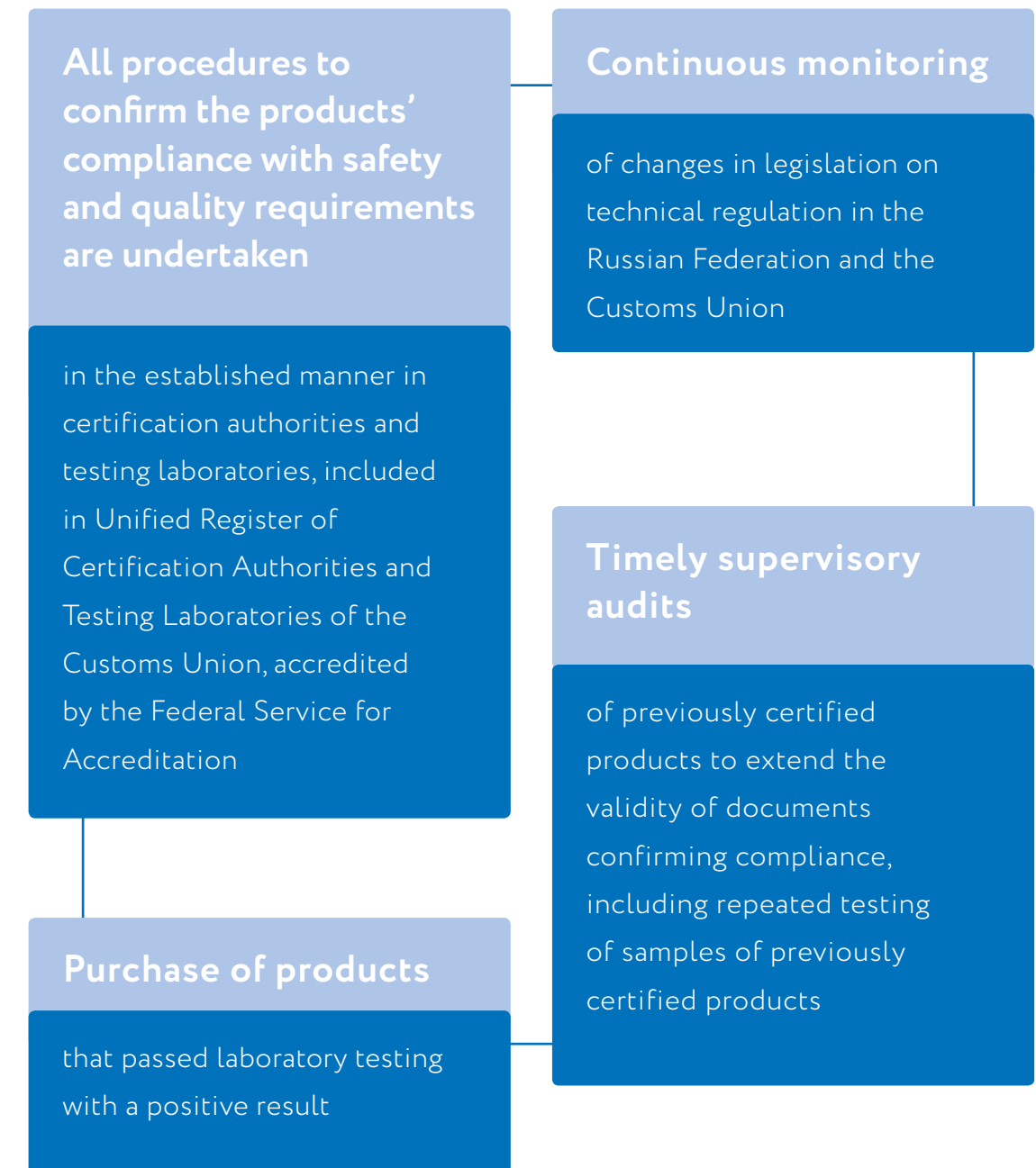
At Detsky Mir Group, safety and quality control of products is carried out at all stages from supplier choice to order formation and placement to stocking shelves and receiving feedback from consumers.

We guarantee that all products at Detsky Mir retail stores and the online store have gone through each stage of quality assurance for compliance with the technical regulatory requirements of the Customs Union (Consumer Protection Law and regulations on the sale of certain types of goods). All our products have the necessary documentation required by legislation for import into the customs territory of the Russian Federation and sale within the retail industry.

Through our optimized and effective safety and quality control processes, we reduce the chance of defective goods appearing on the shelves of our retail stores as early as during the initial stage of certification and laboratory testing.

We check each item's test report and ISO certificate in collaboration with leading international children's products manufacturers, confirming a product's conformity to the regulatory standards of the country of manufacture and law of the Russian Federation.

Systemic Work to Ensure Safety and Quality Control



Heavy quality control is carried out at each stage of production as part of our interaction with the product manufacturers of our private labels, and we independently organize a certification process.

To confirm children's and adolescent product compliance with the Custom Union's mandatory technical regulations, we send request to the certification body, a set of documents required by the regulations,

and samples of our certified products. Following documentation review and, if necessary, laboratory sample testing, the certification body makes a decision on issuing a declaration of conformity, certificates of conformity and state registration, and detailed reports on products not subject to a mandatory confirmation of compliance.

All received documents are processed by our certification department and entered into a single SAP database, accessible to all stores within our retail chain, while information on the received documents is sent to the Company's customs department.

If a consumer claim is filed regarding a purchased product at a sub-par quality, we carefully check the product's documentation and take all necessary measures to prevent further sales of potentially inadequate products of the same SKU, and additional testing is carried out if necessary. If the testing laboratory issues an industrial manufacturing defect certificate following examinations, the defective product is replaced with a new one or the cost of the product is refunded at the customer's preference.

Packaging and labeling

Reliable, legible, and accessible information on product packaging increases visibility on the shelves in our stores and ensures an ac-

curate consumer assessment when deciding on a purchase.

We adhere to the following for packaging and labeling Detsky Mir Group's private label products:

- Disclosure of product compliance with effective Russian legislation including the Technical Regulations of the Customs Union, Consumer Protection Law, rules for the sale of certain types of goods, supply contracts, and quality and safety standards
- Necessary product information provided to customers, the list of which is determined by the Federal Consumer Protection Law
- Enhancing the appeal of our products through attractive packaging and labeling to enhance the appeal of our products and increase sales

All our customers can obtain a copy of any product's certificate in any Detsky Mir Group's store, and the original inspection certificate is also available within three days of purchase.

No discrepancy cases or regulation breaches occurred in packaging or labeling the Company's private label products during the reporting period, indicating the effectiveness of our work in this area.

1.10 Client-Oriented Service

Maintaining our policy for affordable pricing in the mass segment while providing the industry's widest range assortment of products is the key strategic task of Detsky Mir Group, consistent with its responsible attitude toward customers.

Detsky Mir Group has the most extensive retail chain both in the Russian capital and regions, providing consumers access to high-demand products. The children's product range assortment in stores of the Detsky Mir retail chain currently totals more than 50,000¹.

Uniform product pricing and assortment is present across all stores within our retail chain, regardless of the region in which they are located. We are optimizing our internal business processes, working with suppliers, and further developing our online sales channel. Our prices are kept reasonable and fair by:

- increasing the range of domestic goods at comparable quality levels and a lower average price point than imported products
- development of our private labels, which allow us to offer lower prices

¹ Including the expanded range of the Detsky Mir online store.

than the market level by eliminating additional costs from manufacturing companies

- holding regular seasonal and off-season sales promotions, developing special offers for regular customers
- developing our own loyalty program, which allows regular customers to purchase goods at a discount
- providing a 2% discount on goods in Moscow for customers with a Muscovite's Social Card
- participating in social programs of the Russian Federation for supporting families with children.

Loyalty program

Detsky Mir updated the terms of its loyalty program in March 2017, increasing value for customers and the Company's competitive edge. Now, 100% of a purchase can be paid using bonuses, which are accumulated within the program and used to purchase any products from the Detsky Mir Group's range (excluding gift cards and services).

A bonus card can be issued upon any purchase at Detsky Mir stores and it provides a 5% discount for all cardholders. Customers are to fill out a questionnaire in order to use the accumulated bonuses.

Customers who have provided their phone number, email, and permission to receive advertisements are sent information about promotions held by the Company's and exclusive sale.

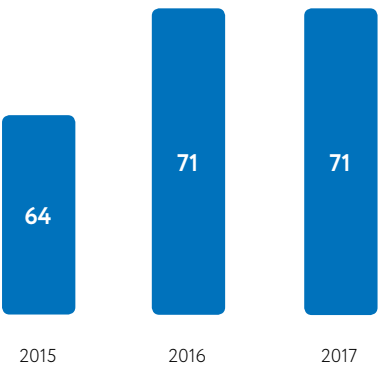


The number of participants in the loyalty program was 18 million people at the end of 2017, and the share of purchases (in tickets) made by program participants remains at the level of 71%, while the share of purchases made by loyalty cardholders in Detsky Mir’s overall sales for the year was 77%.

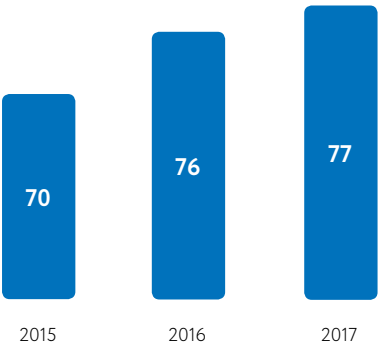
Our loyalty program has proven to be effective, with average member’s tecket totals 33% higher than purchases made without a bonus card.

The Company decided to launch a similar program in its Detsky Mir retail stores in the Republic of Kazakhstan. The bonus program was launched in all stores of the retail chain on 1 September 2017, and more than 90,000 people joined the program by December 2017. The bonus program in Kazakhstan has also proven effective, with 48% higher average ticket totals than purchases made without a bonus card.

Loyalty Program Participants (Russia), %



Share of Cardholder Purchases in Detsky Mir’s Total Sales (Russia), %



Support for families with children

Detsky Mir Group is a key social project partner, facilitated by its minimal retail mark-ups on in-demand categories of goods, including newborn products.

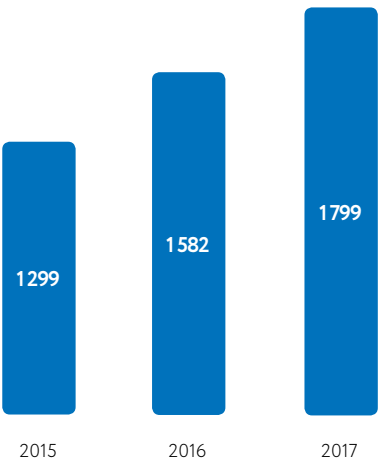
Since 2005, the Detsky Mir chain of stores has been participating in the Government of St. Petersburg’s social initiative to support families with children. The local government provides monthly welfare payments to families from the date of a child’s birth until seven years of age. Material aid is transferred to “Newborn” and “Preschool” bank cards issued by Bank Saint Petersburg. Money received by the family can be used to purchase goods for their children at retail chains accredited by the Administration of St. Petersburg, including at Detsky Mir retail chain stores.

Detsky Mir Group is also a partner of the Moscow Government’s Department of Labor and Social Protection since March 2016, which runs a project issuing certificates to low-income families with children to the Muscovite’s Social Card, through which up to 100% of a purchase can be paid (excluding baby food) in accredited retail chains.

Gift cards

Detsky Mir Group is continuing its projects aimed at improving service levels in its retail stores. Particularly important products are gift cards and electronic gift certificates (EGCs). According to 2017 results, the Detsky Mir chain’s revenue derived from the sale of gift cards and electronic certificates increased by 13% year-on-year, amounting to RUB 1.8 billion, while B2B sales showed a 30% increase year-on-year.

Detsky Mir Group’s Sale of Gift Cards and Electronic Certificates, Including B2B Sales, RUB m



Purchases can be made using a gift card at any store within the Detsky Mir retail chain. Gift cards and electronic gift certificates are available for purchase in the value of RUB 300, 500, 1,000, 1,500, 2,000, 3,000 and 5,000, as well as gift cards with a value of the purchaser’s choice between RUB 300 and 50,000, in multiples of RUB 100.

A gift card is valid for 12 months from the date of purchase and can be used an unlimited number of times before its balance

has been expended. A service has been developed conveniently enabling customers to check the balance of their gift cards in real time on Detsky Mir’s website www.detmir.ru.

Electronic gift certificates can also be purchased in the online store and used in Detsky Mir Group’s retail across Russia. The amount of electronic gift certificates is growing, reaching 6% in the total revenue from the sale of gift cards and electronic gift certificates in 2017.

Depending on the occasion, such as the birth of a child, a boy’s or girl’s birthday, loyalty program customers can receive free giftwrapping (card holder) that is tailored to the theme of the event.

Gift cards and electronic gift certificates are increasingly popular, as they save the time of selecting a gift and instead allow the recipient to independently select a



gift of their preference, making every gift purchased with gift cards and electronic certificates useful and more appreciated by the receiver.

The positive dynamics of gift card and EGC sales in Russia have enabled Detsky Mir to actively develop gift card sales in the Republic of Kazakhstan, which showed more than doubled growth in 2017 compared to 2016. Gift cards and electronic gift certificates for the Detsky Mir retail chain in Russia and the Republic of Kazakhstan can be used not only by individuals, but also by legal entities.

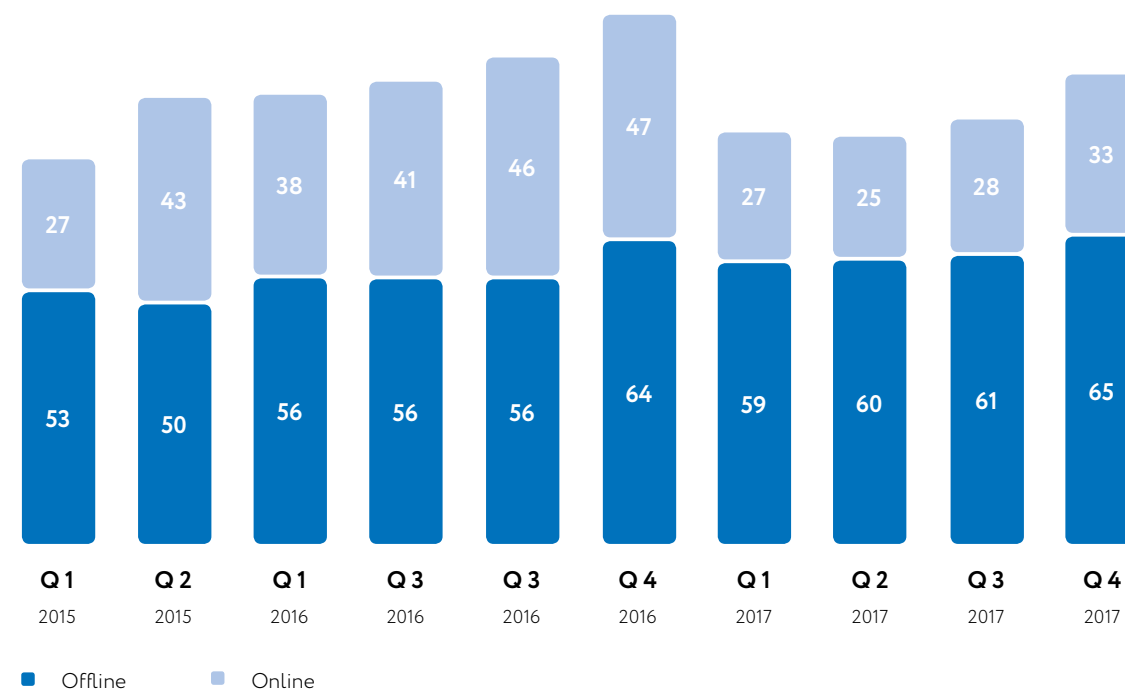
Gift cards and electronic gift certificates are an effective solution in internal programs to increase the loyalty of the Company's personnel, motivating clients and partners, and complementing promotions and events.

NPS – an index used to gauge customer loyalty and commitment to a company, assessing customer likelihood to repeat purchases through their willingness to recommend the company to friends and relatives. NPS is an important indicator of the Company's performance, along with traffic, turnover, average receipt, and other elements.

Customer satisfaction survey

Since 2015, Detsky Mir has been measuring the loyalty of its customers using the NPS (Net Promoter Score), which is calculated on a quarterly basis by surveying the customers of Detsky Mir retail stores and the online store's customers. About 7,500 visitors of retail shops participate in each

Customer Satisfaction (NPS)



survey, as well as about 2,000 online store customers and 500–1,000 online store visitors who did not make purchases but accepted the invitation to take the survey.

During the first stage of the survey, buyers are asked the question: "How likely is it that you would recommend our company/product/service to a friend, relative, or colleague?"

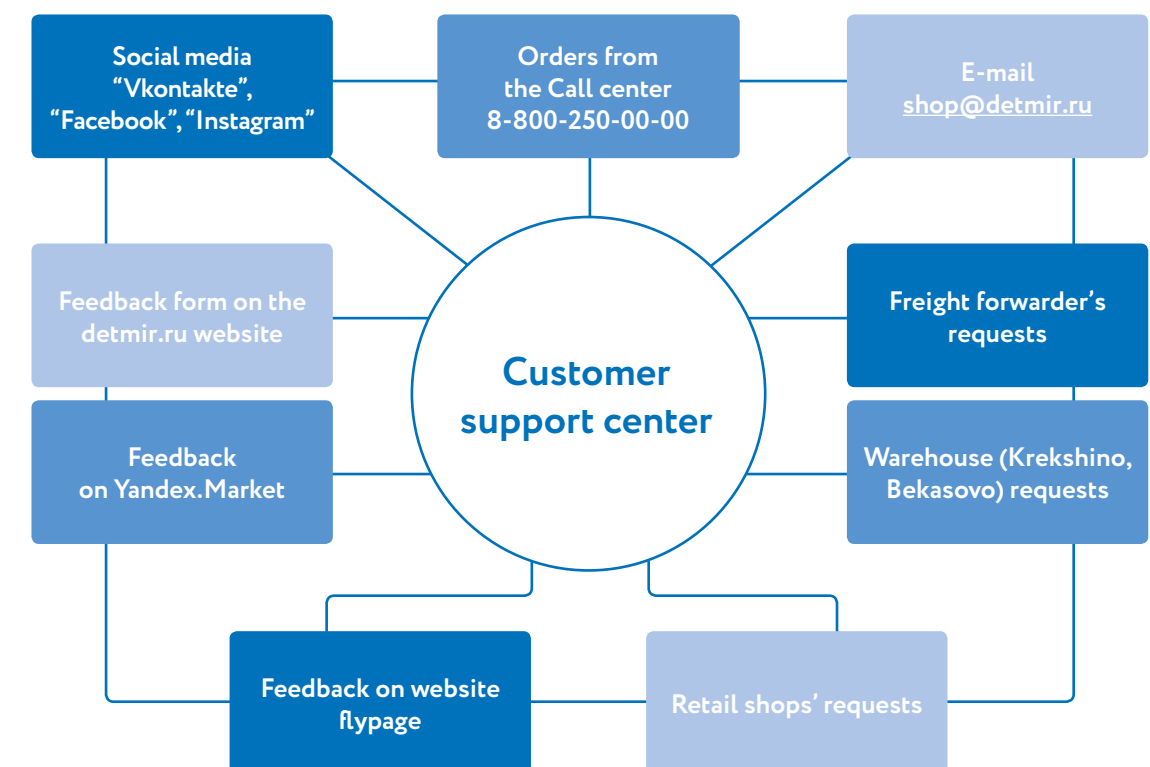
At the second stage, the reasons influencing a customer's loyalty are requested and the subsequent NPS is calculated.

The purpose of NPS is to generate customer feedback which can be used for insights on improving our service and in-

creasing customer loyalty. We can adjust our retail and online store operations to better suit majority preferences, as well as learn each store's strengths and weaknesses directly from consumers customers. The NPS index and aiming for its higher score positively affects both the satisfaction of the Company's customers and the results of the Company's activities.

Feedback mechanisms

Detsky Mir Group has an effective feedback system providing all consumers the opportunity to contact us and transmit their claim through the following channels¹:



¹ A claim is defined as any registered appeals received from customers requiring a response.

Established in April 2017, our Customer Support Center is aimed at retrieval and collection of detailed customer-oriented feedback. The main objectives of the Center are:

- rapid resolution of customer inquiries
- adapting the Company’s business processes based on customer feedback.

The Customer Support Center’s one-shop format accumulates feedback to a single division from all our communication channels, and began to use the Use desk program in September 2017 for further optimization of its services, including:

- integration of most communication channels for increased feedback
- tracking of average inquiries resolution deadlines
- statistics collection on the categories of customer claims
- monitoring of the performance of Customer Support Center staff.

The number of individual inquiries received by the Center from customers sharply increased four-fold to 149 thousand in 2017, influenced by:

- 1) transition to the one-stop-shop principle, enabling the Company’s personnel to see aggregated information on incoming customer inquiries
- 2) growth in the number of Detsky Mir retail stores, to a total of 622 in 2017
- 3) growth in the number of online store orders by 2.1 times compared to 2016.

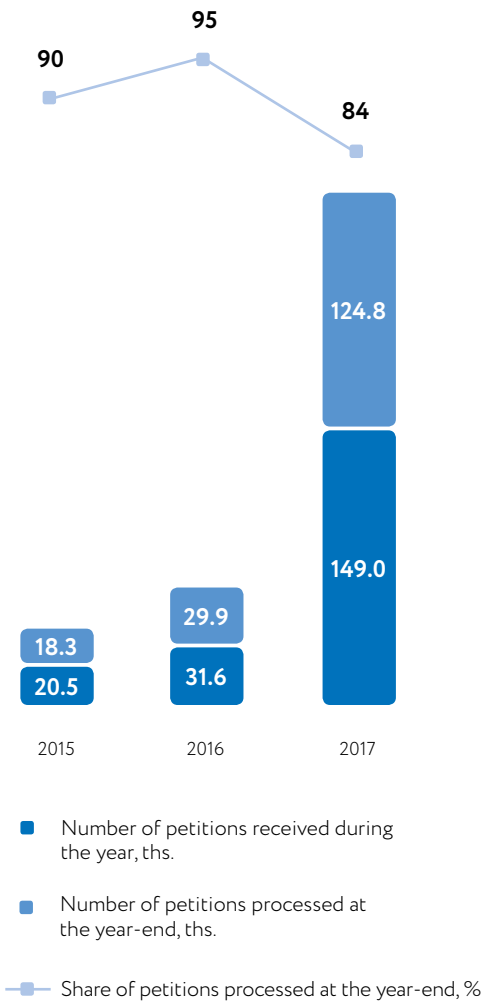
A key achievement of the Center in 2017 was its low average response times to customer inquiries:

- 15 minutes on VKontakte
- 30 minutes on Facebook

- 24 hours for feedback provided to the Detsky Mir call center or through the website’s Feedback Form.

All customer contact is ubiquitously registered as Feedback and sent for processing to our specialists, who have access to the Feedback database for quick response times as well as situation control in the case of inquiries within the following categories: “Product Inquiries”, “Online Store Inquiries”, “Unsubscribing from the Newsletter”, “Bonus Program Inquiries”, and “Inquiries on Gift Cards and Electronic Gift Certificates”.

Received and Resolved Customer Inquiries



Fair advertising

We use various channels to keep an open line of communication with our customers, primarily through television and the bi-monthly Detsky Mir newsletter to keep them well-informed about current promotions, special offers and sales, as well as interesting products and new arrivals. Detsky Mir also actively communicates with members of its loyalty program via Viber, SMS, and email.

Detsky Mir Group exclusively uses high-efficiency communication channels:

- TV advertising
- Mass and targeted newsletters via Viber, SMS, and email
- Distribution of our free promotional newspaper to residential mailboxes and by email
- Advertising in retail stores, such as POS displays and window dressings
- Internet advertising.

Detsky Mir Group’s legal department approves all advertising prior to publication, guided by our values in transparency, honesty, and compliance with legislative requirements. From 2014 to 2017, the Group recorded a minimal three cases of non-compliance with regulatory requirements on marketing communications. In one of the three cases, the issued penalty was revoked following an appeal, an administrative warning was received in another case, and the last resulted in a penalty fine.

1.11 Purchase Management

Commercial purchases

Detsky Mir’s purchase volumes are planned for each category through assortment planning, which corresponds to the chain’s range policy and full list of SKUs. Research results of category management, competitor assortments, fashion trends, and popular events in the world of cinema and entertainment are analyzed during assortment planning. Based on the analyses, we systematically review contract terms with suppliers and sign new contracts.

Suppliers can independently contact the Company with commercial offers, or they can be engaged via industry exhibitions as well as open information channels.

An important stage in the selection and approval of suppliers is the Assortment Committee meeting, a cross-functional body uniting experts from different Detsky Mir departments such as the Commercial Directorate, Certification Department, and Marketing Department. The Assortment Committee is authorized to make strategic approvals on supplier lists, changing the terms with current suppliers, and modifying the assortment planning, among other actions.

Purchases for operational requirements

The procurement of goods and services for our operational requirements is a crucial development area optimizing costs and improving the efficiency of our business processes. Purchases for operational

requirements include equipment supply for stores and warehouses, construction and installation work, marketing and advertising, and logistics. About 95% of services and products purchased for Detsky Mir's operational requirements are purchased from Russian suppliers, while the remaining 5% are supplied from abroad due to a lack of domestic analogues.

In the field of non-commercial purchases, the Company continued to follow the target within its 2015–2016 plan: a maximum number of purchases done through a competitive tendering process and published as publicly-available information. For some purchased services, new contract terms were applied. This approach inhibited price increases, and in most cases reduced them in comparison with previous periods.

The Company received high praise again in 2017 from the National Transparency Rating experts, demonstrating its transparency to suppliers.

Perfecting the procurement system

As a public company, a key task of Detsky Mir Group's top management is ensuring transparent procurement processes.

In 2015–2016, Detsky Mir Group managed to significantly reduce its cost of supplied materials, goods, and services through the introduction of intracorporate electronic document management and the transfer of 95% of its purchases to the universal trading platform, Sberbank-AST. These initiatives have reduced the Company's resultant costs from purchasing materials, goods, and services, and increased competition among potential suppliers.

Our business process was adjusted by delegating the procurement roles from internal

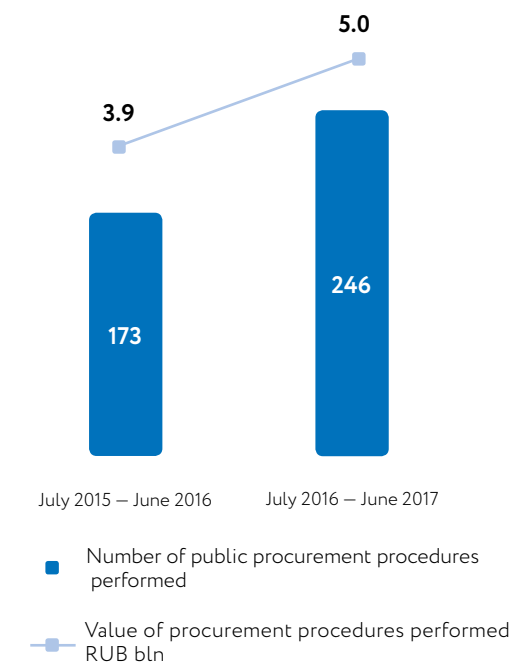
Detsky Mir Group was classed as a company with a high degree of transparency from the National Rating of Transparency of Purchases in 2017. The Company significantly outpaced the ratings of other Russian retailers and was the only children's goods representative present.

The National Rating of Procurement Transparency (<http://nrpz.ru/>) is an independent, non-governmental research center that specializes in monitoring the state and corporate procurement market for transparency and ensuring legal compliance.

customers within Detsky Mir Group to the procurement department to centralize purchases in logistics, construction, marketing, and information technologies, thereby facilitating increased coordination and optimizations in procurement time. Consolidating purchases across particular categories also contributed to our cost reduction.

According to our estimates, RUB 400 million in savings was generated during 2017 following implementation of our revised procurement scheme for operational needs with a purchasing budget of several billion. Detsky Mir's dynamic development also largely facilitated the savings by the Company offering to purchase large volumes from suppliers, demonstrating transparency in supplier selection, and strict compliance with the Company's obligations to counterparties.

Detsky Mir's Open Procurement Procedures



Further improvements upon our procurement procedures are planned for 2018, including for standardizing the purchase of goods and services, searching for new and reliable partners, developing our relationship with existing suppliers, and building mutually-beneficial long-term relationships with new suppliers.

Centralized logistics activity

Effective inventory control provides stable on-shelf availability, which requires centralized logistics. Detsky Mir's distribution center was put into operation at the Class A+ industrial park PNK Bekasovo in the Moscow Region's Naro-Fominsk district in 2015, it has an area of 70 thousand square meters. The Company also leases the Krekshino distribution center, with an area of 20 thousand square meters.

The distribution center of Detsky Mir Group has become the largest specialized logistics terminal in Russia in the chil-

dren's goods market. It fully meets modern requirements, which guarantees its uninterrupted operation and distribution of goods to stores within our retail network at appropriate times. The PNK Bekasovo distribution center uses a combined storage system that is designed for warehousing the full range of products of a retail chain.

Opening our own warehouse has enabled an increase in logistics centralization (the share of turnover passing through the warehouse) from 26% in 2014 to 77% in 2017. We plan to maintain a high level of centralization, which will increase the turnover of goods in stores, eliminate the occurrence of out-of-stock items, and create a good logistics platform for further scaling of the business.

Through the SAP EWM warehouse management system introduced in our distribution centers, we can now supervise the full supply-chain cycle: from order placement to warehouse or store processing prior to delivery to the customer.

In 2017, a Transportation Management System was also introduced to optimize logistics costs, enabling comprehensive planning and management of transportation, as well as calculating optimal transportation routes.

To maintain a high level of centralization, the Company decided to open a new distribution center in the Ural region for a more efficient supply of goods to the Urals, Siberia, the Volga Region, and the Republic of Kazakhstan. In September 2017, the Company signed a preliminary lease agreement for a Class A distribution center with an area of 46 thousand square meters at the transportation and logistics complex, Yuzhnouralsky, in the Chelyabinsk Region. The contract is valid for 10 years, and provides the possibility for the leased area's

expansion to 82 thousand square meters. The new logistics center is scheduled for launch in 2018. In order to support sales growth in Moscow and the Moscow Region, a preliminary decision was made to open another distribution center in the Moscow Region's north in 2019, with an area of 60–70 thousand square meters.

1.12 Information Processing Technology

The Information Technology (IT) Department is a reliable business division supporting the continuous development and automation of the Company's activities. Almost all our divisions projects are implemented with the cooperation of the IT Department. In 2017, communications between the IT Department and our other business divisions were significantly improved, and sharp advancements were made toward proactive work within our major projects.

A single information space was created for data exchange between consumers, suppliers, and Group companies and their key divisions, ensuring business process transparency and improving efficiency.

A strong emphasis was laid on increasing our IT Department's operational efficiency throughout 2017, resulting in a reduction of RUB 102 million in IT costs and a RUB 36 million decrease in IT costs associated with opening new stores within the Detsky Mir retail network.

Detsky Mir's significant IT projects throughout 2017:

- **Modernization of cash register equipment for FZ-54 requirements¹.** All Detsky Mir Group's cash registers in Russia commenced online data transfers to the Federal Tax Service within our modernization initiative. The process of reconciling cash register data transmitted to fiscal data operators with SAP data to ensure full compliance of ticket data and mitigation of potential tax risks.
- **Expansion of the In-Store Pickup service.** The IT Department's largest project has been development of the pickup service for our online store. The necessary SAP developments were made to support delivery from our distribution center to the customer's choice of any Detsky Mir store in the Russian Federation.

¹ Federal Law No. 54-FZ dated 22 May 2003 On the Application of Cash Register Equipment in Settlements in Cash and/or via Electronic Means of Payment.



Prospective Plans in Information Technology

Transfer of ELC to SAP. In 2018, ELC business processes will be automated within a single SAP framework. This project will be a final step in the SAP projects program — the Group's entire activities will be concentrated within a single SAP system, with broad opportunities for integration and joint development. The project will also enable ELC's use of the Group's information resources without the need for developing duplicate applications.

The distribution center in the Urals.

As part of this project, the IT department will set up a modern and reliable IT infrastructure to ensure the warehouse's stable operation, which will be operating on a SAP EWM management solution, fully emulating the func-

tionality of the Bekasovo distribution center. Systems for meeting business needs that are planned for launch at the Urals distribution center include Structured Cabling, Video Surveillance, Access Control and Management, among others.

Transitioning to joint storage of online and retail stock.

The current system of online and retail stock storage in separate warehouses is unsuitable for our increased business volume, leading to unproductive logistics costs and preventing full-scale commissioning and use of distribution centers that are planned to be opened in 2018–2019. A number of projects are planned for 2018, including the joint-storage of online and retail stock at the Bekasovo distribution center, changing business processes in commercial business units.

2.1 Corporate Management
Practice
2.2 Corporate Management
Bodies
2.3 Dividends

2.4 Remuneration
2.5 Countering
Corruption
2.6 Risk Management

Corporate Management

The corporate management model of PJSC Detsky Mir was adjusted in accordance with the requirements of PJSC Moscow Exchange in connection with the inclusion of the Company's shares in the first level of securities listing.

The structure of the governing bodies is three-tiered and includes: General Meeting of Shareholders, the Board of Directors, the Collegial and the Sole Executive Body.

In 2017 the Board of Directors and committees of the Board of Directors included the maximum number of independent directors in the Company's history.

AFK Sistema retains its controlling interest in PJSC Detsky Mir. The key shareholder expresses confidence in the profitability growth of its investments and the Company's significant future potential.

The Detsky Mir Group is a team of professionals united by a common goal of contributing to the development of the business

**More than
11.6 thousand
employees**

**RUB 4.8 billion
distributed
dividends**

2.1 Corporate Management Practice

PJSC Detsky Mir is responsible for compliance with regulatory requirements in the field of corporate governance. Disclosure of information allows the Company to comply with the requirements of legislation of the Russian Federation and continuously improve the practice of corporate governance.

Statement of the Board of Directors of PJSC Detsky Mir on compliance with the principles of corporate governance enshrined in the Corporate Governance Code¹

In the field of corporate governance, PJSC Detsky Mir adheres to the principles enshrined in the Corporate Governance Code, which provides shareholders with every opportunity to participate in the

management of the Company and to familiarize themselves with information on the Company's activities in accordance with the Federal Law "On Joint Stock Companies", the Federal Law "On securities market" and regulatory acts of the Bank of Russia.

Our main principle of building relationships with shareholders and investors is a reasonable balance of interests of the Company as an economic entity and as a joint-stock company interested in protecting the rights and legitimate interests of its shareholders.

Model of corporate management

In 2017, the corporate management model of PJSC Detsky Mir was adjusted in accordance with the requirements of PJSC "Moscow Exchange" in connection with the inclusion of the Company's shares in the first level of securities listing.

The Board of Directors and committees of the Board of Directors included the maximum number of independent directors in the Company's history. The structure of the governing bodies is three-tiered and includes: General Meeting of Shareholders, the Board of Directors, the Collegial Executive Body (the Management Board) and the sole executive body (CEO). The Board of Directors expanded its competence and plays a key role in the management of the Company. The Board of Directors established Committees on Audits, Nomination and Remunerations, and Strategy.

Evaluation of the quality of corporate management

The evaluation was carried out based on the Self-Assessment Methodology of Corporate Governance Quality in Public Companies and Joint Stock Companies

approved by the Federal Property Management Agency Order No. 306 dated August 22, 2014.

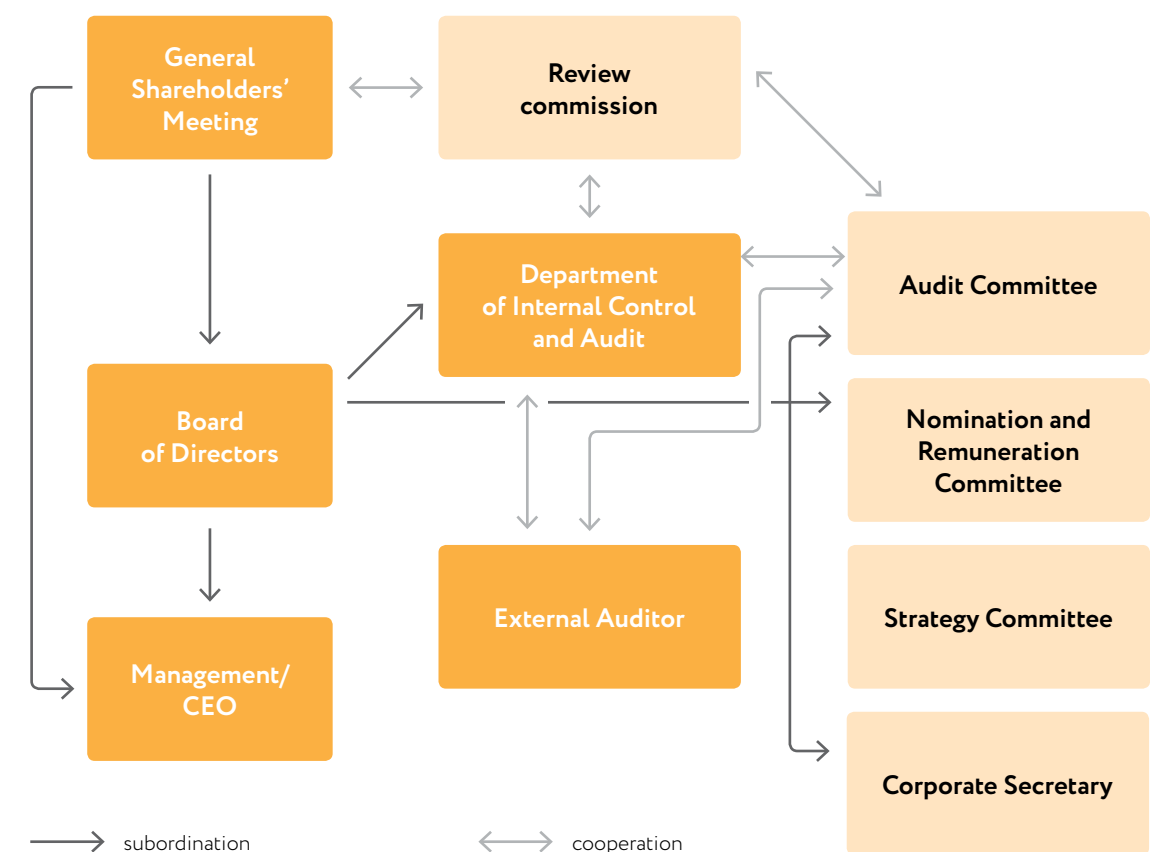
In accordance with the aforementioned methodology, the maximum score is 548 points (100%), and the minimum allowable is 356.2 points (65%). The assessment of the quality of corporate governance of PJSC Detsky Mir is 422.5 points (77%).

Plans to perfect corporate management

In 2018, we plan to improve procedures to assess the independence of members of the Board of Directors and to identify conflicts of interest of members of management bodies, as well as to automate the process of identifying interested-party transactions on the basis of SAP.

2.2 Corporate Management Bodies

The corporate governance system of PJSC Detsky Mir is aimed at creating and maintaining reliable and honest relations with shareholders and investors, which further enhance the Company's investment attractiveness.



¹ Recommended for use by the Bank of Russia Letter No. 06-52/2463 dated 10.04.2014 "On the Code of Corporate Governance".

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body and carries out its activities in accordance with the provisions of the Company’s Charter, internal documents approved by the decisions of the General Meeting of Shareholders, and the requirements of the legislation of the Russian Federation.

PJSC Detsky Mir annually holds a (regular) General Meeting of Shareholders which resolves issues on the election of the Board of Directors, the Review Commission, approves the auditor, and other matters within the competence of the Company’s supreme management body.

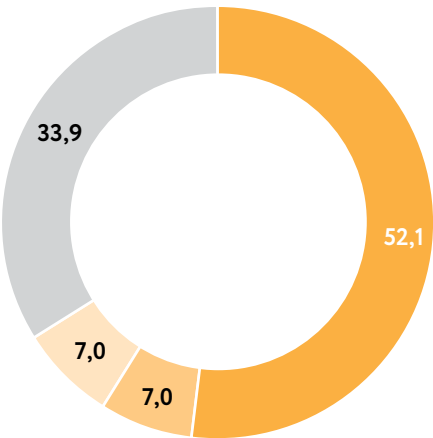
In 2017 the General Meeting of Shareholders held 1 annual and 2 extraordinary meetings, at which the following decisions were made:

- approval of the annual report of PJSC Detsky Mir for 2016;
- approval of the annual accounting (financial) statements for 2016;
- distribution of profits and losses (including payment of dividends) based on the results of 2016 and 9 months of the 2017 fiscal year;
- early termination of the powers of the Board of Directors;
- election of the Board of Directors and the Review Commission;
- approval of the Company’s auditor for 2017;
- approval of the Charter in a new edition and other internal documents;

Board of Directors

The Board of Directors is the collegiate management body of the Company, it exercises general management of its activities, except for resolving issues within the competence

Shareholder Structure as of 31.12.2017, %



- PJSC AFK Sistema
- FLOETTE HOLDINGS LIMITED
- EXARZO HOLDINGS LIMITED
- Shareholders of more than 5% of shares

of the General Meeting of Shareholders and is guided by the legislation of the Russian Federation, the Company’s Charter, decisions of general meetings of shareholders, the Regulations on the Board of Directors and other internal regulatory acts.

The Board of Directors expanded its competence and plays a key role in the management of the Company. The main issues in the activity of the Board of Directors are: strategic development of business, control over the execution of financial and budgetary plans, risk management, motivation and remuneration of personnel and top management, internal audit, and large and substantial transactions.

The following committees have been created under the Board of Directors:

- for audits,
- for nominations and remunerations,
- for strategy.

The function of internal audit is assigned to a separate division – the Internal Control Department. The head of the department is accountable to the Board of Directors, appointed and dismissed by his/her decision.

The Nomination and Remuneration Committee considers the candidacy for the post of Corporate Secretary, which is further appointed by the CEO on the basis of a decision of the Board of Directors.

The main task of the Corporate Secretary is to ensure effective current interaction with the Company’s shareholders, coordinate the Company’s actions to protect the rights and interests of its shareholders, and support the effective work of the Board of Directors.

The quantitative composition of the Board of Directors is established by the General Meeting of Shareholders.

Board of Directors of PJSC Detsky Mir in 2017

Composition, elected on June 28, 2016	Composition, elected on March 3, 2017	Composition, elected on June 28, 2017
1. Christopher Alan Baxter	1. Christopher Alan Baxter	1. Christopher Alan Baxter
2. Sean Yan Glodek	2. Artem Ivanovich Zasursky	2. Vitaly Viktorovich Vavilov
3. Valentin Alexandrovich Korchunov	3. Andrei Mikhailovich Kamensky	3. Alexander Evgenievich Gorbunov
4. Oleg Saidashovich Mubarakshin	4. Valentin Alexandrovich Korchunov	4. Artem Ivanovich Zasursky
5. Nadezhda Konstantinovna Nosova	5. James MacArthur	5. Andrei Mikhailovich Kamensky
6. Christopher Allan Parks	6. Oleg Saidashovich Mubarakshin	6. James MacArthur
7. Gevork Mushegovich Sarkisyan	7. Christopher Allan Parks	7. Christopher Allan Parks
8. Teng Lei	8. Olga Anatolievna Ryzhkova	8. Olga Anatolievna Ryzhkova
9. Leonid Alexandrovich Khanik	9. Gevork Mushegovich Sarkisyan	9. Gevork Mushegovich Sarkisyan
10. Vladimir Sanasarovich Chirakhov	10. Vladimir Sanasarovich Chirakhov	10. Vladimir Sanasarovich Chirakhov

The Board of Directors of PJSC Detsky Mir held 18 meetings in 2017, 14 of them in the form of absentee voting, on which 84 issues were considered. The Board of Directors’ meetings were preceded by 12 meetings and 49 issues held and

resolved by the committees under the Board of Directors.

In 2017, the Board of Directors included 10 members, of which: 4 independent, 5 non-executive and 1 executive director.

Personal Information about the Members of the Board of Directors



Christopher Alan Baxter, born 1963

Education: higher

Chairman of the Board of Directors, non-executive director

Share in the authorized capital of the company: 0.65%

Percentage of ordinary shares of the company held by the person: 0.65%

Participation in meetings (presence / pass): 11/7



Vladimir Chirakhov, born 1974

Education: higher

Executive Director, Member of the Strategy Committee

Share in the authorized capital of the company: 1.7%

Percentage of ordinary shares of the company held by the person: 1.7%

Participation in meetings (presence / pass): 18/0



James MacArthur, born 1960

Education: higher

Independent Director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 12/3



Andrei Kamensky, born 1972

Education: higher

Non-executive director, member of the Audit Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 14/1

Participation in the management bodies of other organizations: Executive Vice President for Finance and Economics, PJSC AFK Sistema



Gevork Sarkisyan, born 1982

Education: higher

Independent Director, Member of the Strategy Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 18/0

Participation in the management bodies of other organizations: the CEO of the company "Innova Distribution" LLC



Christopher Allan Parks, born 1963

Education: higher

Independent Director, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 18/0



Artem Zasursky, born 1979

Education: higher

Non-executive director, member of the Strategy Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 8/7

Participation in the management bodies of other organizations: Vice President, Head of the Strategy Complex of PJSC AFK Sistema



Olga Ryzhkova, born 1983

Education: higher

Non-executive director, member of the Strategy Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 10/5

Participation in the management bodies of other organizations: Senior Vice President of RCIF Investment Management LLC



Vitaly Vavilov, born 1984

Education: higher

Independent Director, member of the Nomination and Remuneration Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 8/0

Participation in the management bodies of other organizations: Partner in CJSC STRATEGY PARTNERS GROUP



Aexander Gorbunov, born 1967

Education: higher

Deputy Chairman of the Board of Directors, non-executive director, member of the Strategy Committee

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%

Participation in meetings (presence / pass): 8/0

Participation in the management bodies of other organizations: Vice President, Managing Telecommunications Assets of PJSC AFK Sistema

The Federal Law “On Joint Stock Companies” assigns to the Board of Directors an important role in ensuring the rights of shareholders, in the formation and implementation of the Company’s development strategy, and in ensuring its successful financial and economic activities.

The activities of the Board of Directors of PJSC Detsky Mir were organized in accordance with the approved work plan, the implementation of decisions was regularly monitored. In the exercise of their powers, all members of the Board of Directors acted in the best interests of the Company, in good faith and reasonably, took an active part in meetings of the Board of Directors and committees under the Board of Directors.

In subsequent years, the Board of Directors of PJSC Detsky Mir will give priority to improving the quality of business management, increasing the value of the Company’s shares, as well as financial stability and competitiveness.

Executive management bodies

The management of the current activities of PJSC Detsky Mir is carried out by the collegiate and sole executive bodies – the Management Board and the CEO, ensuring

The activities of the Board of Directors of PJSC Detsky Mir were organized in accordance with the approved work plan, the implementation of decisions was regularly monitored.

effective fulfillment of the tasks facing the Company and implementing the development strategy in order to ensure the Company’s profitability and competitiveness, its financial and economic stability, the rights of shareholders and social guarantees of personnel.

The competence of the executive bodies includes the resolution of all issues of the current activities of PJSC Detsky Mir, with the exception of issues falling within the competence of the General Meeting of Shareholders and the Board of Directors.

The CEO and members of the Management Board in their activities are guided by the legislation, the Charter of the Company and other internal regulatory acts.

The election of the Chairman of the Management Board of the Company and early termination of his/her powers falls within the competence of the Board of Directors. The Chairman and members of the Management Board carry out close cooperation with the Board of Directors, including regularly reporting on the results of their activities.

For 2017 the management of PJSC Detsky Mir held 50 meetings, where 169 issues were considered.

In the exercise of their powers, all members of the Board of Directors acted in the best interests of the Company, in good faith and reasonably, took an active part in meetings of the Board of Directors and committees under the Board of Directors.

Management Board of PJSC Detsky Mir in 2017

Valid from January 1, 2017 to February 1, 2017	Valid from February 2, 2017 to February 10, 2017
Vladimir Sanasarovich Chirakhov (Chairman of the Board)	Vladimir Sanasarovich Chirakhov (Chairman of the Board)
Maria Sergeevna Davydova	Maria Sergeevna Davydova
Vyacheslav Robertovich Khvan	Vyacheslav Robertovich Khvan
Farid Shamilevich Kamalov	Farid Shamilevich Kamalov
Maria Valerievna Volodina	Maria Valerievna Volodina
Tatyana Petrovna Mudretsova	Tatyana Petrovna Mudretsova
Anatoly Viktorovich Mokhov	Pavel Pavlovich Pishchikov
Vladimir Mikhailovich	Vladimir Mikhailovich Ilmetov
Anna Sergeevna Garmanova	Anna Sergeevna Garmanova
Anastasia Vladimirovna Yaroshevskaya	Anastasia Vladimirovna Yaroshevskaya
Valid from February 11, 2017 to May 30, 2017	Valid from May 30, 2017 to December 31, 2017
Vladimir Sanasarovich Chirakhov (Chairman of the Board)	Vladimir Sanasarovich Chirakhov (Chairman of the Board)
Maria Sergeevna Davydova	Maria Sergeevna Davydova
Farid Shamilevich Kamalov	Farid Shamilevich Kamalov
Maria Valerievna Volodina	Maria Valerievna Volodina
Tatyana Petrovna Mudretsova	Tatyana Petrovna Mudretsova
Pavel Pavlovich Pishchikov	Pavel Pavlovich Pishchikov
Vladimir Mikhailovich Ilmetov	Vladimir Mikhailovich Ilmetov
Anna Sergeevna Garmanova	Anna Sergeevna Garmanova
Anastasia Vladimirovna Yaroshevskaya	Anastasia Vladimirovna Yaroshevskaya
	Artem Vladimirovich Gubanov

Personal Information about the Management Members



Vladimir Chirakhov, born 1974

Education: higher

Chief Executive Officer

CEO of PJSC Detsky Mir

Share in the authorized capital of the company: 1.7%

Percentage of ordinary shares of the company held by the person: 1.7%



Farid Kamalov, born 1980

Education: higher

Operations Director of PJSC Detsky Mir

Share in the authorized capital of the company: 0.04%

Percentage of ordinary shares of the company held by the person: 0.04%



Tatyana Mudretsova, born 1973

Education: higher

Marketing Director of PJSC Detsky Mir

Share in the authorized capital of the company: 0.005%

Percentage of ordinary shares of the company held by the person: 0.005%



Artem Gubanov, born 1983

Education: higher

Director of the Department of Real Estate and Development of PJSC Detsky Mir

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%



Maria Davydova, born 1974

Education: higher

Deputy CEO for Commercial Activities of PJSC Detsky Mir

Share in the authorized capital of the company: 0.01%

Percentage of ordinary shares of the company held by the person: 0.01%



Anastasia Yaroshevskaya, born 1984

Education: higher

Personnel Director of PJSC Detsky Mir

Share in the authorized capital of the company: 0%

Percentage of ordinary shares of the company held by the person: 0%



Maria Volodina, born 1973

Education: higher

Commercial Director of PJSC Detsky Mir in the “Fashion” segment

Share in the authorized capital of the company: 0.01%

Percentage of ordinary shares of the company held by the person: 0.01%



Pavel Pishchikov, born 1976

Education: higher

Director of the Department of Internet Commerce Management of PJSC Detsky Mir

Share in the authorized capital of the company: 0.0001%

Percentage of ordinary shares of the company held by the person: 0.0001%



Anna Garmanova, born 1976

Education: higher

Financial Director of PJSC Detsky Mir

Share in the authorized capital of the company: 0.005%

Percentage of ordinary shares of the company held by the person: 0.005%



Vladimir Ilmetov, born 1958

Education: higher

Director of the Security Department of PJSC Detsky Mir

Share in the authorized capital of the company: 0.006%

Percentage of ordinary shares of the company held by the person: 0.006%

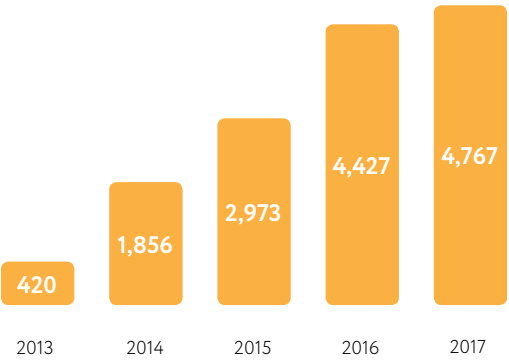
2.3 Dividends

The Board of Directors and the management of PJSC Detsky Mir assure that constant dividends are an integral part of the Company’s investment attractiveness and the profitability of its shareholders.

The Company developed and approved by the Board of Directors a “Dividend Policy” that contains clear indications of financial (economic) circumstances under which the Company should / should not pay dividends.

The decision on the payment of dividends (including the amount of dividends and the form of their payment) is made by the General Meeting of Shareholders of PJSC Detsky Mir on the basis of the recommendations of the Board of Directors.

History of Dividends Paid, RUB mln¹



¹ Declared dividends to PJSC AFK Sistema in the amount of RUB 4.767 were paid in February 2018, due to the restriction on the receipt of income on the issuer’s shares held by PJSC AFK Sistema, on the basis of a judicial act.

Dividend policy assumes payment of at least 50% of consolidated net profit under IFRS for the previous year. Historically, the Company paid up to 100% of its net profit under RAS. Traditionally dividends are paid twice per year: an interim payment for 9 months and for the whole year.

The amount of dividend payments may be influenced by the following factors: prospects for the development of the Company, its financial position and financing needs, general macroeconomic situation and market conditions, as well as other factors, including those related to taxation and legislation.

2.4 Remuneration

System of remuneration for members of the Board of Directors

In accordance with the recommendations of the Corporate Governance Code, the Company’s policy on remuneration and reimbursement of expenses (compensation) of members of the Board of Directors is enshrined in the Regulation on Remuneration and Compensations Payable to Members of the Board of Directors of PJSC Detsky Mir. The Regulations provide for the payment of a fixed remuneration only to independent members of the Board of Directors. Its magnitude depends on market conditions.

In 2017, the payment of remuneration to independent members of the Board of Directors of PJSC Detsky Mir amounted to RUB 16 million.

The remuneration system for the CEO and members of the Management Board

The CEO and members of the Management Board of PJSC Detsky Mir are full-time employees, and their salaries consist

of a salary and an annual bonus for the performance of key performance indicators established by the Board of Directors. The size of the salary is determined by the staffing schedule. Amount of other payments: surcharges, compensations and bonuses are regulated by the Regulations on the remuneration of labor, the Regulation on bonuses and the Regulations on material and technical support.

For members of the Board and key employees, a long-term incentive program is in operation. The program is aimed at increasing the Company’s market capitalization.

2.5 Countering Corruption

The absence of corruption is an important factor in increasing the effectiveness of PJSC Detsky Mir. In this regard, we regularly assess the risks associated with corruption, check our partners and job seekers for established posts, put into practice standards and procedures aimed at ensuring the honest work of the Group of Companies and monitoring their implementation.

The total remuneration to the members of the Management Board of PJSC Detsky Mir in 2017 in the amount of RUB 898.2 million

was paid, the total compensation amounted to RUB 10.2 million.

To prevent problem situations, we develop training programs for employees on anti-corruption standards and norms, monitor the effectiveness of our measures.

Quarterly for employees of the Company, an electronic dispatch of a memo on compliance with the principles of combating corruption is carried out. Every year, including external consultants, training seminars on compliance with anti-corruption procedures are held.

Employees from the legal department provide advice to personnel, as well as counterparties, on the use of anti-corruption documents adopted by the Company.

As necessary, the existing ones are updated and new documents aimed at combating corruption are introduced.

The main regulatory documents that regulate the processes of combating corruption:

- Anti-corruption policy
- Code of Ethics
- Managing Conflict of Interests policy
- Anti-Fraud policy
- Procurement activity policy
- The policy “Material and technical and information support of workers”
- Information security policy
- Regulation of the process “Realization of purchases of goods, works, services”
- The concept of combating corruption

In order to improve the effectiveness of combating risks, counteracting abuses, the timely detection of possible facts of corruption, fraud or other irregularities in the activities of PJSC Detsky Mir and its non-public subsidiaries, a corporate intrudes program “EMPLOYEES CAUTION!” <http://corp.detmir.ru/about/the-staff-warned>.

Channels and means of sending messages (anonymously):

- email address: report@detmir.ru;
- by telephone: +7 (495) 781-08-30 (answering machine) or +7 (800) 250-00-00 with the key phrase “Employees caution!”;
- addressed to the Head of the Legal Department and / or Head of the Internal Control and Audit Department and / or Head of the Corporate Security Department marked “For the attention of” — “Employees caution!”

In 2017 The company implemented several initiatives under the framework of anti-corruption activity.

1. The following documents were introduced:

- Information security policy,
- Regulation of the process “Implementation of procurement of goods, works, services in PJSC Detsky Mir.

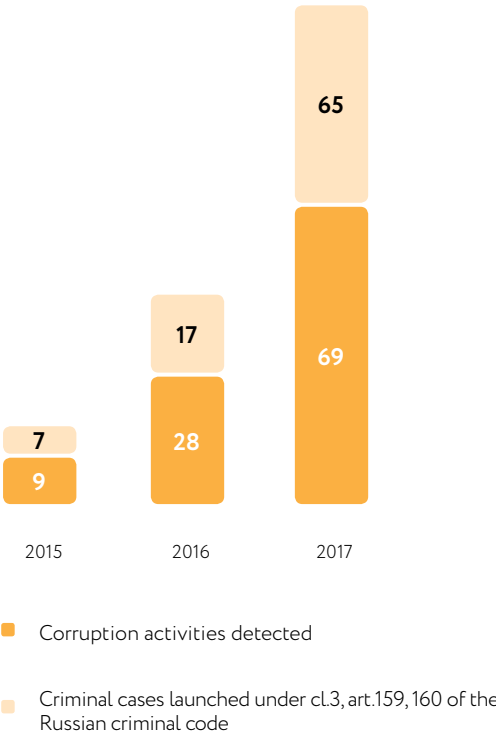
Updated:

- Procurement Activity policy in PJSC Detsky Mir
2. Documents monitoring aimed at preventing corruption were monitored.

3. The evaluation of business processes of PJSC Detsky Mir, the so-called anti-corruption risk map, has been updated.

In the person of the legal department, the Company took part in the All-Russian action to coincide with the International Day Against Corruption organized by the Chamber of Commerce and Industry of the Russian Federation.

Results of the Measures to Identify Corruption



2.6 Risk Management

The Company’s risk management policies include attention to all categories of significant risks and is a combination of quality objectives and descriptions of the market

strategy, as well as quantitative benchmarks for target transaction volumes and possible exposure measures.

As part of its risk management policy, Detsky Mir identifies, assesses, monitors and warns of threats with a view to reducing the likelihood and potential consequences for its operations. Basic methods of risk management:

- rejection of risky investments;
- rejection of unreliable partners and counterparties;
- insurance;
- financial planning;
- compliance with and execution of standards;

- coordination and coherence of management programs and processes that contribute to the development of the Company.

The policy of the Detsky Mir Group in the field of risk management is based on the fact that the developing market of the Russian Federation is exposed to significant risks in comparison with the markets of more developed countries, including significant economic, regulatory, tax, political and social risks. Investors operating in the developing market of the Russian Federation should realize that this market is exposed to more significant risks than developed markets, in particular to significant economic, regulatory, tax, political and social risks. Investors should also bear in mind that the emerging economy of the Russian Federation is undergoing rapid changes.

Key Risks

Risks	The Company’s approach to risk management
Industry risks	
Insufficient supply of high-quality selling space suitable for development could restrain the rapid growth of the retail chain, and an increase in rental rates may put pressure on the profitability of the retail business.	The development of the Detsky Mir retail chain is planned to be carried out in leased areas in shopping centers, as well as in stand-alone facilities. Detsky Mir regularly monitors the situation on the retail real estate market. According to current forecasts, restrictions on the volume of commissioning of selling space in circulation are not expected.
Insufficiently developed transport infrastructure in the regions can create difficulties for regional development and subsequent management of retail chain due to the increase in logistical costs	To eliminate the negative impact of these risks on the business of the Company, Detsky Mir takes measures to increase the efficiency of logistics. These measures include increasing the operating capacity of current DCs, increasing the centralization of supply, considering the possibilities of building new warehouse facilities in the regions of Russia.
The unfavorable demographic situation, manifested in the fall of the birth rate in a number of Russian regions, could cause a decline in demand for children’s goods and, as a result, a fall in the volume of trade turnover of the retail chain	In order to neutralize this risk, Detsky Mir adheres to a strategy of the best price in the market and a wide assortment, which has a positive effect on attracting additional traffic from other retail chains, negating the negative impact of weak macroeconomic and social indicators in the country.

Risks	The Company’s approach to risk management
Growing competition in the retail trade of children’s goods, including the development of modern retail formats, the emergence of new players in the children’s goods market, the consolidation of retail operators, can lead to a change in pricing, marketing policy, lower operating profit and loss of market share	Detsky Mir constantly monitors the situation on the market, including an analysis of the activities of competitors as specialized stores of goods for children and food retail chains. Based on the data received, adjustments are made to the commercial policy, the formats of the stores are being finalized. Other types of outlets successfully developed in the West are also being developed and are being prepared for testing. In the future, the introduction of these formats will be another competitive advantage of the Detsky Mir retail chain and will allow them to compete successfully in the market.
The change in prices for goods purchased by the Company for further sale may adversely affect the Company’s operations. The influence of this factor is the same for all market participants, both external and internal.	Short-term price fluctuations should not affect the Company’s activities in a significant way, as Detsky Mir forms a sufficient level of reserves to reduce dependence on short-term price fluctuations. Detsky Mir has a significant advantage over competitors due to high volumes of purchases. The acquisition of goods is mainly carried out centrally, which allows receiving significant discounts from suppliers that are not available to other market participants.
Country and regional risks	
The deterioration of the economic situation in Russia and Kazakhstan could slow the growth of per capita income and, in this connection, have a negative impact on the dynamics of sales of children’s goods in the stores of the retail chain.	For the purpose of the timely prevention of this risk, Detsky Mir monitors the market on a weekly basis, analyzes comparable sales figures by region and federal district, and on a yearly basis makes up a special anti-crisis budget providing for a possible drop in consumer demand. At the same time, the experience of the crisis phenomena of 2008, 2015-2016 shows that the market of children’s goods in comparison with other non-food retail sectors is less sensitive to unfavorable macroeconomic factors, since children’s goods are an integral part of the family budget and, accordingly, are not the first item of cost reduction in the event of a decline in disposable income.
Financial risks	
Maintenance and refinancing of the Company’s debts requires monetary funds. The Company has outstanding debt, consisting mainly of liabilities on bank loans and bonds. A significant portion of the Company’s debt portfolio consists of loans attracted at a fixed interest rate, but the repetition of the growth of the Central Bank’s key rate that was observed during 2014 can have a direct impact on the dynamics of interest rates on the market. Thus, in the event of a worsening macroeconomic situation and an increase in interest rates, the Company may incur additional debt servicing costs, which may entail a decrease in the Company’s net profit and total cash flow.	Early repayment of tranches with an increased rate. In most of the loan agreements there are no penalties for the gradual withdrawal from the debt contract. Control over the repayment schedule of long-term and short-term receivables, supervision of the use of short-term loans through available lines of credit to manage the Company’s liquidity. Managing an effective financing rate, as well as 100% financing in RUB, to avoid FX risks.
Impairment of the ruble may lead to a decrease in the Company’s profitability. Part of the procured goods (about 25%) is denominated in US dollars, euro and / or other foreign currency, while the Company receives revenues in RUB. Thus, devaluation of the ruble may have a negative impact on the Company’s performance.	The Company enters forward contracts with a fixed rate for a period of 3 to 6 months to hedge the risk of depreciation of the ruble.

Risks	The Company’s approach to risk management
Inflation could have a negative impact on the Company’s performance and cause an increase in expenses sensitive to the growth of the general price level in Russia, for example, staff costs, transportation, etc. High growth in advertising costs could lead to an increase in the Company’s marketing expenses to maintain competitiveness. In the context of growing competition, the impossibility of raising prices to maintain operating profitability while increasing costs can have significant negative consequences for the Company’s performance.	The Company is the largest player on the children’s goods market, which allows it to receive the most attractive offers of purchasing prices from manufacturers. Thus, in the event of a price increase, buyers will be offered a product at the best price in the market. In the opinion of the Company, the inflation values at which it may have difficulties in meeting its obligations lie significantly higher than the value set in the Russian federal budget for the current year (about the level of inflation of 35-40% per year can be regarded as critical). In the event of a significant excess of actual inflation over the forecasts of the Government of the Russian Federation and the achievement of inflation critical values, the Company plans to take the necessary measures to limit the growth of costs, reduce receivables.
A banking crisis could significantly limit the liquidity of the Company. Crisis phenomena led to a decrease in liquidity and an increase in the cost of debt financing in Russia. Borrowers felt a reduction in available financing, both in the interbank and short-term borrowed funds markets, and in long-term capital markets and bank financial instruments. Bank crisis, bankruptcy or financial insolvency of banks, from which Detsky Mir receives borrowed funds, can have significant negative consequences for the Company’s business, results of operations and financial position.	Diversification of banks (opening of additional limits) and credit instruments. Ensuring continuity of financing on the best market conditions with a high level of diversification of the loan portfolio. Maintain a sufficient level of unused credit limits in banks.
Risk of loss of business reputation	
Detsky Mir has a reputation as a leading player in the children’s goods market. Brand awareness of retail chain according to polls is close to 100%. In the product sector for children, the Company’s image and perception of the population plays a huge role. Such products as baby food, diapers, children’s cosmetics are usually purchased only in proven retail chains with a well-known reputation on the market. Loss of business reputation may adversely affect the Company’s financial performance, as it will directly affect the traffic of customers in the stores of the Detsky Mir retail chain.	In Detsky Mir Group, the control over the safety and quality of goods is carried out at all stages of the life cycle: starting from the choice of the supplier, the formation and placement of the order and ending with the laying of goods on store shelves and feedback to consumers. To reduce possible risks from unscrupulous suppliers, manufacturers were required to strengthen product quality control. If there are serious claims about quality and safety, the supplier is to return the entire consignment of goods and cease cooperation with them in the future.
Strategic risk	
The possibility of limited growth after the saturation of the market of children’s goods by 2027 and the achievement of the level of consumption of children’s goods on par with developed countries. In this case, the development of the retail chain may slow down and the Company will need to look for new niches, markets for growth and development.	The Company’s entry into new markets of CIS countries and Eastern Europe. Expansion of assortment, horizontal and vertical integration.

Sustainable Development



The Detsky Mir Group provides the younger generation with quality and safe goods at affordable prices.

The Company pays special attention to the protection of children's rights in all aspects of its activities.

By realizing social and charity projects, Detsky Mir has a positive impact on the quality of life of children, including those in difficult living situations.

The development of socially responsible business and achieve-

ment of high financial results is possible due to the personal contribution of each employee. Therefore investment in human capital, decent pay and motivation of personnel are integral elements of the personnel policy of Detsky Mir Group.

Taking care of the environment, Detsky Mir seeks to reduce its consumption of resources and introduced modern technologies in order to minimize its environmental footprint.

Detsky Mir Group involves employees and partners in its charitable activities, enables socially unprotected children to enhance the socialization level and unlock their creativity.

**RUB 417 million
is the total amount
of the Charitable
Foundation**

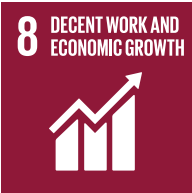
**Reduced Electricity
Consumption per
m² by 5.2%**

3.1 An Approach to Sustainable Development and Stakeholder Engagement

Responsible business management is the basic element of our strategy, as well as the key to sustainable development and strengthening of leadership positions in the market of children’s goods and in the sphere of social responsibility. Issues of responsible business are discussed at meetings of the Board of Directors, including strategic directions of development and key performance indicators.

The main goal of the Detsky Mir Group in the field of sustainable development and corporate social responsibility is to provide the younger generation with quality and safe products at affordable prices.

Our activity in the sphere of corporate social responsibility, on the one hand,



reflects our main activity in the trade of children’s goods, on the other hand, it is connected with the broad international context of sustainable development and challenges facing humanity.

We support the Agenda for Sustainable Development adopted by the UN members in September 2015. Of the 17 objectives outlined in it, we identified three for ourselves, in the achievement of which we can make the greatest contribution taking into account the specifics of our activities: decent work and economic growth (for more details see the section “Personnel”), responsible consumption and production (for more details see the section “Environmental responsibility”) and quality education.

Among the goods that can be found in our stores, most of them are toys and goods for creativity. We are sure that they stimulate the imagination of children, help them to learn the world and develop to grow into active members of society with great potential. The development of children be-

gins at birth, received in early childhood, knowledge, skills and lay the foundation for further education. Offering quality goods to parents and children, we are contributing to this goal. Realizing our charitable programs, we help develop those children who limited such opportunities (children from low-income families, orphanages, etc.) (see the section “Charitable Activity”).

We also pay special attention to the protection of children’s rights in all aspects of our activities.

Achieving the set goals is impossible without developing a dialogue with our key stakeholders, to which we pay much attention.

Support for the Child Rights Initiative and the Business Principles of the United Nations Children’s Fund (UNICEF)

Principle	Our Actions	In Detail
1. Compliance with the rights of the child and assume obligations to protect his/her rights	We support the UN Convention on the Rights of the Child, ratified by the Russian Federation.	–
2. To promote the eradication of child labor in all types of business activities and business relations	We do not accept the use of child labor in all types of activities.	–
3. Provide decent work for young workers, parents and guardians	Our personnel policy includes the most important issues of labor relations, such as safety in the workplace, decent wages, social guarantees (including leave to care for the child and flexible schedule for young mothers).	Personnel Section
4. Ensure protection and safety for children in all types of business activities and at all sites	We care about the safety of children when they visit our stores. The new concept of stores implies an increase in the width of the passages for the convenience of customers, and all interactive zones were developed in conjunction with the world’s leading manufacturers and meet all safety requirements.	–



Principle	Our Actions	In Detail
5. Ensure the safety of products and services, and strive to protect them with the rights of the child	The safety and quality of children’s products are our priority. All products have the appropriate certificates. Control of the safety and quality of goods is carried out at all stages of their life cycle.	Item Security section
6. Use marketing and advertising that respect and protect the rights of children	We are responsible for our marketing communications, which fully comply with all legislative requirements and do not violate the rights of the child.	Customer-oriented Service section
7. To respect and protect the rights of children in dealing with the environment, as well as in the acquisition and use of land	We are striving to reduce our impact on the environment, and to instill in children an understanding of the importance of nature and the need to protect it.	Environmental responsibility section
8. Observe and protect the rights of children during security activities	We respect the rights of children in all security processes in the framework of our activities.	–
9. Promote the protection of children in emergency situations	Within the framework of our charitable activities, we provide support to children who have been in emergency situations.	Charitable Activity section
10. Strengthen the efforts of the local community and the Government for Protection and Compliance on the rights of the child	A significant part of our activities are charity and volunteer programs aimed at helping children who find themselves in difficult living situations. These programs draw public attention to the problems of children.	Charitable Activity section



Interaction with Key Stakeholders

Stakeholder Group	Aims of cooperation	Means of cooperation
Suppliers	Procure high quality goods, create a favorable competitive environment and minimize the risks of supply disruptions	<ul style="list-style-type: none">Joint projects on assortment planning and merchandisingIndustry conferencesSupplier exhibits
Employees	To form their involvement in the main activities of the Group, so that they make innovative proposals to improve its internal processes and improve the level of customer service	<ul style="list-style-type: none">Assessment of professional knowledgeIntra-corporate portalWebtutor Training PortalInvestigation of the level of involvementThe Hotline
Consumers	Understand their preferences and expectations regarding the further development of the Group	<ul style="list-style-type: none">Satisfaction surveysFocus groups with consumer participationFeedback systemSending information about promotions and special offers by SMS and e-mail
Industry organizations	Exchange experience with experts and understand the prospects for market development	<ul style="list-style-type: none">Industry conferencesRound tables
Local communities	To promote the improvement of living standards in the regions and the availability of our goods for children and their parents	<ul style="list-style-type: none">Industry conferencesRound tables

3.2 CSR Strategy

The logical continuation of our active socially responsible activities was the development and adoption in 2016. Corporate social responsibility strategies of Detsky Mir Group. This document will be fundamental to the development of the Company’s social activity in the coming years. The CSR strategy assumes an increase in the scope of charitable activities and the involvement of more staff in volunteer programs.

The CSR strategy assumes an increase in the scope of charitable activities and the involvement of more staff in volunteer programs:

- Openness of social programs and mechanisms for their implementation, implying the inadmissibility of hiding or falsifying information.
- Cooperation with stakeholders: dialogue, feedback to addressees of social programs.

- Systematic:
 - consistency, responsibility for current and past activities, as well as for the future impact of activities on the external environment;
 - regularity, long-term;
 - integration of CSR principles into all managerial processes.
- Significance, relevance and necessity of projects. Scale, reach a large audience. Regular evaluation of program effectiveness.
- Avoidance of conflict of interests, rejection of political engagement, support of individual faiths, nationalist movements.

Priority Directions of CSR of Detsky Mir Group

Main indicators	Comments
Corporate Responsibility	
Contribution to the economic development of the country	Revenue – RUB 97 billion in 2017.
Tax deductions	Tax deductions – RUB 4.6 billion in 2017
Job creation	The number of jobs created is 5,500 for 2015-2017.
Minimizing the harmful effect on nature	Projects on separate collection of cardboard, eco-packages, energy-saving lighting. For more details, see the sections “Financial Results”, “Personnel”, “Environmental Responsibility”

Main indicators	Comments
Responsibility to business partners and customers	
Good business practice	Transparency of ownership structure, financial and operational indicators, structure of the Board of Directors.
Professional standards	Quality control of goods and “Hot Line” for consumers.
Public reporting on international standards	Establishment and participation in the work of the Association of the Children’s Goods Industry: counteraction of counterfeit products, uncivilized trade.
Compliance with legal and ethical standards	Accession to the Anti-Corruption Charter of Russian Business.
Compliance with corporate governance standards	Compliance with legislation on advertising, consumer protection, application of ethical methods of promotion. Presence of a Code of Corporate Conduct and the Code of Ethics. Quarterly disclosure of financial results. Issue of the annual report. An annual audit of the consolidated financial statements prepared in accordance with IFRS has been conducted. A report on sustainable development in accordance with international GRI standards is published every two years.
Employer responsibility	
Fair compensation and motivation	We undertake to comply with the labor laws of the countries where we are present, respect human rights and individual freedom, and not allow any form of discrimination and harassment.
Expenses for the professional development of personnel	The Company has a time-premium payroll system that takes into account not only individual effectiveness, but also the financial performance of the entire Group of Companies or a certain store for the year.
The volume of investments in health and safety measures	Occupational safety expenses at PJSC Detsky Mir in 2017 amounted to RUB 21.6 million. For more details see the section Personnel
Responsibility to society (charity)	
Social and charitable projects	There are 350,000 children in difficult straits from 800 social institutions in Russia and Kazakhstan under the patronage of the Company. For more details see the section “Charitable Activity”

3.3 Personnel

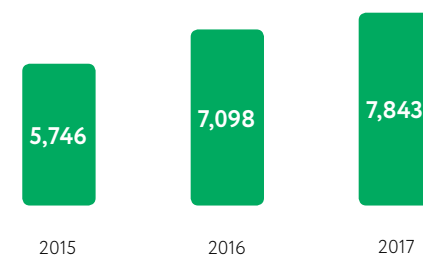
HR Management

The key asset of Detsky Mir Group, which ensures internal stability and further development, is our employees.

Our policy in the field of personnel management is aimed at creating a cohesive and effective team of professionals committed to high standards of work quality and united by a common desire to contribute to the development of the Company and society as a whole.

Automation of business processes and the introduction of new software allowed the Company to reduce the time of transactions and the labor costs of employees per one business process. As a result, the number of employees providing for the operation of a single store decreased from 26 people in 2013 to 18 people in 2017.

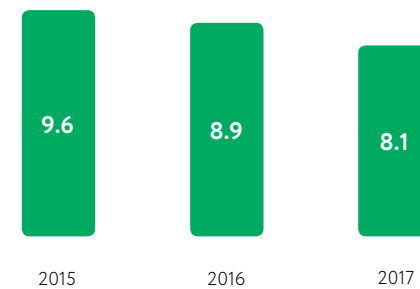
Detsky Mir Payroll Costs, RUB bln.¹



¹ Total staff costs include payroll, insurance premiums, training and staffing costs, medical costs, outsourcing of staff and other costs. The amount of total expenses is adjusted for bonus payments to management within the framework of the long-term incentive program (LTI).

² The share of total staff costs in revenue is adjusted for bonuses to management within the framework of the long-term incentive program (LTI).

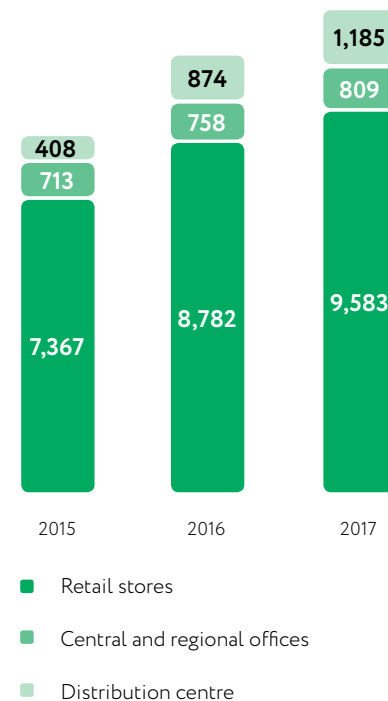
Share of Payroll Costs as of Revenue, %²



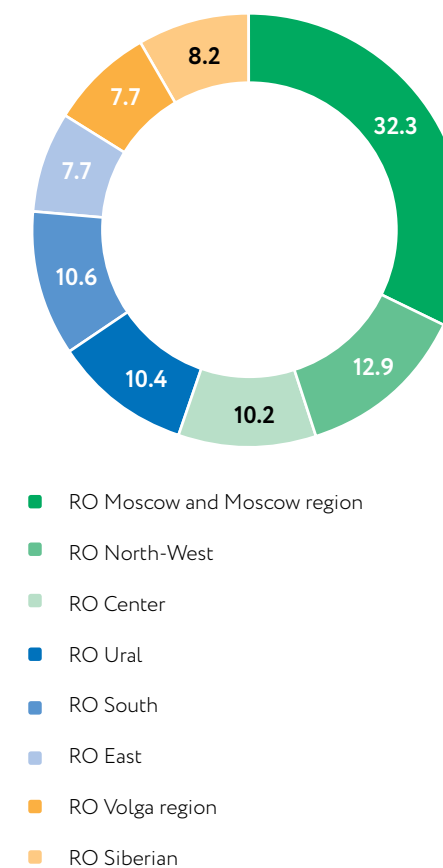
Staffing

The average headcount of Detsky Mir Group in 2017 exceeded 11.6 thousand people. The retail chain in Russia and Kazakhstan continues to expand from year to year, which is why the average number of employees in the last three years has increased by 16%. Despite the growth in the number of retail stores, the number of management personnel in the Central and Regional Offices is growing insignificantly.

Average Number of Employees of Detsky Mir Group

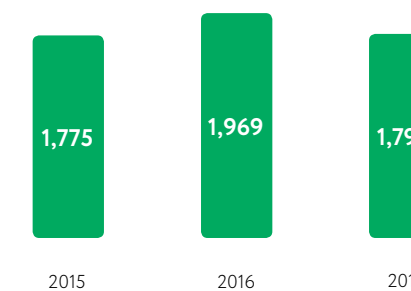


Employees Breakdown by Retail Chain of Regional Branches in 2017, %

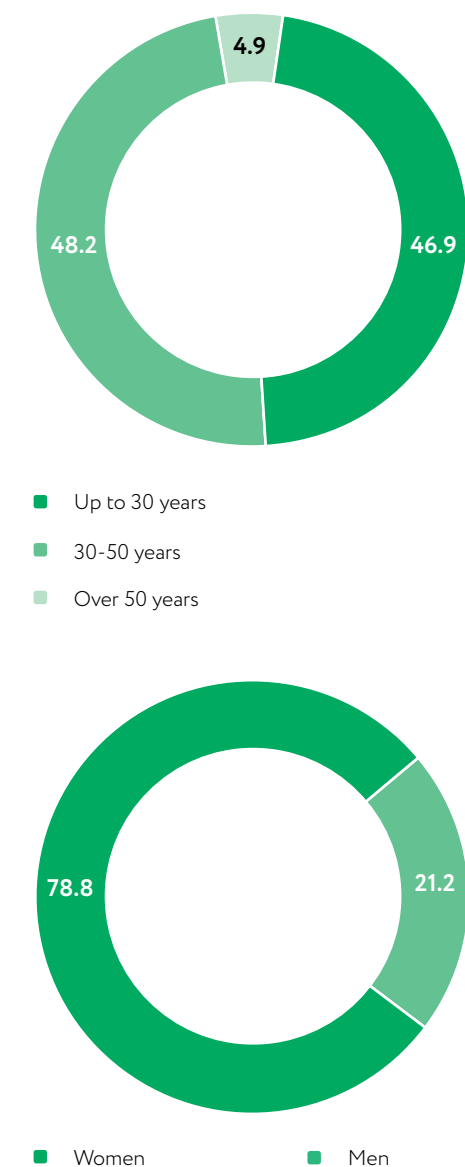


The average age of employees of Detsky Mir Group is 29.3 years for 2017. These are experts at the peak of activity, performing their work responsibly and with interest. Most employees (95.1%) are under 50 years of age, more than three-quarters of the employees are women.

The Number of New Jobs Created in Detsky Mir Group



Distribution of Employees of Detsky Mir Group by Age in 2017, %



In 2015-2017 Detsky Mir Group in Russia created more than 5.5 thousand new jobs.

Incentive and labor compensation

Ensuring a high level of motivation and decent pay for employees is the most important aspect of the personnel policy of Detsky Mir Group.

We have a time-bonus system of labor remuneration. All employees receive an official salary in accordance with the employment contract, as well as additional payments for the combination of posts, work in overtime and / or night, weekends and holidays. The wage system takes into account not only the individual efficiency, but also the financial performance of the entire Company for the year.

The pay scale of Detsky Mir is aimed at increasing employees' interest in achieving the Company's goals. An important part of the motivation system is the availability of precise, specific goals for all employees in a certain reporting period and the willingness of the Company to reward the team for contributing to the achievement of the overall result.

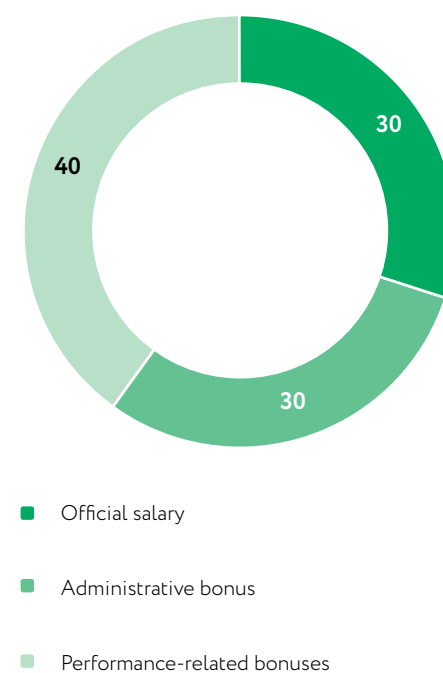
For each category of employees developed their own system of motivation, taking into account the features of the activity. To this end, various key performance indicators (KPIs) are applied. The KPI composition may differ depending on the category of employees. The Company applies both financial and functional KPIs (project activities, manager's assessment, presence / absence of administrative omissions).

The Company systematically conducts an analysis of the level of salary of employees in comparison with the labor market and periodically conducts a review of both the level of target employees' salary and the system of labor remuneration in general.

For employees of the Central Office there is a quarterly or annual bonus, the size of which depends on the performance of financial and functional KPIs.

For employees of the retail chain, a monthly production premium is provided, the amount of which is set as a percentage of the actual turnover of the store. The size of the production award of the administrative and managerial staff of the store is further affected by the performance of KPIs. Employees who are experts in their field and provided training for new employees (trainees) to the basic skills of the profession receive an additional bonuses.

Structure of Remuneration of Retail Personnel in the Detsky Mir Retail Chain, %



At the beginning of 2017, a new system for motivating retail staff was developed and implemented, aimed at increasing labor productivity, and the staffing standards were modified. In the second half of 2017,

KPIs of store personnel were revised and motivational contests were held aimed at strengthening the personnel's material interest in achieving the Company's strategic goals.

At the end of 2017 a calculator for the number of personnel of the Krekshino was developed. This calculator is a "transparent" model for estimating the required number of labor resources.

The remuneration in Detsky Mir Group is reviewed once a year on the basis of data regarding the average level of remuneration in the labor market and taking into account the personal effectiveness of the employee.

Long-term incentive program

For the key employees of the Company there is a long-term incentive programs (Long-Term Incentives, LTI). The program is aimed at increasing the market capitalization of the Company.

The program extends to 20 employees in managerial positions and to the CEO.

Social guarantees

As a tool for motivation, we are developing a system of corporate benefits. In addition to free corporate training, the Company also provides its employees with the following benefits:

- for all employees, regardless of the term of the employment contract, from the first day of work there is a discount on goods in the stores of the retail chain, as well as corporate discounts from partner companies;
- for employees of stores closing at 11 p.m. and remote from public trans-

LTI 2016–2018

Goal: the Company's entry into the IPO market and an increase in the value of the Company over the period of the program's operation.

At the beginning of 2017 Company entered into the IPO market the IPO

LTI 2017–2020

Goal: growth of the Company's market capitalization after the IPO.

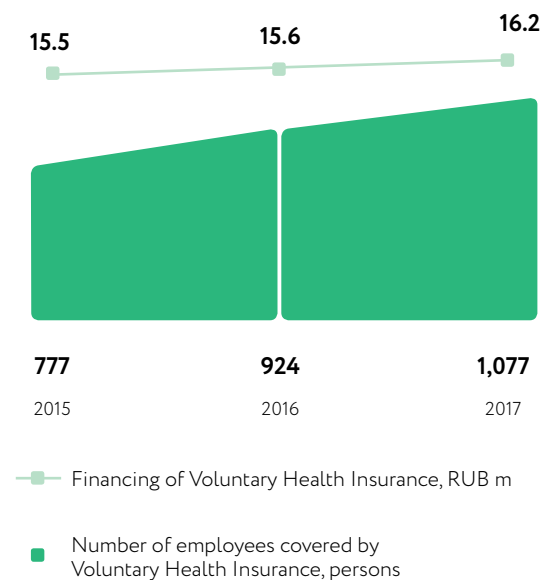
In the reporting period, the growth of the Company's market capitalization has a positive trend.

port stops, delivery to the house or to accessible transport nodes is organized;

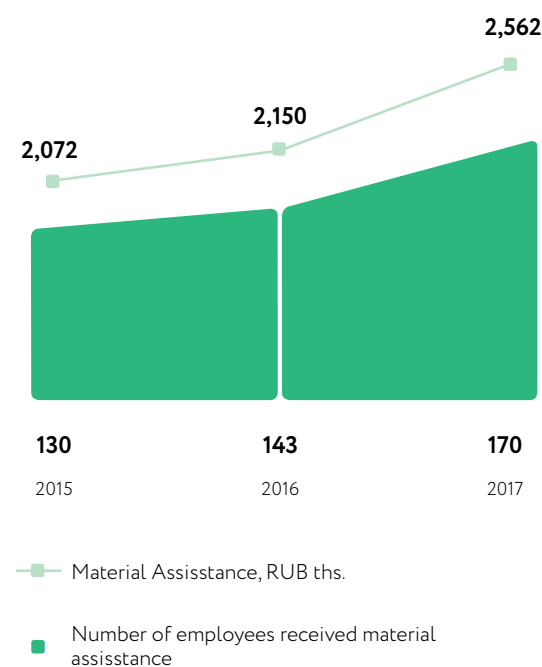
- for the employees of the warehouse, delivery to the place of work and free meals are organized on the territory of the logistics center;
- for children of employees various events are carried out;
- in connection with the production need, employees are provided with corporate communications;
- employees have the opportunity to undergo training in full-time or distance courses;
- after six months of work for all employees of central and regional offices, store directors and management of the warehouse operates a voluntary health insurance (VHI) program.

An effective cost management system allowed us to reduce the cost of VHI, while

Voluntary Medical Insurance of the Employees of Detsky Mir Group¹



Providing Material Assistance to the Employees of Detsky Mir Group



¹ In Detsky Mir-Kazakhstan LLP, VHI is not provided for in accordance with the legislation of the Republic of Kazakhstan.

increasing the number of employees participating in the program.

The policy of the Detsky Mir Group of Companies also provides for financial assistance to employees who find themselves in a difficult living situation.

Corporate culture

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

To unite the collective of Detsky Mir Group, sports events, volunteer and charity events, corporate subbotniks are regularly organized, the action “Labor landing” is held, joint national, corporate and personal holidays are celebrated together.

Detsky Mir Group promotes a healthy lifestyle among its employees, including through the organization of sports events, such as the annual sports day of AFK Sistema. For participants of industry and interbranch sports, the Company organizes trainings with professional coaches, pays rent of the hall, provides players with a team uniform. The Company’s employees can take advantage of corporate benefits and discounts in major fitness centers.

Within the framework of the action “Labor Landing”, which is held twice a year (on the eve of September 1 and New Year), all employees of the central office — from the CEO to ordinary managers — work for one day in one of the stores of the retail chain as a seller or warehouse employee. The action enables office employees to see the practical work of the store “from within”, assess the real workload on personnel, identify “bottlenecks” in existing business processes and offer solutions for their elimination, assess the effectiveness of innovations. On the other hand, during

the campaign, store employees have the opportunity to informally communicate with the Company’s management and ask exciting questions.

The New Year’s corporate event for the employees of the central office and heads of regional branches includes the ceremony of awarding employees who made a special contribution to the development of the Company.

In the Company, the Unified Hot Line “EMPLOYEES CAUTION!” successfully functions where any employee, customer, counterparty or partner of the Company can apply to their question or message either anonymously or formally. See the section “Anti-Corruption” for more details.



Detsky Mir Group operates the “Co-financing” program: each employee can transfer part of his/her salary to the Company’s Charitable Foundation, whose funds go to help severely ill children and the children of employees who find themselves in a difficult living situation (for more details see the section “Charitable Activity”).

Training and development

We are convinced that the Company’s strategic goals can be achieved through the personal contribution of each employee. Our investments in human capital ensure the improvement of the financial results of Detsky Mir Group.

One of our achievements in the field of personnel training and development is a built-in consistent system of continuous training of all our employees with a large proportion of remote formats.

We pay special attention to professional development and development of the core competencies of retail employees, which is the key to improving the quality of customer service and sales growth.

For each category of employees of the retail chain, regular free-of-charge refresher courses are provided based on the compulsory education matrix. It includes both training courses for technical skills for line employees (for example, “Acceptance of goods”), as well as trainings

for improving managerial skills for the store’s management (for example, “Basic Manager Skills”, “Staff Recruitment and Development”).

Detsky Mir Group has two corporate educational institutions. The training center, which is part of the group structure, provides training and professional development for employees of retail stores and territorial managers. Detsky Mir Group employees have the opportunity to study at two corporate training centers.

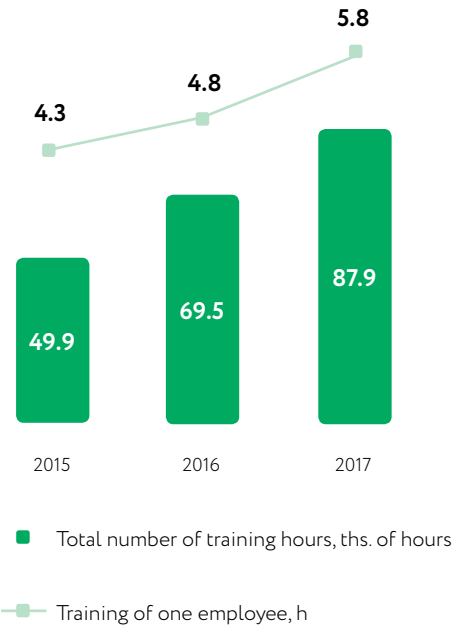
For the staff of the central office the following types of training are provided:

- short-term training (1-2-day courses) and medium-term courses (from 5 days);
- programs for the development of communicative and managerial competencies (soft skills), the acquisition and development of technical skills (hard skills).

Continuous training of employees and regular assessment of their professional knowledge correspond to the concept of categorization of employees (implemented since 2014). The proportion of employees who received training (“% of training”) is a significant indicator of the activity of the store, the regional office, the Company.

2017 results

Number of Training Hours for Employees of Detsky Mir Group



Number of Hours of Training for Employees of Detsky Mir Group, h.

	2015	2016	2017
Number of training hours by gender			
Men	6,603	8,402	13,607
Women	43,260	61,138	77,638
Number of training hours of employee training by category			
Sales staff	49,291	68,880	90,403
Office staff	572	660	842

Assessment of personnel activity

Assessment of personal effectiveness is an important resource in the Company, developing corporate culture and organization of business processes.

Employees of the retail chain Detsky Mir are assessed professional knowledge twice a year. Based on its results, the employee is assigned one of the following categories:

- “Specialist” — is assigned after successful passing of the assessment of professional knowledge;
- “Expert” — is assigned for the performance of established KPIs and outstanding results shown during the evaluation of professional knowledge.

The receipt by employees of the category “expert” is a prerequisite for inclusion in the Company’s personnel reserve and further consideration as candidates for filling vacant managerial positions in retail.

The employees of the Central Office are assessed on the results of their activities once a year in accordance with the approved KPIs.

In 2017, 1,018 applications were submitted to transfer to a higher position in the category of administrative and managerial staff of stores, 68% of which were agreed. In total, 692 “vertical” and “horizontal” transfers of employees in the retail chain were implemented during the year.

Number of Personnel Transfers in 2017

Transfers	Russia	Kazakhstan
From seller-cashier to deputy director of the store	501	21
From deputy director of the store to store manager	129	10
From store manager to territorial manager	18	1
From sales manager to senior sales manager	—	12

Occupational safety and health

Detsky Mir Group pays great attention to occupational safety and health issues. Comfortable and safe working conditions are a key factor affecting the recruitment and retention of skilled workers. The system of occupational health and safety in the Company is based on full compliance with the current legislation of Russia and Kazakhstan in this area.

Personnel responsible for occupational safety and health are appointed by the CEO after completing a 40-hour training program for managers and specialists. Training is carried out mainly in the internal format by the in-house forces of the Training Center of PJSC Detsky Mir, which has a corresponding license.

When hiring and then on a regular basis, all employees are instructed on labor protection in accordance with the requirements of labor legislation. Warehouse workers are additionally trained in electrical safety. Instructions on occupational health and safety are held not only for employees of the Company, but also for employees of contract organizations.

The duties of those responsible for occupational safety include, among other things, inspections to identify possible violations.

Control over the implementation of labor protection requirements in the retail stores of the Detsky Mir retail chain

is carried out during comprehensive inspections of compliance with the Group’s standards, including a section on labor protection for employees. Inspections of the retail chain are conducted under the direction of the territorial managers according to the established schedule, without warning to the management of the stores. In the event of the detection of violations, recommendations are made for their elimination, which entail a second check.

Despite the fact that the nature of the activities of Detsky Mir Group is not associated with dangerous technologies, we are trying to minimize the possible risk of employee injury and occupational diseases.

To minimize injuries in offices, retail premises and warehouses, the following key activities and initiatives are implemented:

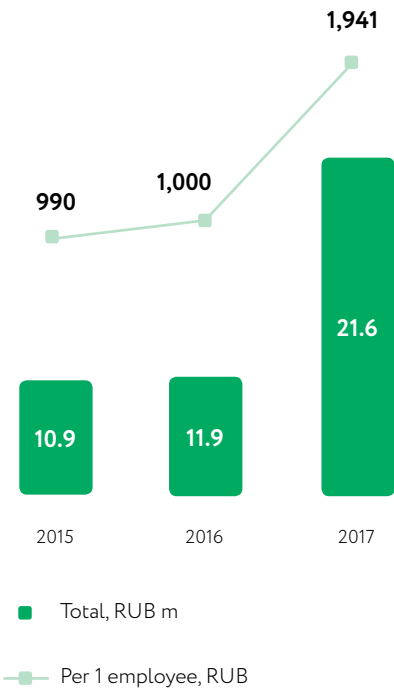
- special assessment of working conditions (workplaces are assessed by independent accredited organizations, a class of working conditions: 2.0. — acceptable working conditions); at the end of 2017 in PJSC Detsky Mir a special assessment of the working conditions of 100% of jobs;
- introductory, primary and repeated (at least twice a year) training of personnel on labor protection, fire and electrical safety;
- timely training / retraining of heads of departments and responsible employees under the program “Labor Protec-

tion” on their own in the corporate Training Center, and if necessary with the involvement of specialized training centers and state labor inspectors;

- the establishment of commissions to verify knowledge of the requirements for labor protection;
- control over observance of the Rules of internal labor regulations and fire prevention regime;
- development of regulations and guidelines for structural departments and departments of the Company, instructions and programs for occupational health and safety. All documentation related to this field is posted on the corporate portal for use by employees in the work.

Thanks to these measures, during the reporting period it was possible to prevent the occurrence of occupational diseases and to maintain the rates of injuries in Detsky Mir Group at an admissible low level.

Expenses for Occupational Health and Safety in PJSC Detsky Mir



Total costs for occupational health and safety in 2017 were as follows:

- PJSC Detsky Mir — RUB 21.6 million, per 1 employee — RUB 1,941. They were:
- in LLC Cub-Market — RUB 29.4 thousand, per 1 employee — RUB 1,149.
- in LLP Detsky Mir-Kazakhstan — RUB 79.8 thousand, per employee — RUB 216.

3.4 Charitable Activity

We see our social responsibility to society in having a positive impact on the quality of life of children, including those in difficult living situations. Realizing social and charitable projects, we strive to improve living conditions in children’s social institutions, raise the level of socialization and unlock the creative potential of little Russian citizens.

We also invite our employees to implement these projects, thereby increasing their involvement. Increasing the level of corporate volunteering is one of our tasks within the framework of the CSR Strategy implementation (for more details, see the “CSR Strategy” section).

Employees Responsible for Occupational Health and Safety

Central office	Retail	Warehouse
Heads of structural divisions and departments	Store directors and their deputies	Shift leaders
		Warehouse heads and their deputies

The goals of the charitable activities of Detsky Mir Group:

- the promotion of the spiritual development of the individual, the strengthening of prestige and the role of the family in society;
- assistance in the protection of childhood, maternity and paternity;
- assistance in activities in the field of prevention and protection of the health of children and citizens;
- promotion of sports and healthy lifestyles;
- assistance in activities in the sphere of education, science, culture, art, education;
- assistance in providing social support to low-income families with children,

social rehabilitation of children and adults with disabilities;

- assistance in the prevention of social orphanhood, the promotion of the family structure of children left without parental care;
- assistance in the socialization of graduates of orphanages with the aim of ensuring their economic independence, personal and professional self-determination, including by conducting vocational guidance activities in the field of competitive professions.

Principles of charitable activities:

- presence of objective necessity (expediency) of rendering of the charitable help;

- transparency and responsibility in making decisions on providing assistance;
- compliance with the priorities of providing charity;
- the practical effectiveness of measures to provide charity;
- availability of funds for the provision of charity;
- control over the targeted expenditure of funds allocated for the provision of charitable assistance.

Charitable foundation

The Detsky Mir Group’s social activities are implemented by the Detsky Mir Charitable Foundation (www.bfdetmir.ru), established in 2004 and operating in accordance with the Charter and the Charity Policy of PJSC Detsky Mir.

There are 350,000 children in difficult straits from 800 social institutions in Russia and Kazakhstan under the patronage of the Company.

Forms of charity:

- Charitable events: “Participate!”, New Year’s and other actions;
- Social programs: “Together we can do more”, “Our children”, “Art without borders”, “Towards a sport”, “Step forward”;
- Volunteering: Volunteer Puppet Theater, charitable Saturday events and fairs, mass events.

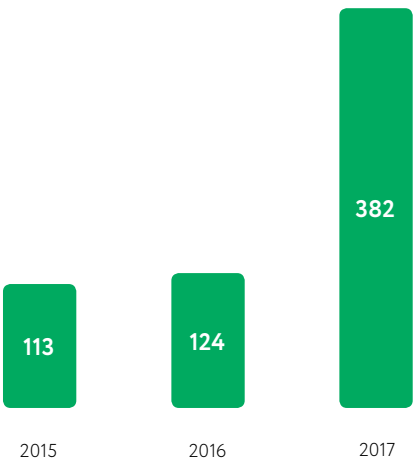
Sources of charity funding are funds allocated from the Company’s budget, as well

as voluntary donations to the Detsky Mir Charitable Foundation..

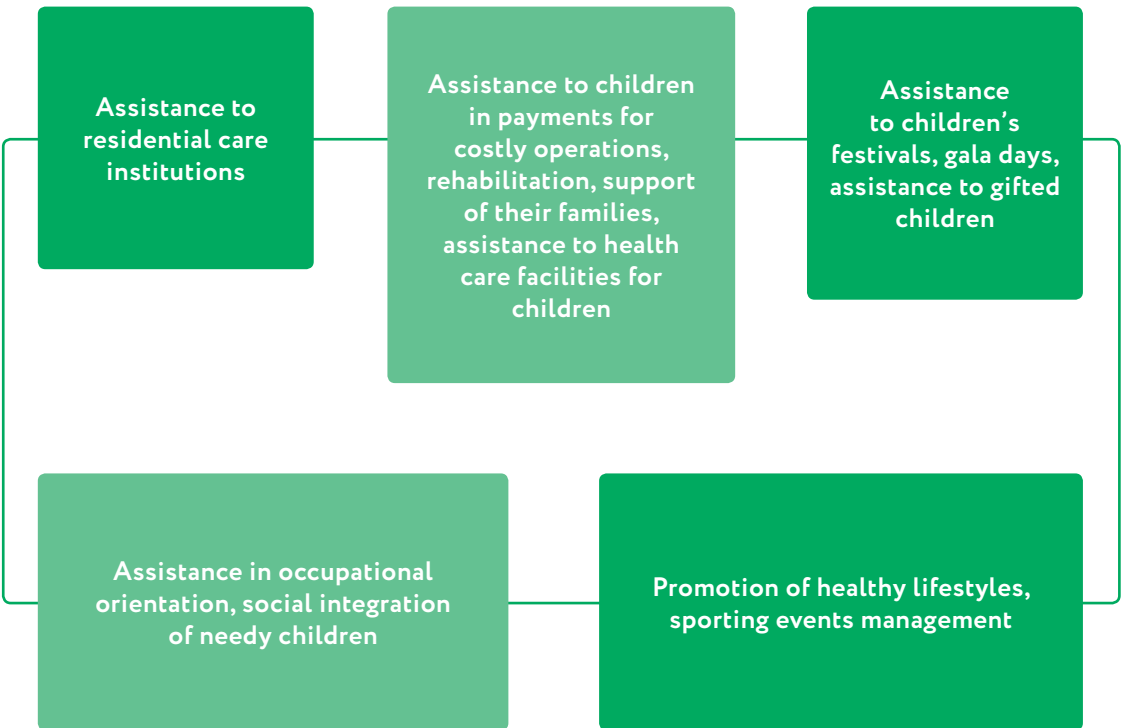
The total amount of goods received by the Detsky Mir Charitable Foundation in the form of donations in monetary terms amounted to RUB 382 million in 2017. In total, for the conduct of charitable events and assistance, the fund spent RUB 417 million in 2017, this amount includes our own and attracted funds.



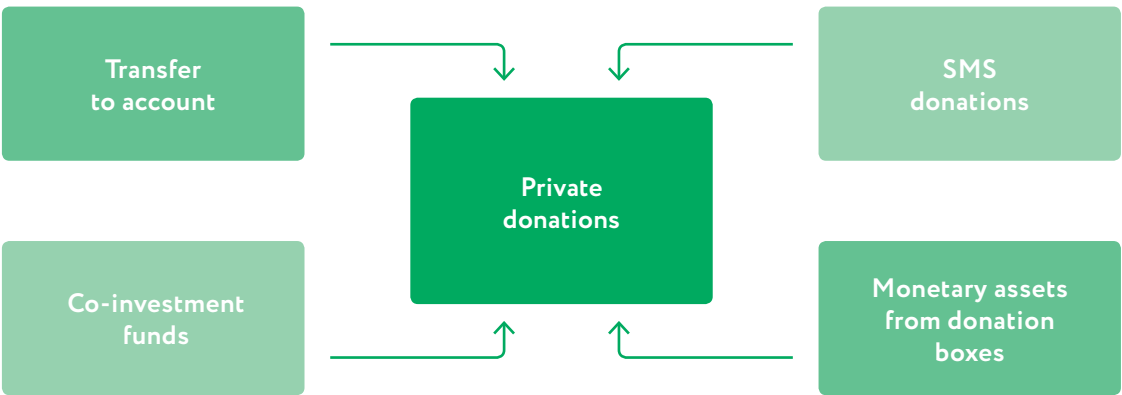
The Total Amount of Goods Received by the Charitable Foundation “Children’s World” in the Form of Donations, in Monetary Terms



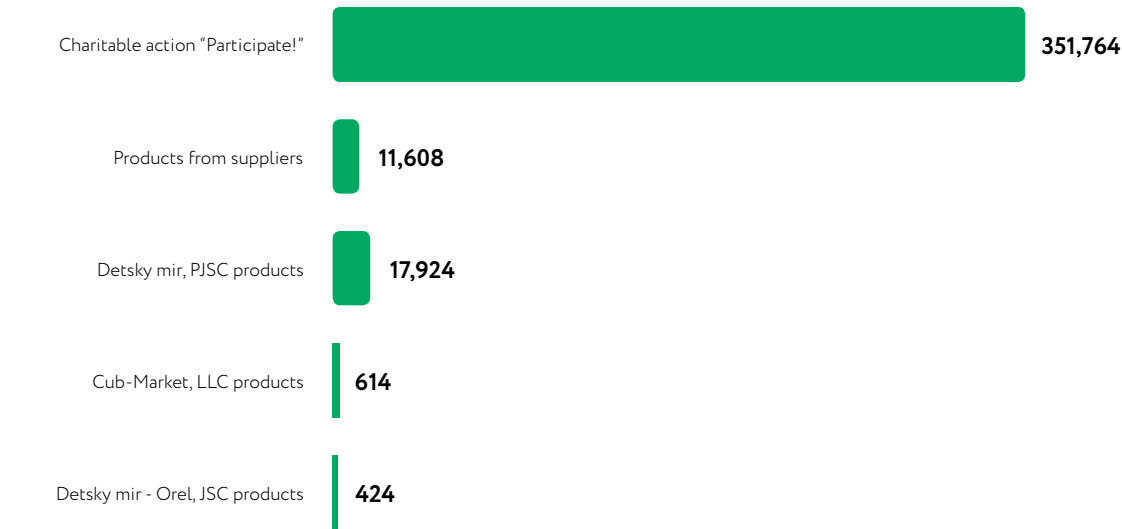
Priority Areas of Charitable Activity



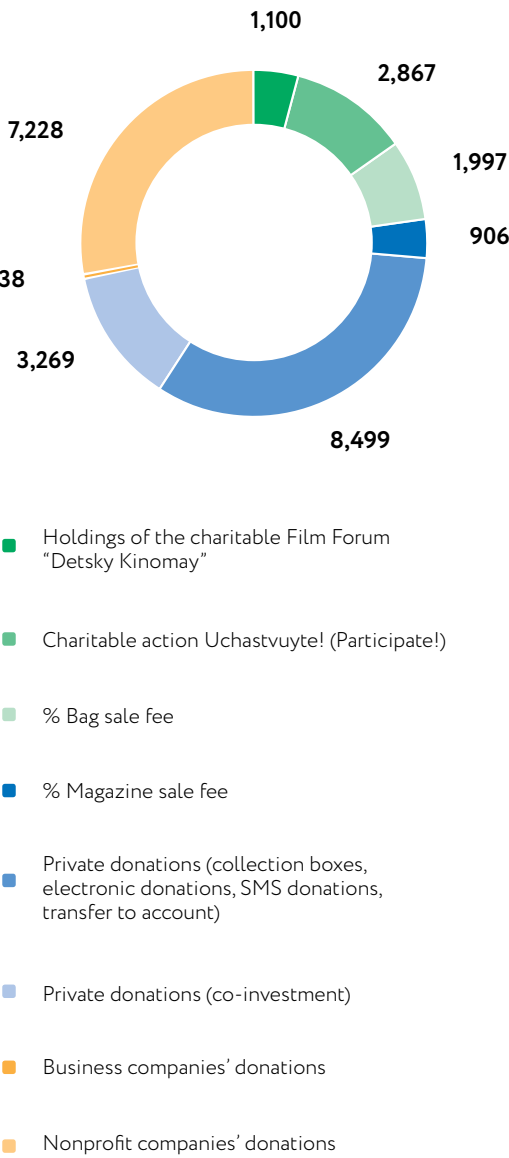
Sources of Private Donations:



Donations in Commodity Terms in 2017, RUB ths.



Structure of Donations in 2017, RUB.



Charitable action "Participate!"

The purpose of the action is to collect gifts for orphans and children left without parental care living in social institutions; children from low-income families; children with disabilities.

We spent more than 13 years collecting gifts for children in difficult circumstances.

To take part in the action, you must put a gift in a special arena, located next to the ticket offices. It can be toys, game sets, clothes, apparel, footwear, stationery products, sports and outdoor products, etc.

Children can be helped not only by leaving gifts, but by sending a donation via sms to the short number 7715 with the text "Participation" and indicating the amount.

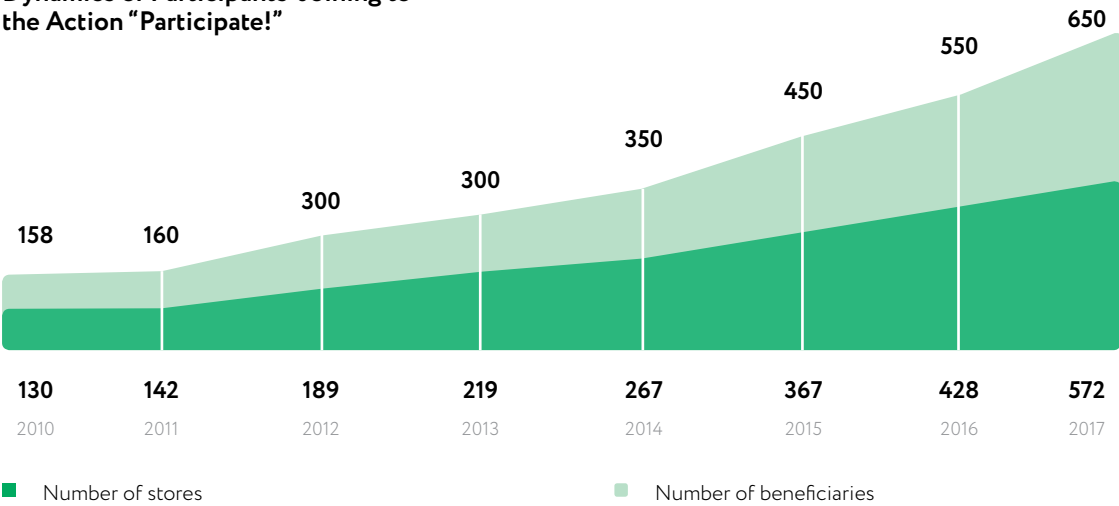
Since 2017 The Detsky Mir Charitable Foundation is holding a "Participate!" Action throughout the year. This year 220 cities in Russia and Kazakhstan took part in events. More than 7.8 million gifts worth a total of RUB 352 million were collected and handed over.



The Key Results of the Action “Participate!”

Translations	2015	2016	2017
The number of stores taking part in the action	367	428	572
Number of beneficiaries	450	550	650
Value of gifts collected within the framework of the action, RUB m	85	112	352

Dynamics of Participants’ Joining to the Action “Participate!”



Charity instead of gifts campaign

Employees of Detsky Mir Group from 2013 offer their partners on the eve of New Year holidays instead of traditional corporate gifts to transfer to the Foundation charitable assistance to children in difficult circumstances. In 2017 more than 30 partners responded to the Company’s appeal. The fund not only transferred money, but also transferred toys, apparel, car seats, household appliances, hygiene products, stationery products, books, cosmetics, sets for creativity, bedding, dishes.

The program “Together we can do more”

The program is aimed at the material and organizational support for low-income families with children, as well as children from orphanage institutions.

Forms of assistance:

- targeted assistance to families with children,
- the organization of game rooms in medical and social institutions.

Humanitarian aid

The charitable foundation of Detsky Mir Group sent assistance to children in the Altai Republic in October 2017 for children in difficult circumstances.

The humanitarian “parcel” includes toys, apparel, footwear, strollers, car seats, beds, baby food, hygiene products and much more. The total amount of transferred aid is 5 trucks and is estimated at RUB 12 million.

Humanitarian “parcels” by the Detsky Mir Charity Foundation were delivered to the needy families of Gorno-Altai and 11 districts of the republic. Transportation of children’s goods to remote areas is carried out thanks to the financial support from the Government of the Republic and the Sistema Charitable Foundation.

The project Our Children

The project is aimed at providing targeted assistance to low-income families with disabled children, orphans and children left without parental care.

The Company has a program called “Cofinancing”, under which each employee can transfer part of his salary to the Company’s Charitable Foundation for the treatment of seriously ill children.

In 2017, 280 people took part in the project “Our Children”. Within the framework

of the Cofinancing program, employees of Detsky Mir Group received RUB 3.3 million.

In general, the project for 2017 provided assistance to 23 children for a total of RUB 5.5 million.

The project Operation Toys

Since 2013 the Detsky Mir Charitable Foundation is implementing the project “Operation Toys” for the organization of children’s playrooms in medical institutions. Its goal is to give children a feeling



of comfort beyond the hospital walls and thus speed up the recovery process.

In the game rooms dolls, strollers, designers, cars, educational games, sets for role-playing games and much more wait for very young patients. For older kids there are sports games: futsal, air hockey, bowling. Also presented are various manuals on musical instruments, speech development, memory, thinking and attention, vocabulary on various lexical topics.

In 2017 Detsky Mir opened 108 playrooms in 30 medical and social institutions in Russia. New playrooms appeared in 20 cities and villages in the country. Volgograd, Ekaterinburg, Nazran, Nizhny Novgorod, Petrozavodsk, Pyatigorsk, Rostov-on-Don, Ryazan, Smolensk, Shabalin, Turochak

(the Republic of Altai) and many others. Investments in the project for the year exceeded RUB 11.5 million, which is 1.5 times more than in 2016.

The Detsky Mir Charitable Foundation not only transfers toys, decorates and decorates rooms, but also repairs, acquires furniture and medical equipment if necessary.

In 2018, the project to open children's rooms in medical institutions will continue.

The project Step Forward

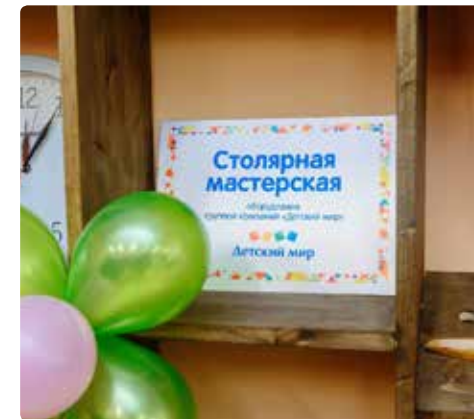
The project is aimed at the socialization of orphans in residential institutions through the organization of various workshops.

In accordance with the Agreement on Strategic Cooperation between the Ministry of Economic Development of Perm Krai and Detsky Mir Group, signed in February 2015, the Detsky Mir Group invests up to RUB 150 million in the region's economy and creates up to 100 permanent jobs in Perm Krai. The agreement expired in 2016, however, the Detsky Mir Group continues to develop its business and implement social projects in the region.

In 2017 the retail chain Detsky Mir opened three new supermarkets in the region: two stores in Perm and one in Solikamsk, which became the first commercial object in this city. Also, the first ELC store in Perm was opened.

In addition, within the framework of the Detsky Mir Agreement, in cooperation with the regional authorities, it implements programs to support childhood and maternity. In particular, there is social and material support for children and adolescents who remained without parental care, children who are in a difficult living situation: with serious diseases, disabled children, children from large families, boarding schools and children's homes in Perm Krai.

Detsky Mir provides assistance to the Perm orphanage for visually impaired children, the regional children's sanatorium for tuberculosis patients No. 6 Malysh, a social rehabilitation center for minors, a clinical phthisiopulmonological medical center, and also centers for helping children left without parental care Dobryanka and Krasnokamsk, Nytva school-orphanage. During the reporting period, the Company transferred to children in difficult circumstances necessary items worth RUB 6 million.



Goal of the project: help children from orphanages to adapt to independent life, to instill and develop skills in a certain field of activity so that they can later earn their living independently.

We support activities for the vocational guidance and training of adolescents, as well as on the social and labor adaptation of children in difficult living conditions.

Targeted groups: orphans and children left without parental care; children from low-income families;

Forms of assistance:

- Assistance in additional training for orphans and children in difficult life situations;

- conducting excursions that contribute to the professional orientation of adolescents;
- organization of master classes in career counseling.

In the Dukhovschina orphanage (the city of Smolensk), in which orphans and children with disabilities are trained, the office of the plastering and painting business opened its doors. To organize the educational process, the Detsky Mir Charitable Foundation carried out cosmetic repairs of the premises, acquired the necessary furniture and equipment. The total cost of the project was RUB 208,000. Now, under the guidance of experienced teachers, children with a difficult fate will be able to learn the basics of the profession of "plasterer – painter", which will enable them to find demanded work in the future.

The carpentry workshop in Samara orphanage school No. 115 has been renovated, in which training is being conducted, including children with disabilities. For the organization of the educational process, the Detsky Mir Charitable Foundation acquired the necessary equipment and furniture. The total size of the Company's "investment" exceeded RUB 200,000.

The program Art Without Borders

The program is aimed at developing the creative potential, morality and aesthetic taste of the younger generation.

Target groups for program implementation: gifted children, children engaged in creativity, centers of children's creativity.

Forms of assistance:

- support of creative festivals;
- support for unique methods in the sphere of arts;
- organization and support for exhibitions and contests;
- organization and support for concert and entertainment shows;

The largest projects implemented in the reporting period:

- Organization of charity fairs in Central district (February, November)
- Support of the festival "To a future without borders" (Moscow Region, Ivanteevka)
- Support for the film forums held by the Children's CinemaMay Charitable Foundation in Smolensk, Kazan, Nizhny Novgorod, Rostov-on-Don, Moscow, Suzdal, Luxembourg and the Republics of Altai and Karelia
- Organization of a trip for 150 children from 5 orphanage schools in the Smolensk and Moscow Regions to the circus Aquamarine at the show "Astrolabe"
- Support of the International charitable festival of children's creativity "Masterpiece" (Moscow)
- Support of the festival of the Charitable Foundation "Studio of Creative Development of K. Khabensky "Feathering" (city of Sochi)
- Support of the festival "Eralash" in Orlenok
- Support for the "Smorodinnaya party", organized by the charity foundation "Sozidanie" together with Tatiana Lazareva and Mikhail Shats
- Organization of a trip of 387 children from 17 orphanage schools of the Nizhny Novgorod, Tver, Kaluga, Moscow Region and Moscow to the Nikulin Circus on Tsvetnoy Boulevard in Moscow
- Organization of a charitable Christmas tree "New Year's holiday with friends" for 450 children from boarding schools in Nizhny Novgorod, Kaluga, Smolensk, Ryazan, Moscow Region and Moscow (together with the Children's CinemaMay Charitable Foundation)
- Support for New Year's performances organized by the Sistema Charitable Foundation in Rostov-on-Don and Volgograd
- Support for the New Year performance "Chuk and Gek", organized by the Center for Family Education "Gusenok"



- organization and support for New Year's shows.

In 2017 RUB 1.2 million were allocated to implement projects in the program "Art without borders".

Volunteer Puppet Theater

At the end of 2014, the Volunteer Puppet Theater of Detsky Mir Group was created. The actors are employees. The theatrical company performs in patronized orphanages, charity fairs and festivals. The project allowed us to involve new employees in the charitable projects realized by the Company, increased loyalty to the brand.

With the performances "Leshy and the Sofa", "Morozko", "Marviksy", "As Ivan was looking for the bride", "About King Gryaznulya" and "Adventures of the Parrot" Volunteer Puppet Theater gives about 20 performances a year in social institutions, centers for the promotion of family education, libraries and houses of culture, at various charity fairs and festivals.

Cognitive stories remind children of the values of friendship, the differences between good and evil, the need to love and protect nature.

The expenses for the maintenance of the Volunteer Puppet Theater (purchase of requisites and decorations, transportation costs, rental of light and music equipment, food for actors during outings) amount to about RUB 100 thousand per month.

Charitable events and subbotniks

The Detsky Mir Charitable Foundation regularly holds charity actions and events.

The program of charitable holidays includes creative master classes, performances of variety artists and circus, performances with the participation of trained animals, aqua-grime, soap bubbles and games with animators, gifts giving.

Representatives of the creative intelligentsia respond to our proposals for participation in charitable events. So, for the New Year's holidays, honored artists of Russia Sergey Plotnikov and Vladimir Demidov, animator, head of the animation studio "Bee" Maria Muat, popular actors of theater and cinema Olga Khokhlova and Ivan Kokorin, screenwriter Anna Pendrakovskaya, writer Tatyana Bering and TV presenter Elena Letouchaya took part in.

New Year's presentations

The charitable foundation of Detsky Mir Group helped children in difficult circumstances to get to New Year's performances.

New Year's performances in Moscow were held at the Nikulin Circus, the Theater Center on Strastnoy boulevard and the MIIT Cultural Centre. In the Smolensk region, the Christmas tree was held in the Yartsevo boarding school, in Volgograd – in the Tsaritsynskaya opera, and in Rostov-on-Don – in the Musical Theater. In total, New Year's events were attended by more than 1,500 children in difficult circumstances. Children's parties in Moscow were visited not only by children from children's homes of the capital, but also by the Moscow, Nizhny Novgorod, Kaluga, Tver, Ryazan and Smolensk regions. In order to fulfill the children's dream – to get to the Christmas tree in Moscow – the Detsky Mir Charitable Foundation paid for their travel and food. And of course not a single child was left without a New Year's gift!



The action Generous Tuesday

Detsky Mir Group held a series of charitable events in the framework of the "Generous Tuesday" campaign.

Orphans from social institutions in Moscow, Kostroma, Smolensk and Ryazan regions presented works created by their own hands: christmas toys, felt decoration, wooden interior items for the home and various souvenirs. All collected funds (RUB 300,00 for 2 fairs) are aimed at the additional education of children with disabilities and orphans from orphanages.

In addition, in the central office of Detsky Mir Group, from November 27 to December 1, a series of charity events, "Week of Good Deeds" for the Company's employees, took place. All proceeds are used to pay for rehabilitation courses for children with disabilities.

Action Christmas Tree of Wishes

Another kind tradition of Detsky Mir became the charity event "Christmas Tree of Wishes", held in December at the Company's Central Office. The children wrote about their dream to Ded Moroz (Grandfather Frost) and the Detsky Mir employees helped them come true. New Year's greetings were received by 129 boys and girls from the Yartsevo orphanage school in the Smolensk Region.

The Charitable Foundation of Detsky Mir Group also organizes traditional spring subbotniks to improve the territories after the winter season. In 2017, 39 subbotniks were held in 35 cities of Russia and Kazakhstan with the participation of 1,123 Company volunteers. The total amount spent for the subbotniks organization was RUB 1.2 million.

A joint action with Procter&Gamble

Detsky Mir Group and the Company Procter & Gamble held a joint charity event "Give care to those who need it!".

In the online store of the Detsky Mir retail chain, when purchasing mega-packs of diapers or Pampers Premium Care panties, it was possible to help needy babies from small children's homes left without parental care. With each package sold, the organizers provided one package of diapers or underwear. As a result of the action, more than 2,000 packages of hygiene products were collected and transferred, which is about 40,000 diapers and underwear.

Detsky Mir partnered with Kodabra

The school of digital creativity Kodabra teaches children programming through the creation of games since 2014. The Charitable Foundation of Detsky Mir Group also organizes the traditional spring subbotniks to improve the territories after the winter season. Over the first month, more than 200 students attended the class.

All educational programs are aimed at developing the digital skills necessary for living in modern economic conditions. Basic knowledge of programming, code reading skills, logical thinking and analytic abilities will be useful for children and teenagers in choosing a future profession. And the developed ability to work in a team, the ability to present the results of their work, the knowledge of the principles of the project approach is necessary for students in everyday life today.

In addition, Detsky Mir will join the volunteer program of Kodabra, within the framework of which free classes for children with disabilities are held, for pupils in orphanage schools, as well as patients of rehabilitation clinics. Thus, the teachers and volunteers of Kodabra, with the support of charitable partner funds, managed to involve more than 500 children in the IT world.

3.5 Environmental Responsibility

Detsky Mir Group pays great attention to the protection of the environment, the saving of natural resources and packaging recovery. We want to remind everyone again that it is from our careful attitude towards nature that we depend on the environmental conditions that we and the future generation – our children- will live in tomorrow.

Consumption of Energy Resources by Detsky Mir Group¹

Type of energy resource	2015		2016		2017	
	RUB thousand	unit	RUB thousand	unit	RUB thousand	unit
Electricity, kW · h, including:	445,001	92,800,151	590,049	114,998,368	683,934	124,575,803
Offices	12,075	2,518,196	31,708	6,179,833	31,667	5,767,999
Stores of the retail chain, kW · h	432,926	90,281,955	558,341	108,818,534	652,267	118,807,804
The amount of energy saved, kW · h	–3,265	–680,871	8,503	1,657,247	35,413	6,450,395
Heat-water-gas supply, Gcal	79,635	46,287	110,280	59,906	142,193.8	72,189

¹ Other types of energy resources were not used by PJSC Detsky Mir in the reporting year.

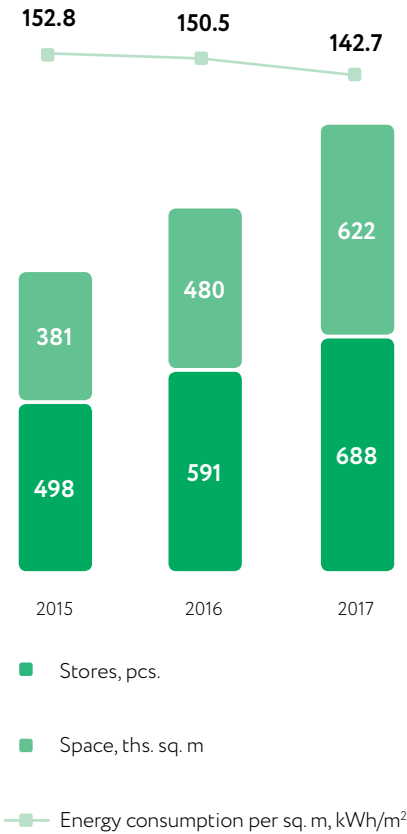
Reducing resource consumption

The introduction of modern technologies and solutions aimed at reducing the consumption of resources is important for us both in terms of reducing operating costs, and in terms of minimizing the impact on the environment.

Energy saving

The shopping concept of the Detsky Mir retail chain involves the use of modern energy-saving solutions that not only improve shopping spaces, make them more comfortable for visitors and staff, but also significantly save energy. The total amount of energy saved in 2017 was 6,450,395 kWh, which in monetary terms is RUB 35,413 thousand. Despite the growth in the number of stores and the increase in the total sales area of the Company, it was possible to reduce energy consumption in 2017 by 7.8%.

Specific Energy Consumption by the Shops of the Detsky Mir Retail Chain

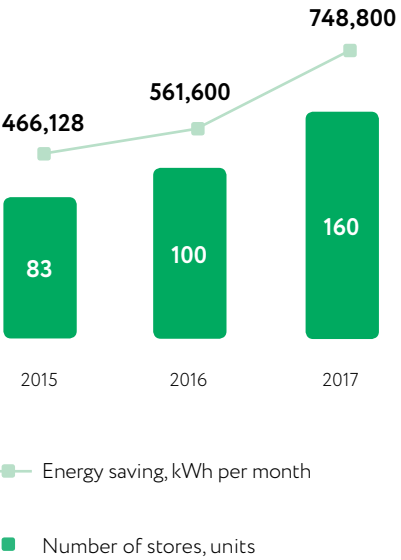


Since 2014 we have started the process of equipping stores with LED lighting systems. In 2017, 160 stores were equipped with such systems. In 2018 all stores of the retail chain are planned to be switched to a LED lighting system.

The warehouse in Bekasovo, opened in 2015, was equipped with energy-efficient equipment and a lighting system using motion sensors. In subsequent years, we plan to conduct a similar upgrade of all existing retail space of the Company.

This project is focused not only on reducing current costs (a solution based on LEDs at a cost that does not exceed projects based on traditional light sources), but also to reduce costs in the future. In 2017, the electricity savings as a result of

Saving from the Introduction of LED Lighting in Stores



the project was 748.8 thousand kWh per month. An additional positive effect is the absence of the need to dispose of mercury lamps related to the first hazard class.

Saving Paper

Automation of the Company’s business processes implemented within the framework of our strategy not only increased the efficiency of operations, but also reduced the consumption of resources – of-office paper. For example, the development and implementation of an electronic invoice format allowed us to abandon its paper form.

Ecological consumer packaging

In the stores of the Detsky Mir retail chain, customers are offered packages of paper – environmentally friendly material that does not harm the environment during decomposition and is easily disposed of. The launch of the sale of craft packages was the next logical step in the chain of environmental initiatives of the retail

chain. Detsky Mir Group became the first retailer in the children’s goods segment in Russia, which offered its customers ecological packaging.

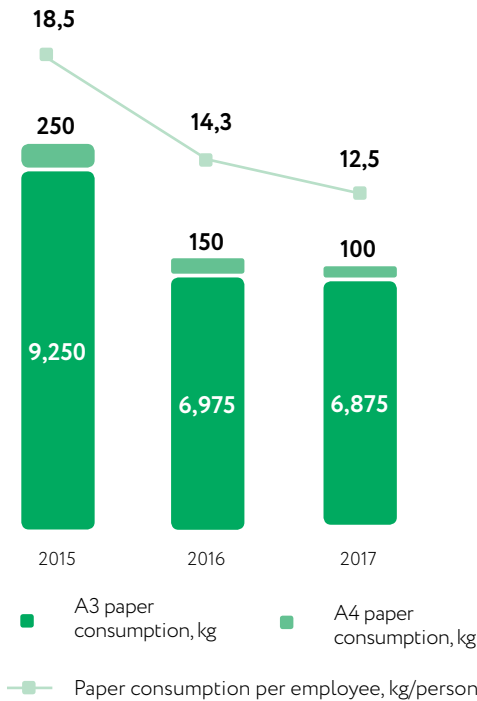
The retail price of the package is 15 rubles, the carrying capacity is 7 kg. The package is decorated in the style of the brand. Part of the proceeds from the sale of the bags is transferred to support the programs of Detsky Mir’s Charitable Foundation.

In December 2015, we launched the sale of paper bags in stores in Moscow and the Moscow Region. In July 2016, the project was scaled to the entire retail chain. As of the end of 2017, 230,628 paper bags had been sold. The most popular eco-friendly packages are used in the Moscow and North-Western Regions.

Sales of Paper Bags in 2017, thousands of pcs.



Consumption of Paper by the Central Office of PJSC Detsky Mir



Ecological consumer packaging will gradually replace the usual plastic bags for customers. Taking into account the scale of the Company’s work, this project will significantly reduce the harmful impact on the environment and increase the eco-culture of the inhabitants of our country.

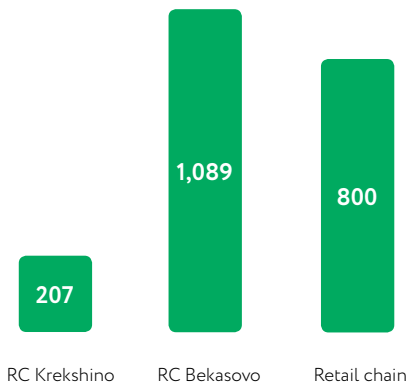
Modernization of the waste management system

A significant part of waste generated in our warehouses and in stores is accounted for by cardboard and polyethylene film. Cardboard is easily recyclable. Basically, it produces junk cardboard, which today is considered the world’s most promising secondary packaging material of the near future. Polyethylene is a dangerous source of environmental pollution. According to approximate estimates, its decomposition takes up to 300 years. In this case, it undergoes thermal aging, gradually decomposing under the influence of sunlight, heat and oxygen, as a result of which harmful chemicals are released into the soil and water.

We set ourselves the task of reducing our own impact on the environment, so the implementation of packaging recycling projects has become a natural step along this path.

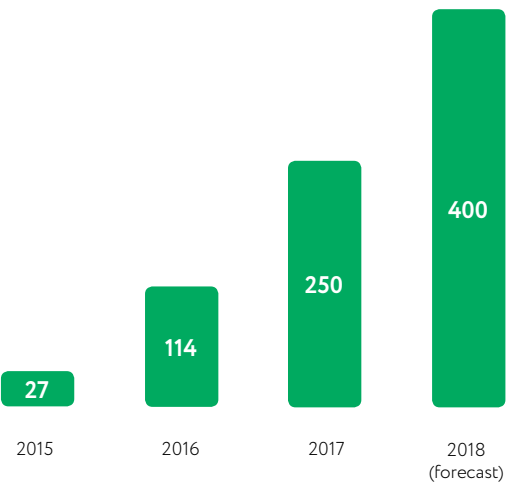
In the Company warehouse, since 2014, waste paper and packaging polyethylene film have been collected, which are sorted separately and transferred to a specialized organization for further processing. In 2017 in the distribution centers Krekshino and Bekasovo were collected about 1,296 tons of cardboard.

Collection of Recyclable Materials in the Company in 2017, in tons



In 2015, we implemented pilot projects on the separate collection of recyclables in trade spaces. As of the end of 2017, 250 stores of the retail chain took part in the project. In the future, we plan to increase their number to 400. As a result of 2017, 800 tons of cardboard were disposed of in the retail chain. This allowed us to reduce the amount of waste transferred to the contractor organization, which, in turn, reduced operating costs.

Number of Stores Participating in the Recycling Project, pcs.



Detsky Mir became a partner of the Russian Ecological Week

On October 22, 2017 in Moscow, the III Russian Ecological Week, organized with the support of the Ministry of Natural Resources of the Russian Federation, was completed.

For the first time, a unified ecological space was created on Manezh Square in the capital, encompassing all aspects of the ecological lifestyle — cultural, environmental and consumer — from the best examples of environmental art to the ideology of perceiving ecological standards of consumption and presentation of eco-producers’ products.

With the support of Detsky Mir Group, an action was carried out to plant the trees “Gardens of Russia”. The collection of the “Aptekarsky garden” was replenished with seedlings of rare species of lilac, willow, hydrangea.

Volunteer Puppet Theater of Detsky Mir showed an interactive eco-book “About King Gryaznulya”, in which the story was created in real time together by actors and



Detsky Mir Group became a partner of the International Eco-Event “FSC-Friday”

FSC-FRIDAY is an occasion to recall the important role played by forest in the life of the planet and its inhabitants, including mankind. The holiday provides for the self-organization of companies, institutions and simply enthusiastic people.

FSC-FRIDAY 2017 is celebrated around the world on the last Friday of September, this year it is September 29th.

There are no obligatory conditions, as FSC-FRIDAY is celebrated, except for one — this is the love of the forest. Any activity on this day, as well as the week before and after is welcomed.

Independent Auditor’s Report
Consolidated Statement of Profit or Loss and other Comprehensive Income for the Year Ended 31 December 2017

Report on Compliance with the Principles of the Code of Corporate Governance
Report on Compliance with the Principles of the Code of Corporate Governance

Information on Major Transactions Made by the Company in 2017
Information on Transactions with Interest, Completed by the Company in 2017.

Information on Transactions with Shares of the Company Completed by Members of Management Bodies In 2017.w

Appendixes



Independent Auditor's Report

To: Board of Directors and Shareholders of Public Joint Stock Company “Detskymir”

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company “Detskymir” and its subsidiaries (collectively – the “Group”), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statements of profit or loss and other comprehensive income, changes in shareholders’ equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at

31 December2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants(the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Recognition of supplier bonuses</p> <p>The Group receives significant amounts of supplier incentives, discounts, and bonuses. These incentives largely comprise volume-based bonuses based on percentage levels agreed and also include arrangements with a greater degree of judgement such as markdown compensations, margin protection and advertising and marketing support.</p> <p>We consider this to be a key audit matter because determination of the period over which the reduction in cost of sales should be recognized is judgmental and complex and requires thorough understanding of the contractual arrangements and complete and accurate source data.</p> <p>The Group’s principal accounting policy on supplier bonuses is disclosed in Note 4 on page 30.</p>	<p>We obtained an understanding of the Group’s internal processes and controls in respect of accounting for supplier bonuses and assessed whether the amounts recognized in the consolidated financial statements were in line with the Group’s accounting policies.</p> <p>We circularized a sample of suppliers to get assurance that the amounts of recorded incentives and balances owed at year-end were accurate and complete. Where responses were not received, we completed alternative procedures such as analysing individual supplier bonus agreements, tracing the amounts recorded to primary documents signed by suppliers confirming the Group’s right for a particular bonus.</p> <p>In addition, for a sample of volume-based agreements, we recalculated the bonuses due from suppliers based on purchases during the year and the contractual terms and audited management’s calculation of rebates allocated to year-end inventory.</p> <p>We also performed a retrospective analysis of bonuses recognized in the prior period to check that accuracy of estimates made by management.</p>
<p>Net realizable value of inventories</p> <p>Net realizable value of inventories</p> <p>Inventories are carried at the lower of cost and net realizable value. At 31 December 2017 the value of inventories held by the Group was RUB 26,440 million (31 December 2016: RUB 24,796 million).</p> <p>The valuation of inventories was identified as a key audit matter because it involves significant judgement, including estimated selling price of items held, and assessing items which may be slow-moving, obsolete or damaged. The assessment process includes studying the historical performance of the inventories, current operational plans as well as industry and customer specific trends.</p> <p>The Group’s inventory provision is disclosed in Note 14 on page 36.</p>	<p>We obtained assurance over the appropriateness of management’s assumptions applied in calculating the carrying value of inventories by:</p> <ul style="list-style-type: none">■ Observing the effectiveness of key inventory controls through attending inventory counts at the distribution center and 9 stores;■ Verifying the value of a sample of inventory to confirm it is held at the lower of cost and net realizable value, based on the sales prices;■ Reviewing, recalculating and assessing the accuracy of inventory provision by analysing inventory ageing, historical and post year-end performance and consistency of the amount of provision as a percentage of gross inventory balance year to year;■ Reperforming management’s calculations of provisions to ensure they are accurate and free from error.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Revenue recognition — customer loyalty program</p> <p>The Group’s customer loyalty program was identified as a key audit matter because a significant degree of judgment is required in determining the amount of deferred revenue allocated to customer loyalty program and the pattern of its subsequent amortization to revenue.</p> <p>The movement of the Group’s deferred revenue in respect of customer loyalty program is disclosed in Note 22 on page 44.</p>	<p>Our audit focused on challenging the Group’s assumptions applied in determining the redemption rates and included:</p> <ul style="list-style-type: none">■ Obtaining a detailed understanding of the process of the gathering and processing data regarding customer loyalty program, as well as key controls over deferring and recognizing the respective revenue;■ Assessing expected redemption rates used by the Group against historical data on factual redemptions;■ Using our computer aided analytics tools to perform a correlation analysis to identify unusual trends in deferral and recognition of revenues for the customer loyalty programs;■ Verifying that any changes made by the Group in the reporting year to its customer loyalty program terms were appropriately reflected in the Group’s accounting records; and■ Reperforming management’s calculations of revenues deferred and recognized to ensure they are accurate and free from errors.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual and Quarterly reports, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual and Quarterly reports are expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially in-

consistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual and Quarterly reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements

that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated

financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consoli-

dated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Vladimir Biryukov
Engagement partner

DELOITTE & TOUCHE

2 March 2018



The Entity: PJSC “Detskymir”

State Registration Certificate No. 7701233499 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 29 for Moscow on 13.09.1999.

Primary State Registration Number: 1027700047100

Address: 37 VernadskyProspekt, bldg. 3, Moscow, 117415, Russia

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Audit Firm: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued byMoscowInterdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

Consolidated Statement of Profit or Loss and other Comprehensive Income for the Year Ended 31 December 2017 (in millions of Russian Rubles, except per share data)

	Notes	2017	2016
Revenue	6	97,003	79,547
Cost of sales		(64,205)	(52,439)
GROSS PROFIT		32,798	27,108
Selling, general and administrative expenses	7	(24,766)	(20,483)
Share of profit of associate, net of income tax		–	9
Other operating expenses, net		(8)	(30)
OPERATING PROFIT		8,024	6,604
Finance income	8	28	170
Finance expenses	8	(1,866)	(1,938)
Gain on acquisition of controlling interest in associate	1	–	16
Foreign exchange (loss)/gain, net		(306)	33
PROFIT BEFORE TAX		5,880	4,885
Income tax expense	9.1	(1,036)	(1,065)
PROFIT FOR THE YEAR		4,844	3,820
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Effect of translation to presentation currency		16	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,860	3,885
Earnings per share			
Weighted average number of shares outstanding, basic and diluted:		738,475,180	739,000,000
Earnings per share, basic and diluted			
(in Russian Rubles per share)		6.56	5.17

Consolidated Statement of Financial Position as at 31 December 2017 (in millions of Russian Rubles)

	Notes	At 31 December 2017	At 31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	7,486	6,943
Intangible assets	11	1,362	1,301
Long-term loan receivable	12	–	1,060
Deferred tax assets	9.2	1,593	1,708
Other non-current assets	13	241	263
Total non-current assets		10,682	11,275
CURRENT ASSETS:			
Inventories	14	26,440	24,796
Trade receivables	15	2,244	3,855
Advances paid and other receivables	16	1,887	2,351
Prepaid income tax		7	7
Cash and cash equivalents	17	3,155	2,445
Total current assets		33,733	33,454
TOTAL ASSETS		44,415	44,729
EQUITY AND LIABILITIES			
SHAREHOLDERS' DEFICIT:			
Share capital	18	1	1
Treasury shares	18	(60)	–
Additional paid-in capital		5,793	5,793
Accumulated deficit		(6,386)	(6,362)
Currency translation reserve		130	114
Total deficit		(522)	(454)
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	19	8,956	6,514
Deferred tax liabilities	9.2	29	69
Total non-current liabilities		8,985	6,583
CURRENT LIABILITIES			
Trade payables		24,388	25,215
Short-term loans and borrowings and current portion of long-term loans and borrowings	19	4,635	8,124
Advances received, other payables and accrued expenses	21	6,076	3,834
Deferred revenue	22	606	816
Current income tax liability		247	611
Total current liabilities		35,952	38,600
Total liabilities		44,937	45,183
TOTAL EQUITY AND LIABILITIES		44,415	44,729

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2017 (in millions of Russian Rubles)

	Share capital	Treasury shares	Additional paid-in capital	Accumulated deficit	Currency translation reserve	Total
Balance at 1 January 2016	1	–	5,793	(5,448)	49	395
Profit for the year	–	–	–	3,820	–	3 820
Other comprehensive income	–	–	–	–	65	65
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	3,820	65	3,885
Share-based compensation (Note 20)	–	–	–	(307)	–	(307)
Dividends (Note 18)	–	–	–	(4,427)	–	(4,427)
Balance at 31 December 2016	1	–	5,793	(6,362)	114	(454)
Profit for the year	–	–	–	4,844	–	4,844
Other comprehensive income	–	–	–	–	16	16
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	–	4,844	16	4,860
Share-based compensation (Note 20)	–	–	–	170	–	170
Purchase of treasury shares (Note 18)	–	(375)	–	–	–	(375)
Settlement of share-based compensation with treasury shares (Note 20)	–	272	–	(272)	–	–
Sale of treasury shares (Note 18)	–	43	–	–	–	43
Dividends (Note 18)	–	–	–	(4,766)	–	(4,766)
Balance at 31 December 2017	1	(60)	5,793	(6,386)	130	(522)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2017 (in millions of Russian Rubles)

	2017 r.	2016 r.
Operating activities:		
Profit for the year	4,844	3,820
Adjustments for:		
Income tax expense recognized in profit or loss	1,036	1,065
Expense on equity-settled share-based compensation	170	–
Finance income	(28)	(170)
Finance expense	1,866	1,938
Loss on disposal of property, plant and equipment and intangible assets	14	4
Bad debt expense	25	34
Shrinkage and inventory obsolescence expenses	1,320	1,264
Depreciation and amortization expense	1,818	1 591
Foreign exchange loss/ (gain), net	306	(33)
Gain on acquisition of controlling interest in associate	–	(16)
Share of profit of associate, net of income tax	–	(9)
Changes in working capital:		
Decrease/(increase) in trade receivables	1,606	(1,149)
Decrease/(increase) in advances paid and other receivables	466	(566)

	2017 r.	2016 r.
Increase in inventories	(2,964)	(8,654)
(Decrease)/increase in trade payables	(1,116)	8,579
Increase in advances received, other payables and accrued expenses	1,095	845
(Decrease)/increase in deferred revenue	(210)	538
Cash generated by operations	10,248	9,081
Interest paid	(1,658)	(1,857)
Interest received	13	45
Income tax paid	(1,523)	(1,468)
Net cash generated by operating activities	7,080	5,801
Investing activities:		
Payments for property, plant and equipment	(2,072)	(1,468)
Payments for intangible assets	(396)	(279)
Net inflow of cash and cash equivalents on acquisition of controlling interest in associate (Note 1)	–	15
Repayment of loans receivable	1,074	4,888
Dividends received from associate	–	9
Proceeds from disposal of property, plant and equipment	24	–
Net cash (used in)/received from investing activities	(1,370)	3,165
Financing activities:		
Purchase of treasury shares	(375)	–
Sale of treasury shares	43	–
Repayment of loans and borrowings	(40,666)	(30,290)

	2017 r.	2016 r.
Dividends paid	(3,623)	(4,427)
Share-based compensation paid	–	(307)
Proceeds from loans and borrowings	39,621	26,569
Net cash used in financing activities	(5,000)	(8,455)
NET INCREASE IN CASH AND CASH EQUIVALENTS	710	511
CASH AND CASH EQUIVALENTS, beginning of the year	2,445	1,934
CASH AND CASH EQUIVALENTS, end of the year	3,155	2,445

Report on Compliance with the Principles of the Code of Corporate Governance

This report on compliance with the principles and recommendations of the Code of Corporate Governance was considered by the Board of Directors of the Public Joint Stock Company Detsky Mir at the meeting of the Board of Directors as of April 13, 2018, Protocol No. 5 as of April 16, 2018.

The Board of Directors confirms that the data contained in this report contains complete and reliable information on the Company’s compliance with the principles and recommendations of the Corporate Governance Code for 2017.

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
1.1	The Company must ensure equal and fair treatment of all shareholders in the exercise of their right to participate in the management of the Company.			
1.1.1	The Company creates the most favorable conditions for shareholders to participate in the general meeting, the conditions for working out a justified position on the agenda of the general meeting, coordinating their actions, as well as the opportunity to express their opinion on the issues under consideration.	1. In the public domain there is an internal document of the Company approved by the general meeting of shareholders and regulating the procedure for holding a general meeting. 2. The Company provides an accessible way of communicating with the public, such as a hotline, e-mail or forum on the Internet, allowing shareholders to express their opinion and forward questions regarding the agenda in preparation for the general meeting. These actions were undertaken by the Company on the eve of each general meeting that took place during the reporting period.	Compliant	
1.1.2	The procedure for reporting a general meeting and submitting materials to a general meeting gives shareholders the opportunity to properly prepare for participation in it.	1. The notice of the general meeting of shareholders is posted (published) on the website on the Internet at least 30 days before the date of the general meeting. 2. In the message on holding the meeting, the meeting venue and documents required for admission to the premises are indicated. 3. Shareholders were provided with access to information about who proposed the agenda and who nominated candidates for the Board of Directors and the Audit Commission of the Company.	Compliant	
1.1.3	During the preparation and holding of the general meeting, shareholders had the opportunity to receive information about the meeting and materials on it without hindrance and in a timely manner, to ask questions to the executive bodies and members of the Board of Directors of the Company, to communicate with each other.	1. During the reporting period, shareholders were given the opportunity to ask questions to members of the executive bodies and members of the Board of Directors of the Company on the eve and during the annual general meeting. 2. The position of the Board of Directors (including dissenting opinions) on each item of the agenda of general meetings held during the reporting period was included in the materials for the general meeting of shareholders. 3. The Company granted shareholders entitled to this access to the list of persons entitled to participate in the general meeting, starting from the date of its receipt by the Company, in all cases of holding general meetings in the reporting period.	Compliant	

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1.1.4	The realization of the right of the shareholder to demand the convocation of a general meeting, nominate candidates to the management bodies and make proposals for inclusion in the agenda of the general meeting was not accompanied by unjustified difficulties.	<p>1. In the reporting period, the shareholders had the opportunity, for at least 60 days after the end of the corresponding calendar year, to submit proposals for inclusion in the agenda of the annual general meeting.</p> <p>2. During the reporting period, the Company did not refuse to accept proposals to the agenda or nominees for the Company's bodies due to misprints and other insignificant shortcomings in the shareholder's proposal.</p>	Compliant	
1.1.5	Each shareholder had the opportunity to freely exercise the right to vote in the simplest and most convenient way for him/her.	1. The internal document (internal policy) of the Company contains provisions according to which each member of the general meeting can request a copy of the ballot filled out by him, certified by the counting commission, before the completion of the relevant meeting.	Non-compliant	In accordance with the Civil Code of the Russian Federation, the decision of the general meeting of shareholders of a public joint stock company and the composition of the Company's participants present at its adoption are confirmed in the person maintaining the register of shareholders (registrar) and performing the functions of a counting commission. Due to the fact that the function of the counting commission is performed by another legal entity, the norms contained in the internal documents of the Company are not mandatory for the registrar. This issue has no solution, in the manner prescribed by the Code of Corporate Governance (hereinafter — CCG). In practice, not one shareholder has yet been refused a copy of the completed ballot, certified by the counting commission.

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1.1.6	The procedure established by the Company for the conduct of the general meeting provides an equal opportunity for all persons present at the meeting to express their opinion and ask questions of interest to them.	<p>The procedure established by the Company for the conduct of the general meeting provides an equal opportunity for all persons present at the meeting to express their opinion and ask questions of interest to them.</p> <p>2. Candidates to the management and control bodies of the Company were available for answering the questions of shareholders at the meeting at which their nominees were put to the vote.</p> <p>3. The Board of Directors, when making decisions related to the preparation and conduct of general meetings of shareholders, considered the issue of using telecommunications to provide remote access to shareholders for participation in general meetings in the reporting period.</p>	Partially compliant	Providing shareholders with remote access to participate in general meetings by using telecommunications means has a number of technical difficulties, one of which is the identification of the identity of the shareholder or his representative and can be provided only by the person performing the functions of the counting commission of the Company. At present, such an opportunity is realized for persons whose rights to securities are accounted for by a nominal holder. Also, the Company is considering the possibility of including in the charter provisions on the possibility of completing an electronic form of the voting ballot on the website of the registrar of the Company.
1.2	Shareholders are given an equal and fair opportunity to participate in the Company's profits through the receipt of dividends.			
1.2.1	The Company developed and implemented a transparent and understandable mechanism for determining the amount of dividends and their payment.	<p>1. The Company has been developed, approved by the Board of Directors and disclosed the dividend policy.</p> <p>2. If the Company's dividend policy uses the Company's reporting indicators to determine the amount of dividends, then the relevant provisions of the dividend policy take into account consolidated financial statements.</p>	Compliant	

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1.2.2	The Company does not take a decision on the payment of dividends, unless such decision, formally violating the restrictions established by law, is economically unjustified and can lead to the formation of false ideas about the activities of the Company.	1. The dividend policy of the Company contains clear indications of financial / economic circumstances in which the Company should not pay dividends.	Non-compliant	The amount of the dividend and the procedure for its payment are determined on the basis of the recommendations of the Board of Directors of the Company. The members of the Board of Directors of the Company are obliged to act in the interests of the Company, exercise their rights and perform duties with respect to the Company in good faith and reasonably. The qualification of the members of the Board of Directors of the Company makes it possible to determine the circumstances under which the Company should not pay dividends. The issue of adjusting the dividend policy is considered by the Board of Directors at least once every 3 years.
1.2.3	The Company does not allow deterioration of dividend rights of existing shareholders.	1. In the reporting period, the Company did not take any actions leading to a deterioration in the dividend rights of existing shareholders.	Compliant	
1.2.4	1. In the reporting period, the Company did not take any actions leading to a deterioration in the dividend rights of existing shareholders.	1. In order to exclude shareholders from other ways of generating profit (income) at the expense of the Company, in addition to dividends and liquidation value, the internal documents of the Company establish control mechanisms that ensure the timely identification and procedure for approving transactions with persons affiliated with significant shareholders persons having the right to dispose of votes falling on voting shares), in cases where the law does not formally recognize such transactions as related party transactions.	Compliant	
1.3	The system and practice of corporate governance ensure equality of conditions for all shareholders — owners of shares of one category (type), including minority (small) shareholders and foreign shareholders, and equal treatment of them by the Company.			
1.3.1	The Company created conditions for fair treatment of each shareholder by management bodies and controlling persons of the Company, including conditions ensuring that large shareholders are not abused against minority shareholders.	1. During the reporting period, the procedures for managing potential conflicts of interest of significant shareholders are effective, and conflicts of the shareholders, if any, have been given due attention by the Board of Directors.	Compliant	

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1.3.2	The Company does not take any actions that lead or can lead to an artificial redistribution of corporate control.	1. Quasi-treasury shares are absent or did not participate in voting during the reporting period.	Compliant	
1.4	Shareholders are provided with reliable and effective ways of recording rights to shares, as well as the possibility of free and easy alienation of their shares.			
1.4.1	Shareholders are provided with reliable and effective ways of recording rights to shares, as well as the possibility of free and easy alienation of their shares.	1. The quality and reliability of the activities carried out by the registrar in maintaining the register of securities owners correspond to the needs of the Company and its shareholders.	Compliant	
2.1	The Board of Directors carries out strategic management of the Company, determines the main principles and approaches to the organization of the risk management system and internal control in the Company, controls the activities of the executive bodies of the Company, and also implements other key functions.			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment and dismissal of executive bodies, including in connection with improper performance of their duties. The Board of Directors also supervises that the executive bodies of the company act in accordance with the approved development strategy and the main activities of the company.	1. The Board of Directors has the authority to appoint, dismiss from the office and determine the terms of contracts with respect to members of the executive bodies. 2. The Board of Directors reviewed the report (reports) of the sole executive body and members of the collegial executive body on the implementation of the Company's strategy.	Compliant	
2.1.2	The Board of Directors sets the main guidelines for the company's activities for the long term, evaluates and approves key performance indicators and the main business objectives of the Company, evaluates and approves the strategy and business plans for the main types of the Company's activities.	1. During the reporting period, the Board of Directors considered issues related to the implementation and actualization of the strategy, approval of the financial and economic plan (budget) of the company, and consideration of criteria and indicators (including intermediate) implementation of the strategy and business plans of the Company.	Compliant	

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2.1.3	The Board of Directors determines the principles and approaches to the organization of the system of risk management and internal control in the Company.	1. The Board of Directors defined the principles and approaches to the organization of the system of risk management and internal control in the Company. 2. The Board of Directors assessed the risk management system and internal control of the Company during the reporting period.	Compliant	
2.1.4	The Board of Directors determines the Company's policy on remuneration and (or) reimbursement of expenses (compensation) to the members of the Board of Directors, executive bodies and other key executives of the Company.	1. The Company developed and implemented a policy (policies) approved by the Board of Directors on remuneration and reimbursement of expenses (compensation) of members of the Board of Directors, executive bodies of the Company and other key management personnel of the Company. 2. During the reporting period, issues related to this policy (policies) were considered at the meetings of the Board of Directors.	Partially compliant	The Regulation on remuneration and compensation paid to members of the Board of Directors of the Company was approved by the General Meeting of Shareholders of the Company. Provisions on remuneration and compensation for members of the management bodies and key employees of the Company (there are several local acts) are approved by the Board of Directors of the Company. Thus, the Board of Directors of the Company annually considers issues related to remuneration and motivation of the executive bodies of the Company and other key employees, but does not consider issues of remuneration and compensation for members of the Board of Directors, this issue is attributed to the competence of the General Meeting of Shareholders.
2.1.5	The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company's bodies, shareholders and employees of the Company.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company established a system for identifying transactions related to a conflict of interest and a system of measures aimed at resolving such conflicts	Compliant	
2.1.6	The Board of Directors plays a key role in ensuring the transparency of the Company, the timeliness and completeness of the disclosure by the Company of information, and the easy access of shareholders to the documents of the Company.	1. The Board of Directors approved a provision on information policy. 2. The Company is responsible for the implementation of the information policy.	Compliant	

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2.1.7	The Board of Directors exercises control over the practice of corporate governance in the Company and plays a key role in the significant corporate events of the Company.	1. During the reporting period, the Board of Directors took into consideration the issue of corporate governance practices in the Company.	Non-compliant	In the reporting year, the Board of Directors did not consider the issue of corporate governance practice in the Company.
2.2	The Board of Directors is accountable to the shareholders of the Company.			
2.2.1	Information on the work of the Board of Directors is disclosed and provided to shareholders.	1. The annual report of the Company for the reporting period includes information on attendance of meetings of the Board of Directors and committees by individual directors. 2. The annual report contains information on the main results of the evaluation of the work of the Board of Directors conducted in the reporting period.	Partially compliant	Information on the results of the evaluation of the work of the Board of Directors is not disclosed in the Annual Report.
2.2.2	The chairman of the Board of Directors is available for communication with the shareholders of the Company.	1. There is a transparent procedure in the society that provides shareholders with the opportunity to send questions to the chairman of the Board of Directors and their position on them.	Compliant	
2.3	The Board of Directors is the effective and professional management body of the Company, capable of making objective independent judgments and taking decisions that are in the interests of the Company and its shareholders.			
2.3.1	Only those persons who have an impeccable business and personal reputation and who possess the knowledge, skills and experience necessary to take decisions within the competence of the Board of Directors and are required for the effective performance of its functions are elected by the members of the Board of Directors.	1. The procedure for evaluating the effectiveness of the work of the Board of Directors includes, among other things, the assessment of the professional qualifications of the members of the Board of Directors. 2. During the reporting period, the Board of Directors (or its nominations committee) evaluated candidates for the Board of Directors in terms of having the necessary experience, knowledge, business reputation, lack of conflict of interest, etc.	Partially compliant	The Company carries out candidate evaluations for compliance with the independent criteria of PJSC "Moscow Exchange" and the absence of a conflict of interest. Evaluation of the professional qualities of candidates is carried out by persons who nominate candidates for the Board of Directors. In the event that shareholders offer an insufficient number of candidates for the formation of the Board of Directors, the current Board of Directors shall be guided by the Company's needs for specific specialists and subjective assessments. In 2018, the Board of Directors does not plan to implement procedures for evaluating candidates to the Board of Directors in terms of having the necessary experience and knowledge.

Nº	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
2.3.2	Members of the Company's Board of Directors are selected through a transparent procedure that allows shareholders to obtain information about their personal and professional qualities.	1. In all cases the holding of a general meeting of shareholders in the reporting period, the agenda of which included issues on the election of the Board of Directors, the Company provided the shareholders with the biographical information of all candidates for the Board of Directors, the results of the evaluation of such candidates held by the Board of Directors (or its nominations committee), as well as information on the candidate's compliance with the criteria for independence, in accordance with recommendations 102 – 107 of the Code and written consent of candidates for election to the Board of Directors.	Partially compliant	<p>The Company carries out candidate evaluations for compliance with the independent criteria of PJSC "Moscow Exchange" and the absence of a conflict of interest. Assessment of the professional qualities of candidates is carried out by persons who nominate candidates for the Board of Directors. In the event that shareholders offer an insufficient number of candidates for the formation of the Board of Directors, the current Board of Directors shall be guided by the Company's needs for specific specialists and subjective assessments.</p> <p>In 2018, the Board of Directors does not plan to implement procedures for evaluating candidates to the Board of Directors in terms of having the necessary experience and knowledge.</p>
2.3.3	The composition of the Board of Directors is balanced, including by the qualifications of its members, their experience, knowledge and business qualities, and enjoys the shareholders' trust.	1. Within the framework of the Board of Directors evaluation procedure conducted during the reporting period, the Board of Directors reviewed for its own needs in the field of professional qualifications, experience and business skills.	Compliant	
2.3.4	The quantitative composition of the Board of Directors of the Company provides an opportunity to organize the work of the Board of Directors in the most effective manner, including the possibility of forming committees of the Board of Directors, and also provides for significant minority shareholders of the Company the opportunity to elect a candidate for whom they vote.	1. As part of the Board of Directors' evaluation procedure conducted during the reporting period, the Board of Directors considered the issue of the quantitative composition of the Board of Directors in accordance with the needs of the Company and the interests of shareholders.	Compliant	

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2.4	The Board of Directors includes a sufficient number of independent directors.			
2.4.1	An independent director is a person who has sufficient professionalism, experience and independence to form his/her own position, is able to make objective and conscientious judgments that are independent of the influence of the executive bodies of the Company, certain groups of shareholders or other interested parties. It should be borne in mind, however, that in ordinary circumstances an independent candidate (an elected member of the Board of Directors) who is connected with the Company, its significant shareholder, significant counterparty or competitor of the Company or is connected with the state cannot be considered independent.	1. During the reporting period, all independent members of the Board of Directors met all independence criteria specified in recommendations 102 – 107 of the Code, or were recognized as independent by the decision of the Board of Directors.	Compliant	
2.4.2	An assessment is made of the compliance of candidates to the Board of Directors with independence criteria, as well as a regular analysis of the compliance of independent members of the Board of Directors with independence criteria is carried out. When carrying out such an assessment, the content should prevail over the form.	<p>1. During the reporting period, the Board of Directors (or the Committee on Nominations of the Board of Directors) formed an opinion on the independence of each candidate to the Board of Directors and presented a respective conclusion to the shareholders.</p> <p>2. During the reporting period, the Board of Directors (or the Committee on Nominations of the Board of Directors) at least once considered the independence of the current members of the Board of Directors, whom the Company specifies in its annual report as independent directors.</p> <p>3. The company developed procedures that determine the necessary actions of a member of the Board of Directors in the event that it ceases to be independent, including the obligation to promptly inform the Board of Directors about it.</p>	Partially compliant	<p>The criteria for the independence of the members of the Board of Directors are determined by the rules of the listing of PJSC "Moscow Exchange". The compliance of the members of the Board of Directors with independence criteria determined by the PJSC "Moscow Exchange" is carried out quarterly by the Company. The criteria for independence of PJSC "Moscow Exchange" are objective and do not depend on subjective assessments of the Board of Directors of the Company. Information on the compliance of candidates to the Board of Directors, with the aforementioned independence criteria, was provided to shareholders as part of materials for the annual general meeting of shareholders. The provision of duplicate information on this issue is superfluous.</p>

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2.4.3	Independent directors make up at least one-third of the elected Board of Directors.	1. Independent directors make up at least one-third of the composition of the Board of Directors.	Compliant	
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and in committing the Company to significant corporate actions.	1. Independent directors (who have no conflict of interest) preliminarily assess significant corporate actions related to a possible conflict of interest, and the results of such an assessment are provided to the Board of Directors.	Partially compliant	The opinion of independent directors is taken into account first of all, but the evaluation of any actions of the Company is purely subjective, it is not conducted within the framework of any formalized procedure and is not mandatory. The Company does not plan to introduce formalized procedures for evaluating significant corporate actions in 2018.
2.5	The Chairman of the Board of Directors promotes the most effective implementation of the functions assigned to the Board of Directors.			
2.5.1	An independent director elected chairman of the Board of Directors, or a senior independent director appointed from among the elected independent directors, coordinating the work of independent directors and interacting with the chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an independent director, or a senior independent director is defined among independent directors. 2. The role, rights and duties of the chairman of the Board of Directors (and, if applicable, the senior independent director) are duly determined in the internal documents of the Company.	Partially compliant	The role, rights and duties of the chairman of the Board of Directors are defined in the Regulations on the Board of Directors of the Company. The Chairman of the Board of Directors is not an independent director. Independent members of the Board of Directors do not elect a senior independent director to interact with the Chairman of the Board of Directors. All independent directors have the right to freely express their opinion and apply to the chairman on any issues of the activities of the supervisory board. From the point of view of the Company, the excessive regulation of relations between members of the Board of Directors complicates and delays decision-making processes. The Company does not intend to alter the aforementioned approach in 2018.

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2.5.2	The Chairman of the Board of Directors ensures a constructive atmosphere for holding meetings, free discussion of issues on the agenda of the meeting, monitoring the implementation of decisions taken by the Board of Directors.	1. The effectiveness of the work of the chairman of the Board of Directors was evaluated in the framework of the procedure for evaluating the effectiveness of the Board of Directors in the reporting period.	Compliant	
2.5.3	The Chairman of the Board of Directors shall take the necessary measures to provide the members of the Board of Directors with timely information necessary for making decisions on the agenda items.	1. The obligation of the chairman of the Board of Directors to take measures to ensure the timely provision of materials to members of the Board of Directors on the agenda of the meeting of the Board of Directors is enshrined in the internal documents of the Company.	Compliant	
2.6	Members of the Board of Directors act in good faith and reasonably in the interests of the Company and its shareholders on the basis of sufficient information with due diligence and circumspection.			
2.6.1	Members of the Board of Directors make decisions taking into account all available information, in the absence of a conflict of interest, taking into account equal treatment of the shareholders of the Company, within the framework of normal entrepreneurial risk.	1. The Company's internal documents establish that a member of the Board of Directors must notify the Board of Directors if he has a conflict of interest with respect to any item on the agenda of a meeting of the Board of Directors or a committee of the Board of Directors before the discussion of the relevant agenda item. 2. Internal documents of the Company stipulate that a member of the Board of Directors must refrain from voting on any issue in which he/she has a conflict of interest. 3. The Company has established a procedure that allows the Board of Directors to receive professional advice on matters within its competence at the expense of the Company.	Compliant	
2.6.2	The rights and duties of the members of the Board of Directors are clearly articulated and fixed in the internal documents of the Company.	1. The Company adopted and published an internal document that clearly defines the rights and duties of members of the Board of Directors.	Compliant	

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2.6.3	Members of the Board of Directors have enough time to fulfill their duties.	<p>1. Individual attendance of meetings of the council and committees, as well as the time devoted to preparing for participation in meetings, was taken into account in the procedure for evaluating the Board of Directors in the reporting period.</p> <p>2. In accordance with the Company's internal documents, the members of the Board of Directors are required to notify the Board of Directors of their intention to join the management bodies of other organizations (in addition to the Company's controlled and dependent organizations), as well as the fact of such appointment.</p>	Partially compliant	The Company keeps records of attendance of meetings of the council and committees, but the Company does not have procedures that allow it to take into account the time paid by the members of the Board of Directors to prepare for the meetings. First of all, this is due to the fact that members of the Board of Directors are not employees of the Company and do not comply with the Company's internal labor regulations.
2.6.4	All members of the Board of Directors have an equal opportunity to access documents and information of the society. Sufficient information on the Company and the work of the Board of Directors is provided to newly elected members of the Board of Directors in the shortest possible time.	<p>1. In accordance with the Company's internal documents of, members of the Board of Directors have the right to access documents and make inquiries concerning the Company and organizations under its control, and the executive bodies of the Company are obliged to provide relevant information and documents.</p> <p>2. In the Company there is a formalized program of familiarization activities for newly elected members of the Board of Directors.</p>	Compliant	
2.7	Meetings of the Board of Directors, preparation for them and participation in them by the members of the Board of Directors ensure the effective functioning of the Board of Directors.			
2.7.1	Meetings of the Board of Directors are held as necessary, taking into account the scope of activities and the tasks facing the Company in a certain period of time.	1. The Board of Directors held at least six meetings for the reporting year.	Compliant	
2.7.2	The Company's internal documents stipulate the procedure for preparing and holding meetings of the Board of Directors, which ensures that members of the Board of Directors can properly prepare for its conduct.	1. An internal document has been approved in the Company which determines the procedure for preparing and holding meetings of the Board of Directors, which, among other things, stipulates that notice of the meeting should be made, as a rule, no less than 5 days before the date of the meeting.	Compliant	

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2.7.3	The form of the meeting of the Board of Directors is determined by taking into account the importance of the issues on the agenda. The most important issues are resolved at meetings held in full-time.	1. The Charter or internal document of the Company stipulates that the most important issues (according to the list given in recommendation 168 of the Code) should be considered at the Board's internal meetings.	Partially compliant	The content of the list given in Recommendation 168 of the Code is redundant. Regulations for the Company's Board of Directors may provide for a list of issues, which may be only considered at formal Meetings of Board of Directors of the Company. The Company does not intend to alter the aforementioned approach in 2018.
2.7.4	Decisions on the most important issues of the Company's activities are taken at a meeting of the Board of Directors by a qualified majority or by a majority of all elected members of the Board of Directors.	1. The Charter of the Company provides that decisions on the most important issues set forth in Recommendation 170 of the Code should be taken at a meeting of the Board of Directors by a qualified majority of no less than three-quarters of the votes, or by a majority of votes of all elected members of the Board of Directors.	Non-compliant	In practice, all decisions taken by the Board of Directors are made by a majority vote of all elected members of the Board of Directors.
2.8	The Board of Directors establishes a committees for preliminary consideration of the most important issues regarding the Company's activities.			
2.8.1	For the preliminary consideration of issues related to the control over the financial and business activities of the Company, an audit committee has been set up consisting of independent directors.	<p>1. The Board of Directors formed an audit committee consisting exclusively of independent directors.</p> <p>2. The Company's internal documents set out the tasks of the Audit Committee, including, among others, the tasks contained in recommendation 172 of the Code.</p> <p>3. At least one member of the Audit Committee, who is an independent director, has experience and knowledge in the preparation, analysis, evaluation and audit of accounting (financial) statements.</p> <p>4. The meetings of the Audit Committee were held at least once a quarter during the reporting period.</p>	Compliant	
2.8.2	For the preliminary consideration of issues related to the formation of an effective and transparent remuneration practice, a remuneration committee has been set up consisting of independent directors and is headed by an independent director who is not the chairman of the Board of Directors.	<p>1. The Board of Directors established a remuneration committee, which consists only of independent directors.</p> <p>2. The chairman of the remuneration committee is an independent director who is not the chairman of the Board of Directors.</p> <p>3. The Company's internal documents set out the tasks of the remuneration committee, including, among other things, the tasks contained in recommendation 180 of the Code.</p>	Compliant	The Committee on appointments and remunerations created by the Board of Directors.

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
2.8.3	For the preliminary consideration of issues related to the implementation of personnel planning (succession planning), professional composition and efficiency of the work of the Board of Directors, a committee on nominations (appointments, cadres) has been created, the majority of whose members are independent directors.	<p>1. The Board of Directors established a committee on nominations (or its tasks specified in recommendation 186 of the Code, implemented in the framework of another committee <4>), the majority of whose members are independent directors.</p> <p>2. In the Company's internal documents the tasks of the nominations committee (or the corresponding committee with combined functions) are defined, including, among other things, the tasks contained in recommendation 186 of the Code.</p>	Compliant	The Committee on appointments and remunerations created by the Board of Directors.
2.8.4	Taking into account the scale of activities and the level of risk, the Board of Directors of the Company was satisfied that the composition of its committees fully meets the objectives of the Company's activities. The additional committees were either formed or were not deemed necessary (Strategy Committee, Corporate Governance Committee, Ethics Committee, Risk Management Committee, Budget Committee, Health, Safety and Environment Committee, etc.).	1. In the reporting period, the Board of Directors of the Company considered the issue of the compliance of the composition of its committees with the tasks of the Board of Directors and the objectives of the Company's activities. The additional committees were either formed, or were not deemed necessary.	Compliant	The Strategy Committee was formed
2.8.5	The composition of the committees is defined in such a way that it allows for a comprehensive discussion of the issues considered in advance, taking into account different opinions.	<p>1. Committees of the Board of Directors are headed by independent directors.</p> <p>2. The internal documents (policies) of the Company provide for the provisions according to which persons who are not members of the audit committee, the Nominations Committee and the remuneration committee, can attend committee meetings only at the invitation of the chairman of the relevant committee.</p>	Compliant	
2.8.6	The chairmen of the committees regularly inform the Board of Directors and their chairman about the work of their committees.	1. During the reporting period, chairmen of the committees regularly reported on the work of the committees to the Board of Directors.	Compliant	

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
2.9	The Board of Directors provides an assessment of the quality of the work of the Board of Directors, its committees and members of the Board of Directors.			
2.9.1	The assessment of the quality of the work of the Board of Directors is aimed at determining the degree of efficiency of the work of the Board of Directors, committees and members of the Board of Directors, matching their work to the needs of the Company's development, revitalizing the work of the Board of Directors and identifying areas in which their activities may be improved.	<p>1. The self-assessment or external evaluation of the work of the Board of Directors carried out in the reporting period included the evaluation of the work of committees, individual members of the Board of Directors and the Board of Directors as a whole.</p> <p>2. The results of the self-assessment or external evaluation of the Board of Directors held during the reporting period were considered at the internal meeting of the Board of Directors.</p>	Partially compliant	Self-assessment did not include individual assessment of board members
2.9.2	Evaluation of the work of the Board of Directors, committees and members of the Board of Directors is carried out on a regular basis at least once a year. To conduct an independent assessment of the quality of the work of the Board of Directors, an external organization (consultant) is engaged at least once every three years.	1. For an independent assessment of the quality of the work of the Board of Directors, at least once the Company was involved in external organization (consultant) at least once in the last three reporting periods.	Non-compliant	The Company did not involve consultants for an independent assessment of the quality of the work of the Board of Directors. Such an item of expenditure is also not provided in the 2018 budget.
3.1	The corporate secretary of the Company effectively carries out current interaction with shareholders, coordination of the Company's actions to protect the rights and interests of shareholders, supporting the effective work of the Board of Directors.			
3.1.1	The corporate secretary has the knowledge, experience and qualifications, sufficient for the performance of the duties assigned to him/her, an impeccable reputation and enjoys the trust of the shareholders.	<p>1. The Company adopted and disclosed an internal document — provision on the corporate secretary.</p> <p>2. The biographical information on the corporate secretary, with the same level of detail as for members of the Board of Directors and executive management of the Company, is provided on the Company's website on the Internet and in the annual report.</p>	Partially compliant	<p>Qualification requirements for the Company's corporate secretary are in accordance with the rules of the listing of PJSC "Moscow Exchange".</p> <p>The Company did not receive the consent of an individual to disclose his/her personal data</p>
3.1.2	The corporate secretary has sufficient independence from the executive bodies of the Company and has the necessary powers and resources to carry out the tasks assigned to him/her.	1. The Board of Directors approves the appointment, removal from office and additional remuneration of the corporate secretary.	Compliant	

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
4.1	The level of remuneration paid by the Company is sufficient to attract, motivate and retain individuals who have the necessary competence and qualifications for the Company. Payment of remuneration to members of the Board of Directors, executive bodies and other key executives of the Company is carried out in accordance with the Company's remuneration policy.			
4.1.1	The level of remuneration provided by the Company to members of the Board of Directors, executive bodies and other key executives creates sufficient motivation for their effective work, allowing the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids more than necessary, the level of remuneration, as well as an unreasonably large gap between the levels of remuneration of these individuals and the Company's employees.	1. The company adopted an internal document (documents) – a policy (policies) for the remuneration of members of the Board of Directors, executive bodies and other key management personnel, which clearly defines the approaches to remuneration of the said persons.	Compliant	
4.1.2	The Company's policy on remuneration was developed by the remuneration committee and approved by the Board of Directors of the Company. The Board of Directors, with the support of the remuneration committee, ensures control over the implementation and implementation of the remuneration policy in the Company, and, if necessary, revises and introduces amendments to it.	1. During the reporting period, the remuneration committee reviewed the remuneration policy (policies) and practices of its (their) implementation and, if necessary, submitted appropriate recommendations to the Board of Directors.	Compliant	
4.1.3	The Company's remuneration policy contains transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key management personnel of the Company, and regulates all types of payments, benefits and privileges granted to these individuals.	1. The Company's remuneration policy (policy) contains (contains) transparent mechanisms for determining the remuneration of members of the Board of Directors, executive bodies and other key management personnel of the Company, and regulates all types of payments, benefits and privileges granted to these individuals.	Compliant	

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
4.1.4	The Company determines the policy of reimbursement of expenses (compensations), which specifies the list of expenses subject to reimbursement, and the level of service for which members of the Board of Directors, executive bodies and other key management personnel of the Company can claim. Such a policy can be an integral part of the policy of the Company on remuneration.	1. In the remuneration policy (policies) or in other internal documents of the Company, the rules for reimbursement of expenses of members of the Board of Directors, executive bodies and other key management personnel of the Company are established.	Compliant	
4.2	The system of remuneration of members of the Board of Directors ensures the convergence of the directors' financial interests with the long-term financial interests of shareholders.			
4.2.1	The Company pays a fixed annual fee to the members of the Board of Directors. The Company does not pay remuneration for participating in individual meetings of the Board or Committees of the Board of Directors. The Company does not apply forms of short-term motivation and additional material incentives to members of the Board of Directors.	1. Fixed annual remuneration was the only monetary form of remuneration for members of the Board of Directors for their work on the Board of Directors during the reporting period.	Compliant	
4.2.2	Long-term ownership of the Company's shares is the most conducive to convergence of financial interests of members of the Board of Directors with long-term interests of shareholders. At the same time, the Company does not stipulate the rights to sell shares by achieving certain performance indicators, and the members of the Board of Directors do not participate in optional programs.	1. If the internal document (s) – the Company's remuneration policy (policies) provides for the provision of Company shares to the members of the Board of Directors, clear rules for the ownership of shares by members of the Board of Directors should be provided and disclosed, aimed at encouraging long-term ownership of such shares.	Compliant	

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
4.2.3	The Company does not provide for any additional payments or compensation in the event of early termination of the powers of the members of the Board of Directors in connection with the transfer of control over the Company or other circumstances.	1. The Company does not provide for any additional payments or compensation in the event of early termination of the powers of the members of the Board of Directors in connection with the transfer of control over the Company or other circumstances.	Compliant	
4.3	The system of remuneration of members of executive bodies and other key management personnel of the Company provides for the dependence of remuneration on the result of the work of the company and their personal contribution to achieving this result.			
4.3.1	Remuneration of members of the executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and justified ratio of the fixed part of the remuneration and the variable part of the remuneration that depends on the results of the Company's work and the personal (individual) contribution of the employee to the final result.	<p>1. During the reporting period, the annual performance indicators approved by the Board of Directors were used to determine the amount of variable remuneration for members of executive bodies and other key management personnel of the Company.</p> <p>2. In the course of the last evaluation of the remuneration system of members of the executive bodies and other key management personnel of the Company, the Board of Directors (remuneration committee) was satisfied that an effective ratio of the fixed part of the remuneration and the variable part of the remuneration is applied in the Company.</p> <p>3. The Company provides for a procedure that ensures the return to the Company of bonuses paid improperly by members of the executive bodies and other key management personnel of the Company.</p>	Partially compliant	All procedures related to the motivation and remuneration of members of executive bodies and other key executives of the Company are structured in such a way as to exclude the receipt by the above employees of improper bonus payments. The Company does not provide for a procedure ensuring the return to the Company of bonus payments illegally received by members of the executive bodies and other key management personnel of the Company. The collection of illegally obtained funds from employees is regulated by the legislation of the Russian Federation and can be established by local regulatory acts of the Company.

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4.3.2	The Company introduced a long-term motivation program for members of the executive bodies and other key executives of the Company with the use of Company shares (options or other derivative financial instruments, the underlying asset for which are shares of the Company).	<p>1. The Company introduced a long-term motivation program for members of the executive bodies and other key executives of the company using the Company's shares (financial instruments based on the shares of the Company).</p> <p>2. The program of long-term motivation of members of executive bodies and other key management personnel of the Company provides that the right to sell shares and other financial instruments used in such a program comes into effect no earlier than three years from the date of their provision. At the same time, the right to implement them is conditioned by the achievement of certain indicators of the Company's activity.</p>	Compliant	
4.3.3	The amount of compensation (golden parachute) paid by the company in case of early termination of powers to members of executive bodies or key executives at the initiative of the Company and in the absence of unfair acts on their part does not exceed twice the fixed portion of annual remuneration.	1. The amount of compensation (golden parachute) paid by the Company in the event of early termination of powers to members of executive bodies or key executives at the initiative of the Company and in the absence of unfair acts on their part did not exceed twice the fixed portion of annual remuneration in the reporting period.	Compliant	
5.1	The Company created an effectively functioning system of risk management and internal control, aimed at ensuring reasonable confidence in achieving the goals set out for the Company.			
5.1.1	The Board of Directors of the Company defines the principles and approaches to the organization of the risk management system and internal control in the Company.	1. The functions of various management bodies and divisions of the Company in the system of risk management and internal control are clearly defined in the internal documents / relevant policies of the company, approved by the Board of Directors.	Compliant	
5.1.2	The executive bodies of the Company ensure the creation and maintenance of the functioning of an effective system of risk management and internal control in the Company.	1. The executive bodies of the Company ensured the distribution of functions and powers with regard to risk management and internal control among the subordinate managers (heads) of divisions and divisions accountable to them.	Compliant	

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5.1.3	The system of risk management and internal control in the Company provides an objective, fair and clear picture of the current state and Company's prospects, the integrity and transparency of the Company's reporting, the reasonableness and acceptability of the risks accepted by the Company.	1. The Company adopted a policy to combat corruption. 2. An accessible way of informing the Board of Directors or the audit committee of the Board of Directors about a violation of legislation, internal procedures, and the code of ethics of the company is organized in the Company.	Compliant	
5.1.4	The Board of Directors of the Company takes the necessary measures to ensure that the existing system of risk management and internal control in the Company corresponds to the principles and approaches to its organization that are determined by the Board of Directors and efficiently operates.	1. During the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the effectiveness of the Company's risk management and internal control system. Information on the main results of such an assessment is included in the annual report of the Company.	Partially compliant	The annual report of the Company does not include the results of evaluating the effectiveness of the risk management system and internal control of the Company.
5.2	For a systematic independent evaluation of the reliability and effectiveness of the system of risk management and internal control, and the practice of corporate governance, the Company organizes an internal audit.			
5.2.1	To conduct internal audit, a separate structural subdivision was created in the Company or an independent external organization was involved. The functional and administrative accountability of the internal audit unit is delineated. The internal audit function is functionally subordinate to the Board of Directors.	1. In order to conduct internal audit, a separate structural subdivision of internal audit has been created in the Company, which is functionally accountable to the Board of Directors or the audit committee, or an independent external organization with the same principle of accountability was involved.	Compliant	

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5.2.2	The Internal Audit Division evaluates the effectiveness of the internal control system, evaluates the effectiveness of the risk management system, and also the corporate governance system. The Company applies generally accepted standards of activity in the field of internal audit.	1. During the reporting period, within the framework of the internal audit, the effectiveness of the internal control and risk management system was assessed. The Company uses generally accepted approaches to internal control and risk management.	Compliant	
6.1	The Company and its activities are transparent to shareholders, investors and other interested parties.			
6.1.1	The Company has developed and implemented an information policy that ensures effective information interaction of the Company, shareholders, investors and other interested persons.	1. The Company's Board of Directors approved the company's information policy, developed taking into account the recommendations of the Code. 2. The Board of Directors (or one of its committees) considered issues related to the Company's compliance with its information policy at least once during the reporting period.	Partially compliant	The Board of Directors approved the information policy. The Board of Directors of the Company did not consider issues related to the Company's compliance with its information policy in the reporting year.
6.1.2	The Company discloses information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The Company shall disclose information on the corporate governance system in the Company and the general principles of corporate governance applied in the Company, including on the Company's website on the Internet. 2. The Company shall disclose information on the composition of the executive bodies and the Board of Directors, the independence of the members of the council and their membership in the committees of the Board of Directors (in accordance with the definition of the Code). 3. In the event that the person controlling the Company, the Company publishes a memorandum of the supervisory person regarding the plans of such person with respect to corporate governance in the Company.	Partially compliant	The Company discloses all the necessary information on the Company's website and in the annual report. The Company will publish a memorandum of the controlling person regarding the plans of such person with respect to corporate governance in the Company if such document is prepared by the controlling person or the controlling person notifies the Company of his/her plans.

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6.2	The Company in a timely fashion discloses full, up-to-date and reliable information about the Company in order to ensure that the shareholders of the Company and investors can make informed decisions.			
6.2.1	The Company discloses information in accordance with the principles of regularity, consistency and efficiency, as well as the availability, reliability, completeness and comparability of the disclosed data.	<p>1. The information policy of the Company defines approaches and criteria to determine information that could have a significant impact on the valuation of the Company and the value of its securities and procedures that ensure the timely disclosure of such information.</p> <p>2. If the securities of a Company are traded in foreign organized markets, the disclosure of material information in the Russian Federation and in such markets is synchronous and equivalent during the reporting year.</p> <p>3. If foreign shareholders own a significant number of shares in the Company, during the reporting year, information was disclosed not only in Russian, but also in one of the most widely used foreign languages.</p>	Compliant	
6.2.2	The Company avoids a formal approach when disclosing information and discloses significant information about its activities, even if the disclosure of such information is not provided for by law.	<p>1. During the reporting period, the Company disclosed the annual and semi-annual financial statements prepared in accordance with the IFRS. The annual report of the Company for the reporting period includes annual financial statements prepared in accordance with the IFRS, together with an audit report.</p> <p>2. The Company shall disclose full information on the Company's capital structure in accordance with the Code's Recommendation 290 in the annual report and on the Company's website on the Internet.</p>	Compliant	
6.2.3	The annual report, being one of the most important tools of information interaction with shareholders and other interested parties, contains information allowing to evaluate the results of the Company's activities for the year.	<p>1. The annual report of the Company contains information on key aspects of the Company's operating activities and its financial results.</p> <p>2. The annual report of the Company contains information on the environmental and social aspects of the Company's activities.</p>	Compliant	
6.3	The Company provides information and documents on the requests of shareholders in accordance with the principles of fairness and ease.			
6.3.1	The provision of information and documents by the Company at the request of shareholders is carried out in accordance with the principles of fairness and ease.	1. The information policy of the Company determines an easy procedure for providing shareholders with access to information, including information on entities controlled by the Company, at the request of shareholders.	Compliant	

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6.3.2	When providing information to shareholders, the Company provides a reasonable balance between the interests of specific shareholders and the interests of the Company itself, which is interested in preserving the confidentiality of important commercial information that may have a significant impact on its competitiveness.	<p>1. During the reporting period, the Company did not refuse to satisfy the shareholders' requests for information, or such refusals were justified.</p> <p>2. In cases determined by the information policy of the Company, shareholders are warned about the confidential nature of the information and assume responsibility for preserving its confidentiality.</p>	Compliant	
7.1	Actions that significantly affect or may affect the structure of the share capital and financial condition of the Company and, accordingly, the position of shareholders (significant corporate actions) are carried out on fair terms ensuring compliance with the rights and interests of shareholders as well as other interested parties.			
7.1.1	Significant corporate actions include the reorganization of the Company, the acquisition of 30 percent or more of the Company's voting shares (takeover), the Company's material transactions, the increase or decrease of the Company's Charter capital, the listing and the de-listing of the Company's shares, as well as other actions that could lead to a significant change in rights shareholders or violation of their interests. The Company's charter defines a list (criteria) of transactions or other actions that are significant corporate actions, and such actions are attributed to the competence of the Company's Board of Directors.	<p>1. The Company's Charter defines a list of transactions or other actions that are significant corporate actions and criteria for their determination. Decisions on significant corporate actions are within the competence of the Board of Directors. In those cases where the implementation of these corporate actions is directly attributed by law to the competence of the general meeting of shareholders, the Board of Directors provides shareholders with the appropriate recommendations.</p> <p>2. The Charter of the Company refers to significant corporate actions, at a minimum: reorganization of the Company, acquisition of 30 percent or more of the Company's voting shares (takeover), fulfillment by the Company of material transactions, increase or decrease of the Charter capital of the Company, listing and de-listing of the Company's shares.</p>	Non compliant	The Charter of the Company does not define the notion of "significant corporate action". Members of the Board of Directors of the Company responsibly approach to consideration of all issues within its competence, regardless of their level of materiality

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7.1.2	The Board of Directors plays a key role in making decisions or making recommendations for significant corporate actions, the Board of Directors relies on the position of independent directors of the Company.	1. The Company provides for a procedure in accordance with which independent directors state their position on significant corporate actions before they are approved.	Non compliant	Any member of the Board of Directors of the Company, including independent directors, has the right to freely express his/her position on any issue referred to the competence of the Board of Directors before voting on this issue.
7.1.3	In case of substantial corporate actions affecting the rights and legal interests of shareholders, equal conditions are provided for all shareholders of the Company, and in the event that the mechanisms provided for by law are not sufficient to protect the rights of shareholders, additional measures that protect the rights and legitimate interests of the shareholders of the Company. At the same time, the Company is guided not only by compliance with the formal requirements of legislation, but also by the principles of corporate governance set out in the Code	1. The Charter of the Company, taking into account the specifics of its activities, establishes a lower minimum criteria for the attribution of transactions of the Company to significant corporate actions. 2. During the reporting period, all significant corporate actions were approved before they were implemented.	Partially compliant	The legislation does not set minimum criteria for classifying the Company's transactions to significant corporate actions, it is therefore not possible to establish lower criteria.
7.2	The Company provides such an order of committing significant corporate actions that allows shareholders to receive timely, complete information about such actions, provides them with the opportunity to influence the commission of such actions and guarantees compliance with and an adequate level of protection of their rights in the performance of such actions.			
7.2.1	Information on the performance of significant corporate actions is disclosed with an explanation of the reasons, conditions and consequences of the commission of such actions.	1. During the reporting period, the Company disclosed in a timely and detailed manner information on significant corporate actions of the Company, including the grounds and timing of such actions.	Compliant	

№	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	The status of compliance with the principle of corporate governance	Explanations of deviation from criteria for assessing compliance with the principle of corporate governance
7.2.2	The rules and procedures related to the implementation by the Company of significant corporate actions are fixed in the Company's internal documents.	1. The Company's internal documents provide for the procedure for attracting an independent appraiser to determine the value of property alienated or purchased under a major transaction or an interested party transaction. 2. The Company's internal documents provide for the procedure for attracting an independent appraiser to estimate the cost of acquiring and repurchasing the company's shares. 3. The Company's internal documents of the Company provide for an expanded list of grounds on which members of the Board of Directors of the Company and other persons provided by law are recognized as interested in transactions of the Company.	Partially compliant	Internal documents of the Company do not provide for an expanded list of grounds on which members of the Board of Directors of the Company and other persons provided for by law are recognized as interested in transactions of the Company.

Information on Major Transactions Made by the Company in 2017

Transaction completion date	Transaction approval date	The body approving the transaction	Subject of the transaction and its essential terms
27.06.2017	24.03.2017	Board of Directors	The Bank grants the Borrower money in Russian rubles ("Loans") in the form of a revolving line of credit ("Credit Line"). The maximum amount of non-recurring indebtedness under the Loans on any day of the term of the Credit Line is not more than RUB 6,000,000,000.00 (Six billion 00/100) (the "Limit Limit"), the maximum amount of interest on interest RUB 7,381,643,835.62 (Seven billion three hundred eighty one million six hundred forty three thousand eight hundred thirty five 62/100). Term of the Credit Line: until December 31, 2020 inclusive. The Borrower is obliged to repay all received Loans no later than the expiration date of the Credit Line. Term of the Credits: no more than 36 (Thirty-six) months. Transaction parties: PJSC Detsky Mir – the Borrower; Alfa-Bank JSC the Lender, the Bank. Deal price: RUB 13,381,643,835.62 (Thirteen billion three hundred and eighty-one million six hundred forty-three thousand eight hundred thirty-five 62/100).
27.12.2017	22.09.2017	Board of Directors	Within the framework of the Credit Line, the Borrower is entitled to receive Loans, the maximum amount of a one-time debt for which on any day of the Credit Line period is no more than RUB 9,000,000,000.00 (Nine billion 00/100); The term of the Credit Line expires on December 31, 2021 inclusive, the Borrower shall repay all received Loans no later than the expiration date of the Credit Line. Term of the Credits: Loans during the term of the Credit Line are granted for a period not exceeding 36 (thirty six) months; Parties to the transaction (Agreement): PJSC Detsky Mir – the Borrower and JSC "Alfa-Bank" – the Lender, the Bank; Transaction price: RUB 18,622,602,739.73, the maximum amount of non-recurring indebtedness under the Loans on any day of the validity of the Credit Line is no more than RUB 9,000,000,000.00, the maximum amount of interest on interest is RUB 9,622,602,739.73.

Information on Transactions with Interest, Completed by the Company in 2017

Information on related-party transactions, the amount of which was less than 2% of the book value of assets				
Transaction completion date	Transaction approval date	The body approving the transaction	Subject of the transaction and its essential terms	Information about an entity (entities) interested in the completion of transactions
31.03.2017	24.03.2017	Board of Directors	The Lender provides the Borrower with monetary funds in the amount of RUB 100,000,000.00. The interest rate is 12% per annum. The term for repayment of the loan is no later than March 4, 2019; Parties to the transaction: PJSC Detsky Mir -Lender; LLC "Kub Market"-Borrower	PJSC AFC Sistema is the entity in control of the party to the transaction.
06.06.2017	24.03.2017		Surety agreement: PJSC Detsky Mir – Guarantor; JSC Raiffeisenbank – Bank; The beneficiary: LLC Kub Market. Secured Obligation: Agreement No. RBA / 15143/2 on the issue of bank guarantees dated June 06, 2014. Transaction amount: The total amount of simultaneously valid guarantees issued by the Bank under the Agreement at any time may not exceed RUB 200,000,000.00 (Two hundred million and 00/100). Guarantees are issued with the term of validity ending no later than December 17, 2018 inclusive. Commission for the issuance of Guarantees no more than 1.4% per annum of the amount of the Guarantee, but no less than: RUB 1,000,000.	PJSC AFK Sistema – the entity who controls the beneficiary
15.06.2017	29.05.2017	Board of Directors	Surety agreement: PJSC Detsky Mir – Guarantor; JSC Raiffeisenbank – Bank; The beneficiary: LLC "Kub Market". Secured Obligation: Agreement on the opening of letters of credit with a maximum debt of no more than RUB 200,000,000.00. Term of the agreement: until December 17, 2018, inclusive. Commission for opening no more than 1.4% of the actual amount of the Letter of Credit, but no less than USD 400 for the term of the Letter of Credit.	PJSC AFK Sistema – the entity who controls the beneficiary

Information on related-party transactions, the amount of which was less than 2% of the book value of assets				
Transaction completion date	Transaction approval date	The body approving the transaction	Subject of the transaction and its essential terms	Information about an entity (entities) interested in the completion of transactions
27.07.2017	29.05.2017	Board of Directors	The Lender provides the Borrower with monetary funds in the amount of RUB 70,000,000,000. The interest rate is 12% per annum. The loan is repayable no later than May 25, 2018. The maximum amount of debt on the interest is RUB 84,000,000.00. Transaction parties: PJSC Detsky Mir – Lender; LLC Kub Market- Borrower.	PJSC AFC Sistema is the entity in control of the party to the transaction.
26.09.2017	25.09.2017	Board of Directors	The Lender provides a loan to the Borrower in the amount of RUB 500,000,000. The interest rate is 12% per annum. The loan repayment date is August 31, 2018. Transaction parties: PJSC Detsky Mir – Lender, LLC DM Capital - Borrower, the transaction size is RUB 556,384,000.	PJSC AFC Sistema is the entity in control of the party to the transaction.
28.12.2017	14.12.2017	Board of Directors	The seller undertakes to transfer to the Buyer’s ownership a non-residential building with a total area of 6887.1 sq. meters., Cadastral number 77: 07: 0013007: 1139, located at the address: 119415, Moscow, Vernadsky Prospect, 37, building 3, the parties undertake to transfer documents for state registration of transfer of ownership right no later than 01.02.2018; The Parties to the transaction are PJSC Detsky Mir, TIN 7729355029, – Buyer; LLC UK LandProfit, TIN 7715969741, D.U. Closed-end real estate mutual fund Sistema-Rental Real Estate 2 – Seller. The amount of the transaction is RUB 550,000,000.	PJSC AFC Sistema is the entity in control of the party to the transaction.

Information on related-party transactions, the amount of which was more than 2% of the book value of the assets				
Trans- action comple- tion date	Trans- action approval date	The body approving the transac- tion	Subject of the transaction and its essential terms	Information on persons interested in the transaction, grounds for interest and participation in the issuer and the counterparty
13.12.2017	22.09.2017	Board of Directors	<p>The Rightholder is obliged to present a fee to the User for the right to use the following set of rights in the entrepreneurial activity of the User for selling children’s goods:</p> <ul style="list-style-type: none">– Trademark No. 359487 registered with respect to classes 1-32, 35-44 in the State Register of Trade- marks and Service Marks of the Russian Federa- tion of September 11, 2008 with the priority of the trademark of August 18, 2006, with respect to all goods and services for which it is registered;– the commercial designation Detsky Mir;– unique loyalty programs: a bonus program, a program for the implementation of gift cards and certificates with associated databases containing personal data of the Rightholder’s clients;– software required for the User to conduct com- mercial activities, loyalty programs and the per- formance of their duties under the Agreement;– commercial practices based on goodwill and commercial experience of the Rightholder, and the Rightholder also undertakes to provide the Customer with subleasing of the commercial and subsidiary premises in the territory St. Petersburg and Leningrad Region, the tenant of which is the Legal owner, for the purposes of conducting trading activities and using the above rights, in particular, sub-letting premises with a total area of 1,073 sq. meters at the address: Kolpino, ul. Proletarskaya, 36, A, on the 3rd floor of the build- ing and a total area of 1,014.5 square meters at the address: St. Petersburg, VO, Sredniy Ave, 36/40 Liter A on the 2nd and 3rd floors of the building, while the rental rates under sublease agreements are determined by the parties in them at their own discretion. The transaction is approved for a period of five years from the date of the decision to approve the transaction. Parties to the transac- tion PJSC “Detsky Mir”, TIN 7729355029, – Legal owner; LLC “Detsky Mir – North-West”, TIN 7813266070, – User. The amount of the transac- tion is RUB 1,189,636,370.	PJSC AFC Sistema is the entity in control of the party to the transaction. PJSC AFK “Sistema manages 52.1% of the voting shares of PJSC Detsky Mir, PJSC Detsky Mir disposes of 100% of its shares in the authorized capital of LLC “Detsky Mir – North-West”
28.12.2017	14.12.2017	Board of Directors	<p>The Seller sells, and the Buyer purchases the goods on DDP terms in the Republic of Kazakhstan in accor- dance with the International Rules for the Interpreta- tion of Trade Terms (INCOTERMS, 2010);</p> <p>2.4. Term of performance of obligations under the transaction, parties and beneficiaries under the transaction, the size of the transaction in monetary terms and in percentage of the value of the issuer’s assets: The contract is concluded for a period of one year; Parties to the transaction PJSC Detsky Mir, TIN 7729355029, – Supplier, Detsky Mir-Kazakhstan LLP, BIN – 111040006142, TRN -620200380026 (Buyer); Transaction in the amount of RUB 2,000,000,000</p>	PJSC AFC Sistema is the entity in control of the party to the transaction. PJSC AFK Sistema manages 52.1% of the voting shares of PJSC Detsky Mir and indirectly disposes of 100% of shares in the autho- rized capital of Detsky Mir-Kazakhstan LLP;

Information on Transactions with Shares of the Company Completed by Members of Management Bodies in 2017

During the course of 2017, the following transactions with the Company’s ordinary registered shares were made by the members of the Board of Directors and the Management Board:

Full name	Transaction date	Content of the transaction made with shares of the Company	Number of shares that were the subject of the transaction
Vladimir Chirakhov	13.03.2017	sale	3,313,656
Maria Volodina	13.03.2017	sale	12,081
Farid Kamalov	13.03.2017	sale	68,913
Valentin Korchunov	13.03.2017	sale	1,942,432
Christopher Baxter	13.03.2017	sale	1,610,525
Anna Garmanova	14.07.2017	purchase	20,064
Maria Volodina	14.07.2017	purchase	42,152
Farid Kamalov	14.07.2017	purchase	89,291
Maria Davydova	14.07.2017	purchase	36,313
Tatyana Mudretsova	14.07.2017	purchase	18,258
Vladimir Ilmetov	14.07.2017	purchase	24,076
Vladimir Chirakhov	01.12.2017	purchase	2,629,472
Pavel Pishchikov	14.12.2017	purchase	1,000

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