

PRELIMINARY APPROVED
by Resolution of Board of Directors of
Minutes No. dated May 13, 2015

APPROVED
by the General Meeting of Shareholders of
Minutes No. u/n. dated July 02, 2015



МАРКА №1
В РОССИИ



ANNUAL REPORT OF OJSC DETSKY MIR FOR 2014



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

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DIRECT SPEECH OF THE DIRECTOR GENERAL



Vladimir Chirakhov,
Director General of the Detsky Mir Group:

In 2014, the Detsky Mir Group continued to grow rapidly by increasing the number of stores under its management up to 322, including 278 Detsky Mir stores and 1 ELC store, and 1 store of Yakimanka Children's Gallery. For the year our team opened a record number of stores – 72, among which are 56 Detsky Mir chain stores and 16 ELC stores. An important event for the Company was the opening of the flagship store with retail space more than 7,000 sq. m in Voentorg shopping center in Vozdvizhenka.

All stores opened in the current year were presented in a new concept launched in December 2013 in the Detsky Mir store in the shopping center Mega Belaya Dacha. This concept combines all the advantages of modern trade formats and allows families with children not only to purchase goods at low prices, but also to have a lovely time in interactive gaming zones.

Store chain natural growth together with a fast growth of stores opened in prior years allowed OJSC Detsky Mir to rise revenue indicator under the Russian Accounting Standards by 27% from 36.1 bn rub. in 2013 to 45.7 bn rub. in 2014. Comparable store sales growth (called like-for-like growth) was 13.6%, at that its growth main driver became like-for-like number of purchases increasing by 8.1%, while the like-for-like ATV growth reached 5.1%. For the second year in a row, Detsky Mir chain has shown the double-digit growth in like-for-like sales, which proves the effectiveness of our pricing policy and advantages of the most wide assortment of children's goods in the market.

Our online store continues to demonstrate high dynamics, and development of this store is part of our multi-channel strategy (omni-channel), which includes the common super- and hypermarkets, a mobile application, online stands in the stores, online store and pick-up in-store function to purchase goods online and collect them at the nearest Detsky Mir store. Online store revenue rose by 96% to reach 1% of Detsky Mir Group's sales.

In 2014, we continued our work to improve the business efficiency by implementing tools and methods that enable to optimize duplicated and overlapping business processes, and create infrastructure for further natural growth of the chain. The company started to build its own warehouse with area of more than 70,000 sq. m in the Moscow region, which allow to rise a future turnover share passed through the warehouse, increasing thereby an inventory turnover ratio. In 2014, the Company launched a switching to a single SAP IT-platform, integration of which is planned for 2015. As part of work to minimize the currency risks all rental agreements pegged against a foreign currency were converted into the Russian currency, or a rate was fixed. The main financial result of 2014 – the Company gained under IFRS standards net profit of 2.6 bn rubles, which is higher by 134% than the same indicator of 2013”.

1. DESCRIPTION OF THE PRIMARY ACTIVITY

1.1. History of development

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

1990 – Expansion of the branch chain up to 28 stores

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

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

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

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

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

2011 – Opening of the first store in Kazakhstan

2012 – Acquisition of Kub Market LLC, which develops the ELC chain in Russia

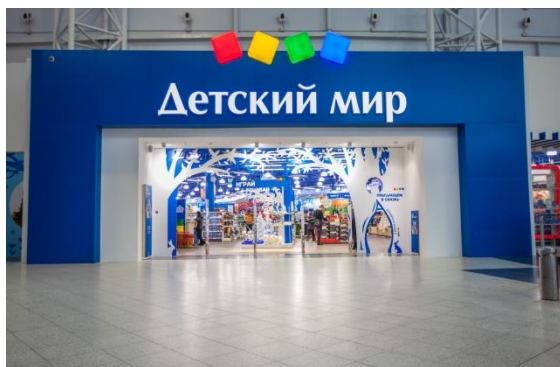
2013 – Opening of a new concept hypermarket in the trading and entertainment complex MEGA Belaya Dacha

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

Based on the results of 2014, a record number of stores was opened – 72, including 56 Detsky Mir stores and 16 ELC stores



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



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



At the end of 2014, the Group has managed 322 stores, among which 278 Detsky Mir stores are in Russia and Kazakhstan, 43 ELC stores, and one premium-store Yakimanka Children's Gallery. Currently, it is the largest chain of children's goods in the CIS.

1.2. Priority areas of activities



■ The Detsky Mir Group is the largest retailer of children's goods in the CIS. As of December 31, 2014, the Group consisted of Detsky Mir CJSC, Kub-Market LLC, Detsky Mir GmbH, Detsky Mir-Kazakhstan LLP, Yakimanka Children's Gallery LLC (on management right basis).

■ OJSC Detsky Mir is a holding management company that owns the Detsky Mir trademark and manages all stores of the retail chain by implementation of the unified policy in the area of purchases, marketing, information technology, logistics, support and development of the chain. The priority area of OJSC Detsky Mir activities is to open and support the new stores of children's goods in the territory of Russia and other CIS countries. In the coming years, the Company plans to open at least 40 stores under the Detsky Mir brand, increasing its market share and offering customers the best prices for the widest assortment of goods by the following categories: toys, goods for newborns (including baby food, diapers, baby cosmetics, etc.), clothing, footwear and stationery.

1.3. Situation in the industry

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

Children's goods market is stable to a deterioration of situation in economy that was proven during the economic crisis of 2008-2009, when spending for children's goods rose by 9% against the backdrop of fall in demand for electronics, foods, clothing and footwear. In that period only the food retail market was growing faster.

According to Comcon Synovate research firm, the children's goods market rose in 2014 by 3% to reach 514 bn rub. as compared to 500 bn rub. in 2013. The fastest growing segment of the market became goods for newborns, rising by 9%.

The Detsky Mir chain takes a leader position on this market with a market share of 10% according to results of 2014, increasing it by 1.8 percentage points as compared to 8.2 percentage points according to results of 2013. Against the backdrop of a total market share growth of Detsky Mir chain the indicators were rose by separate segments: in toys segment – from 13.2% to 17.6%, in goods for newborns segment – from 9.2% to 11.8%, in children's clothing segment – from 5.0% to 5.8%, in children's footwear segment – from 5.7% to 6.7%.

1.4. Development prospects



In 2015, the Detsky Mir chain will continue to develop dynamically by opening new stores throughout Russia. The Company plans to open at least 60 stores. Given the Company's leading position in the market and slowing down the development dynamics of the competing chains, OJSC Detsky Mir will consolidate the market, increasing its own share. Management estimates the chain share by turnover in the Russian market will increase from 10.0% in 2014 to 11.6% in 2015. It is also expected a significant growth in the Detsky Mir chain share by individual segments: in toys segment – from 17.6% in 2014 to 21.2% in 2015, in goods for newborns – from 11.8% to 13.0%, in children's clothing – from 5.8% to 6.7%, and in children's footwear – from 6.7% to 8.1%.

The main growth drivers of the Detsky Mir stores chain share in the children's goods market will be natural growth (opening new stores) and sales growth in like-for-like stores by displacement of the unstructured retailing (market places, fairs). According to conservative estimates of Synovate Comcon research company, market growth will be 3% in 2015 to reach 514 bn rub.

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



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

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

2.2. Industry risks

Trade industry is the third in Russia's economy by volume, amounted to 10% of GDP, meanwhile wholesale is 6% of GDP, and retail – 4% of GDP. Traditionally, the retail trade is very sensitive to the macroeconomic situation in the country, since the inflation rate directly correlates with the dynamics of prices for goods on the shelves of stores, and the employment rates affect the population's income value and the overall consumer demand. At the same time, the retail industry has a heterogeneous nature and its different sectors are affected by the crisis-like phenomena in economy in different ways. Thus, the children's goods sector along with food products is one of the sectors called "protected" one that are least of all affected by the fall in the consumer's demand, especially against the backdrop of clothing and electronics retailing. As previously noted, in 2008-2009, spending for electronics per capita fell by 30%, for clothing – by 21%, meanwhile spending for children's goods rose by 9%, and for food products – by 11%. Thus, the children's goods retail sector is stable enough to the risk of drop in demand.

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

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

2.3. Country and regional risks

Political and public threats to Russia may have a negative impact both on the situation in the country as a whole, and results of activities and financial position of the Company. Deterioration of macroeconomic indicators may also have a negative impact on the results of activities of PJSC Detsky Mir, which is registered as a taxpayer and operates in the whole territory of Russia. At present, PJSC Detsky Mir is the largest taxpayer among companies in the children's goods market. In 2014, the Company has increased its tax payments (including corporate income tax, personal income tax, insurance contributions, customs duties) by 27% to reach the indicator of 3.4 bn rubles.

According to Standard&Poors rating agency, the Russian Federation was assigned with the long-term credit rating in foreign currency “BB +” (forecast “Negative”), according to Fitch rating agency – “BBB-” (long-term credit rating in foreign currency, forecast “Negative”), according to the Moody’s rating agency – “Baa3”.

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

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

Given the wide geographical extent of the country, the instability in one of its regions may influence the Company's activities. Manifestations of this instability may include natural disasters, emergencies, as well as climate changes. Nevertheless, the business of the Detsky Mir Group is geographically diversified, being represented in 117 cities of Russia and 4 cities of Kazakhstan. In addition, the chain, working to improve the operating efficiency, considers various stores clustering options allowing to adapt the store assortment in each region, city or district for the customers’ current needs, which makes the Company more stable in the event of occurrence of the said risks. The Detsky Mir chain stores are located far from the border areas, which at least theoretically could be considered as possible locations of military conflicts.

2.4. Financial risks

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

The Detsky Mir Group conducts its primary activity in the territory of the Russian Federation and receives the most of its revenue in rubles. The Company receives in Kazakhstan slightly more than 1% of its revenue. In its settlements with suppliers, Detsky Mir focuses on the local currency and uses foreign currency only for direct purchases abroad (about 20% of the volume in purchase prices), which mainly refer to the procurement of goods under its own brands in the clothing and footwear category. Given the fact that Detsky Mir is the largest retailer with the largest volume of purchases, which allows it to receive high discounts and offer the best prices in the market, the Company may in the last turn pass the prices growth caused by ruble's devaluation on the customers, later than the other market participants.

As regards rent relations, the Detsky Mir Group is seeking to minimize the currency risk associated with fluctuations in exchange rates. At the end of 2014, the Detsky Mir chain did not have any contracts with lessors, where the foreign exchange rate was not fixed or limited by the upper level of fluctuations. Lessors perceive Detsky Mir as an anchor lessee and are ready to cooperate with the Company, taking advantage of the new interactive concept in order to attract visitors to shopping centers.

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

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

2.5. Legal risks

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

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

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

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

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

External market

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

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

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

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

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

Federal Law *On Joint Stock Companies* assigns to the Board of Directors the most important role to ensure the shareholders' rights, to create and implement the Company's development strategy, as well as ensure its successful financial and operating activities. In 2014, the Board of Directors of PJSC Detsky Mir held 24 meetings, 14 of which were in absentia, where 100 issues were considered. In addition, 12 meetings of the Board of Directors committees were held, where 48 issues were considered.

The Board of Directors activities were arranged in accordance with the approved work plan, and a decision execution was regularly monitored. In exercise of its powers, all Board of Directors members acted in the interests of the Company in good faith and reasonably, actively participated in all the Board of Directors meetings and committees under the Board of Directors.

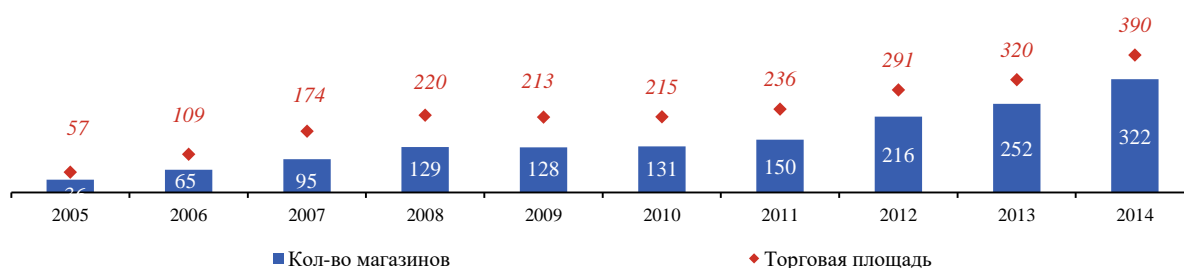
In the coming years, the Board of Directors will give priority to the improvement of business management quality, increase in the Company's business value, as well as improvement of the Company's financial stability and competitiveness.

3.1. Principal results of activities in 2014

3.1.1. Chain development

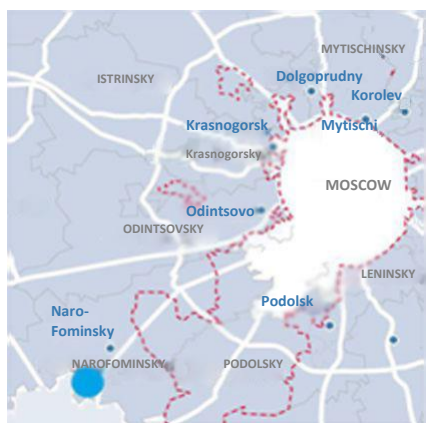
At the end of 2014, Detsky Mir Group consisted of 322 stores, among which 278 stores are under the Detsky Mir brand (including 272 stores in Russia and 6 stores in Kazakhstan), 43 stores – under the ELC brand, and 1 premium-segment store Yakimanka Children's Gallery. For the past year, 72 stores were opened, among them 56 were Detsky Mir chain stores and 16 were ELC chain stores. During the year, 2 Detsky Mir stores were closed for a reason of relocation of those stores to more attractive place in terms of business efficiency.

The Group's retail space has increased by 70 thousand sq. m in 2014 (+ 22% (YoY) year-on-year) up to 390 thousand sq. m as compared to 320 thousand sq. m a year earlier. The average floor area of one Detsky Mir chain store was 1.4 thousand sq. m, of one ELC store -120 sq. m. In August 2014, in a center of Moscow in Vozdvizhenka, a flagship store of Detsky Mir was opened with a floor area over 7 thousand sq. m. All the advantages of the new concept of Detsky Mir chain was implemented in this store, including a large number of interactive and entertainment zones, advanced merchandising using the most up-to-date technologies and the most wide assortment of children's goods in the market.



3.1.2. Logistics

In May 2014, the Detsky Mir Group started building its own warehouse in the Moscow region (Bekasovo village, Naro-Fominsk district) with a retail space of 70 thousand sq. m. A builder of the warehouse is one of the Russian market leaders in construction of industrial property. The warehouse is due for completion at the end of June, 2015. The Company estimates the opening of its own warehouse in a few years will allow to improve the logistics centralization (inventory turnover share passed through the warehouse) from 30% to 80%, which, in its turn, will allow to increase in goods turnover in the stores, to eliminate the so-called "stock-outs" (a situation where a certain product is out of stock), and to create a good logistics platform for further business scaling. The warehouse opening will allow to create 2,000 jobs in the Moscow region in the coming years and will contribute to the development of roads and social infrastructure. The warehouse to be opened will complement existing warehouse in Krekshino with a retail space of 20 thousand sq. m, which the Company has rented under a long-term rental agreement.



Warehouse area	70,467 sq. m (+100 sq. m checkpoint)
Location	Bekasovo village (Naro-Fominsk district of the Moscow region)
Direction	Southeast, Kiyevskoye shosse, 50 km from the Moscow Ring Road
Delivery period	until June 30, 2015
Corporate approval	Board of Directors of OJSC Detsky Mir (Minutes No. 22 dated May 30, 2014)

3.1.3. Electronic commerce

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

Since the launch of this online store, its revenue has risen more than ten times, and the average annual growth rate of revenue for this period was 123%. In 2014, the online channel revenue has risen by 96% up to 444 mln rubles as compared to 227 mln rubles in 2013. A key event in the development of Detsky Mir Internet channel became an achievement the break-even point and OIBDA positive indicator. In addition, in 2014, the store expanded the goods assortment up to 3.5 thousand units (SKU), making a special focus on goods for newborns (diapers), clothing and footwear. Since June 1, 2014, the "in-store pick-up" pilot project was launched in 20 stores of Detsky Mir chain, where customers may collect the goods, which they have bought via Internet.

3.1.4. Marketing

In 2014, the Detsky Mir chain continued to develop its own loyalty program «Yo-Yo», the number of participants of which exceeded 7 million persons. Slightly less than 6 million of 7 million of issued cards were used for purchases during the year.

During the year, broad support was given to the special pricing programs “Buy two get one free”, “Prices slashed in half”, “School is coming soon” that was conducted in stores, by a special newspaper, e-mailing and SMS as well as via TV ads.

The Company's initiatives in the marketing include: CRM companies automation, issuing the bonus cards via online store and implementation of loyalty program in Kazakhstan.



3.1.5. IT

In 2014, the Detsky Mir Group started the switching to a single IT platform based on SAP, which will completely replace the previously existing platform, consisting of several integrated Oracle Retail-based IT-systems and covering key business processes – purchasing goods, planning, logistics, and sales analysis. The existing platform could serve without failures 300-400 stores of the Detsky Mir chain, and the new SAP-based platform can double this figure. The IT-platform allows the Company to receive on a daily basis the full analysis based on the sales results of each store, including number of visits, turnover, number of purchases, ATV and average price, which makes it possible to manage efficiently each individual store.

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

3.2. Assessment by the business community

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

In 2014, Detsky Mir was awarded in the following public competitions and ratings:

- 151st place (+20 points) in the Forbes magazine ranking “Top 200 Largest Private Companies”.
- National prize of children's goods industry “Zolotoy Medvezhonok” (Golden Teddy Bear): 2 nominations
- Online store took 120-121st place (+30 points) in the ranking “Top 200 Online Stores” (PH Kommersant).
- 5 managers of Detsky Mir Group were included in the ranking “TOP-1000 Professional Russian Managers” (PH Kommersant)

In 2014, the charity amount exceeded 140 mln rubles.



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

3.3.1. List of major transactions

The Company made no major transactions in the reporting year.

3.3.2. List of related-party transactions

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

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

4.1.1. Statement of the Board of Directors of OJSC Detsky Mir on compliance with the corporate governance principles enshrined in the Corporate Governance Code.

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

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

The corporate management model of OJSC Detsky Mir is typical for Russian companies. 100% of the voting shares of OJSC Detsky Mir is controlled by Sistema JSFC, together with its affiliates. The structure of the Company's management bodies is a three-tier and includes: the General Meeting of Shareholders, the Board of Directors, the Collegial Executive Body (Management Board) and the Sole Executive Body (Director General). The Company's Board of Directors has the maximum extended competence and plays a key role in the management of the Company. The main issues resolved by the Board of Directors include: the strategic business development, control over the implementation of financial and budgetary plans of the Company, risk management, motivation and remuneration of the personnel and the top management, internal control and audit, major and material transactions. The number of the Board of Directors members is established by the general meeting of shareholders. In 2014, the Board of Directors included 8 members: 2 independent directors, 1 executive director. The Board of Directors establishes committees for audit, nominations and remuneration, and strategy. The internal control and audit function is assigned to a separate structural unit – the Internal Control and Audit Department. Head of the Department is accountable to the Board of Directors, as well as appointed and dismissed by its decision.

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

Assessment was conducted on the basis of the methods for the corporate governance quality self-assessment in public companies and joint stock companies, approved by Order of the Federal Agency for State Property Management No. 306 dated August 22, 2014. In accordance with these methods, the maximum score amounts to 548 points (100%), while the minimum allowed score is 356.2 points (65%). The score obtained as a result of assessment of the corporate governance quality in OJSC Detsky Mir is 410.5 points (74.9%).

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

With a view to changes in the existing legislation it is planned to approve the Restated Articles of Association of the Company until the end of 2015.

4.2. Board of Directors

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

4.2.1. Membership of the Board of Directors



Christopher Alan Baxter

Chairman of the Board of Directors, Non-Executive Director

Year of birth 1963

Higher education

Senior Vice President of OJSC JSFC Sistema

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Vladimir Chirakhov

Executive Director

Year of birth 1974

Higher education

Director General of OJSC Detsky Mir

Shareholding interest – 1.08%

Holding of ordinary shares in the Company -1.08%



Valentin Korchunov

Non-Executive Director

Year of birth 1982

Higher education

Investment Director of OJSC JSFC Sistema

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Andrey Kamensky

Non-Executive Director

Year of birth 1972

Higher education

Executive Vice President of OJSC JSFC Sistema

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Andrey Berezhnoy

Independent Director

Year of birth 1965

Higher education

Founder and Director General of Ralf Ringer

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Christopher Allan Parks

Independent Director

Year of birth 1963

Higher education

Financial Director of the company M.Video

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Oleg Mubarakshin

Non-Executive Director

Year of birth 1968

Higher education

Vice President, Head of the Legal Affairs Complex of JSFC Sistema

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%



Vladimir Uvakin

Non-Executive Director

Year of birth 1975

Higher education

Executive Vice President of Sistema JSFC

Shareholding interest, 0%

Holding of ordinary shares in the Company, 0%

4.3. Director General

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

4.4. Management Board

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

4.4.1. Membership of the Management Board

**Vladimir Chirakhov**

Chairman of the Management Board

Year of birth 1974
Higher education
Director General of OJSC Detsky Mir
Shareholding interest – 1.08%
Holding of ordinary shares in the Company -1.08%

**Tatiana Mudretsova**

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

**Andrei Churilov**

Year of birth 1985
Higher education
Chief Commercial Officer of the "Fast Moving Consumer Goods" Line of OJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Maria Volodina**

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

**Anna Mrinskaya (Gorodilova)**

Year of birth 1979
Higher education
Financial Director of OJSC Detsky Mir
Shareholding interest – 0%
Holding of ordinary shares in the Company – 0%

**Farid Kamalov**

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

**Vyacheslav Khvan**

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

**Larisa Kvasova**

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

**Sergey Kondarev**

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

4.5. Report on payment of dividends on shares

In 2014, by decision of the general meeting of shareholders, the dividends were paid in the amount of:

- Retained profit for 2011: 0.2782 rub. per share, the total amount of dividends paid was 205,589,800 rubles.
- According to the results of activities for 2013: 1.5319 rub. per share, the total amount of dividends paid was 1,129,001,052 rubles.
- According to the results of activities for 9 months of 2014: 1.5439 rub. per share, the total amount of dividends paid was 1,140,942,100 rubles.

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

Director General and the Management Board members of OJSC Detsky Mir are the Company's staff-members. Remuneration of the above persons consists of the salary and annual bonus for the achievement of key targets set by the Board of Directors. The salary amount of these persons shall be determined according to the manning table. The amount of other payments such as additional payments, compensations and bonuses shall be determined by the Regulation on Remuneration, the Regulation On Bonuses and the Regulation on Logistical Support. The total remuneration paid to the Management Board members of OJSC Detsky Mir in 2014 was 750,032 thousand rubles. The amount of compensations paid to the Management Board members of OJSC Detsky Mir in 2014 was 2,300 thousand rubles.

Payment of the remuneration and compensations to the Management Board members of OJSC Detsky Mir is regulated by the Regulation on Remuneration and Compensations to the Board of Directors Members of OJSC Detsky Mir. In accordance with that Regulation, a fixed remuneration shall be paid only to the independent members of the Board of Directors.

In 2014, the remuneration paid to the Board of Directors members of OJSC Detsky Mir was 3,324 thousand rubles.

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

Surname, Name, Patronymic	Transaction date	Information on the transaction made with the Company's shares	Category (type) and number of shares, which were a subject of the transaction
Chirakhov Vladimir Sanasarovich	24.12.2014	purchase of shares	registered common share, 7,984,499 shares

5. SOCIAL RESPONSIBILITY

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

Detsky Mir implements both its own charitable projects, and joint projects with its partners: charitable foundations and voluntary associations. Today, the Company has more than 350 charity recipients in Russia and Kazakhstan.

The most famous project of the Company is the All-Russian Campaign "Get Involved!", within which the Detsky Mir chain stores collect gifts for children with a difficult real-life situation. This campaign gives the customers an opportunity to contribute to the good deed. Significantly, that each good-doer can always get to know an exact address where his gift has been sent.

In 2014, the Company has implemented 3 stages of the campaign:

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

Over the past year, the gifts were collected in amount of 97 million rubles as part of this campaign.

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

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

There 36 children's rooms in medical and social institutions in 10 cities of Russia opened their doors with the Detsky Mir Group participation. Children's rooms were opened in Bryansk, Kurgan, Petrozavodsk, Ryazan, Smolensk, Vladimir region, Moscow, Ivanovo, Tver, and Dzerzhinsk.

For the past year, the Volunteer Corporate Puppet Theater, the actors of which are Company's employees, was created. A theater troupe performs in orphanages and takes part in the opening ceremonies of the children's rooms. The project allowed to engage new employees in charitable projects implemented by the Company, and increased the brand loyalty.

In 2014, the Company has continued the implementation of the project "Co-Financing of Charitable Programs" where each employee may donate a portion of the salary to charity projects. The target audience of this project are children of the Company's employees who need expensive medical care. For the past year, the aid has been provided to 9 children, including payment for the expensive medical treatment and examination, as well as purchase of the necessary equipment.

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

6. APPENDICES

6.1. Membership of the Board of Directors

Membership elected on December 30, 2013

1. Christopher Alan Baxter – Chairman of the Board of Directors
2. Berezhnoy Andrey Alexandrovich
3. Kamensky Andrey Mikhaylovich
4. Korchunov Valentin Alexandrovich
5. Ostrobrod Boris Mihajlovich
6. Chirakhov Vladimir Sanasarovich

Membership elected on March 19, 2014

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

Membership elected on June 30, 2014

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

6.2. Membership of the Management Board

Date of the Board of Directors resolution	Full Name	Ownership of Shares
From 01.01.2014 till 11.03.2014	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board 2. Davidovich Oleg Georgievich 3. Pavlyuk Oleg Dmitrievich 4. Gorodilova Anna Viktorovna 5. Churilov Andrey Alexandrovich 6. Vyacheslav Robertovich Khvan 7. Kvasova Larisa Evgenievna	No ownership
from 12.03.2014 till 15.04.14	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board 2. Davidovich Oleg Georgievich 3. Pavlyuk Oleg Dmitrievich 4. Gorodilova Anna Viktorovna 5. Churilov Andrey Alexandrovich 6. Vyacheslav Robertovich Khvan 7. Kamalov Farid Shamilievich 8. Kvasova Larisa Evgenievna	No ownership
from 16.04.14 till 30.06.14	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board 2. Davidovich Oleg Georgievich 3. Pavlyuk Oleg Dmitrievich 4. Gorodilova Anna Viktorovna 5. Churilov Andrey Alexandrovich 6. Vyacheslav Robertovich Khvan 7. Kamalov Farid Shamilievich 8. Kondarev Sergey Pavlovich 9. Volodina Mariya Valeriyevna 10. Kvasova Larisa Evgenievna	No ownership
from 01.07.14 till 08.10.14	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board 2. Davidovich Oleg Georgievich 3. Gorodilova Anna Viktorovna 4. Churilov Andrey Alexandrovich 5. Vyacheslav Robertovich Khvan 6. Kamalov Farid Shamilievich 7. Kondarev Sergey Pavlovich 8. Volodina Mariya Valeriyevna 9. Kvasova Larisa Evgenievna	No ownership

from 09.10.14 till 19.11.14	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	No ownership
	2. Gorodilova Anna Viktorovna	
	3. Churilov Andrey Alexandrovich	
	4. Vyacheslav Robertovich Khvan	
	5. Kamalov Farid Shamilievich	
	6. Kondarev Sergey Pavlovich	
	7. Volodina Mariya Valeriyevna	
	8. Kvasova Larisa Evgenievna	

from 20.11.14 till 31.12.14	1. Chirakhov Vladimir Sanasarovich – Chairman of the Management Board	1.08%
	2. Gorodilova Anna Viktorovna	
	3. Churilov Andrey Alexandrovich	
	4. Vyacheslav Robertovich Khvan	
	5. Kamalov Farid Shamilievich	
	6. Kondarev Sergey Pavlovich	
	7. Volodina Mariya Valeriyevna	
	8. Tatyana Petrovna Mudretsova	
	9. Kvasova Larisa Evgenievna	

6.3. Balance sheet As of December 31, 2014 according to RAS

Indicator name	As of December 31, 2014	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
ASSETS				
I. NON-CURRENT ASSETS				
Intangible assets	12.583	12.894	13.184	13.835
Property, plant and equipment	2,790,377	1,868,261	1,796,422	1,473,622
Financial investments	5,146,983	5,978,487	1,747,822	1,931,244
Deferred tax assets	169,988	121,942	103,550	435,018
Other non-current assets	1,374,965	572,454	237,375	294,747
Total for Section I	9,494,896	8,554,038	3,898,353	4,148,466
II. CURRENT ASSETS				
Inventories	12,128,461	8,864,287	7,105,883	5,617,032
Input value added tax	203,384	137,106	60,555	56,565
Accounts receivable	2,576,751	1,740,219	1,596,919	693,774
Financial investments (excluding cash equivalents)	27,337	356,170	437,731	3,655
Cash and cash equivalents	1,428,074	793,884	1,534,900	2,378,983
Other current assets	571,864	179,416	119,996	99,226
Total for Section II	16,935,870	12,071,082	10,855,984	8,849,235
BALANCE	26,430,766	20,625,120	14,754,337	12,997,701
EQUITY AND LIABILITIES				
III. CAPITAL AND RESERVES				
Authorized capital	29	296	296	296
Non-current assets revaluation	0	145	145	145
Additional paid-in capital (without revaluation)	6,850,134	7,698,184	7,698,184	7,698,184
Reserve capital	22,660	23	8	8
Uncovered loss	(3,037,181)	(3,199,648)	(3,908,207)	(4,321,247)
Total for Section III	3,813,271	4,499,000	3,790,426	3,377,386
IV. LONG-TERM LIABILITIES				
Borrowings	3,506,848	4,350,000	2,397,563	3,850,000
Deferred tax liabilities	25,916	479	674	415
Total for Section IV	3,532,765	4,350,479	2,398,237	3,850,415
V. SHORT-TERM LIABILITIES				
Borrowings	5,936,071	1,523,944	607,799	97,602
Accounts payable	12,836,721	10,010,564	7,825,435	5,551,469
Provisions	311,939	241,133	132,440	120,829
Total for section V	19,084,731	11,775,641	8,565,674	5,769,900
BALANCE	26,430,766	20,625,120	14,754,337	12,997,701

6.4. Profit and loss statement for 2015 according to RAS

Indicator name	2014	2013	2012
Revenue	45,681,425	36,079,512	27,694,342
Cost of sales	(31,027,774)	(23,906,987)	(18,409,276)
Gross profit	14,653,651	12,172,525	9,285,066
Selling expenses	(10,461,401)	(9,609,896)	(7,917,245)
Management expenses	(2,525,372)	(1,526,512)	(1,394,431)
Sales profit	1,666,878	1,036,117	26,610
Income from participation in other organizations	16,139	22,375	25,007
Interest receivable	562,972	305,938	125,964
Interest payable	(837,798)	(469,539)	(378,279)
Other income	3,699,652	2,193,304	1,962,478
Other expenses	(1,799,222)	(1,445,635)	(978,107)
Profit before tax	3,308,621	1,642,560	730,453
Current income tax	(728,812)	(527,444)	-
<i>including permanent tax liabilities</i>	(46,192)	(209,169)	(178,214)
Change in deferred tax liabilities	(25,437)	195	(259)
Change in deferred tax assets	48,046	18,392	(324,046)
Other	35,436	(4,667)	14,313
Net profit	2,637,854	1,129,036	420,461
FOR REFERENCE			
Result from other operations not included into the net profit for the period	-	-	(7,421)
Total financial result for the period	2,637,709	1,129,036	413,040
Basic earnings per share, thousand rubles	0	382	142
Diluted earnings per share, thousand rubles	0	382	142

6.5. Report on compliance with the Corporate Governance Code principles

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

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

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

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

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

Principles of the Corporate Governance	Information on compliance with the principle	Notes (explanations) in case of non-compliance or partial non-compliance with the principles
2. Board of Directors		
2.6. Members of the Board of Directors shall act in good faith and in a reasonable manner in the interests of the company and its shareholders on the basis of sufficient information, with due care and diligence.	partially observed	
2.6.1. Reasonable and bona fide actions of the Board of Directors members imply making decisions based on all available information, without a conflict of interest, taking into account the equal attitude to all shareholders of the company, within the inherent business risk.	partially observed	The company does not have a procedure providing the Board of Directors members with an opportunity at the company's expense to seek professional advice on issues related to the Board of Directors competence.
2.6.2. Rights and obligations of the Board of Directors members shall be clearly defined and enshrined in the company's internal documents.	observed	
2.6.3. The Board of Directors members shall have enough time to perform their obligations.	observed	
2.6.4. All the Board of Directors members shall have an equally access to the company's documents and information. The newly elected Board of Directors members shall in the shortest possible time be provided with sufficient information on the company and the Board of Directors work.	observed	
2.7. Meetings of the Board of Directors, preparation therefor and participation therein of members of the Board of Directors shall ensure the effective operation of the Board of Directors.	observed	
2.7.1. It is recommended to hold the Board of Directors meetings as may be necessary, taking into account the activities scale and the challenges the company faces in a certain period.	observed	
2.7.2. It is recommended to develop and specify in the company's internal documents the procedure for preparation and holding of meetings of the Board of Directors to allow the Board of Directors members to prepare adequately for the meeting.	observed	
2.7.3. Form of the meeting of the Board of Directors shall be determined taking into account the importance of the agenda items. The most important issues shall be resolved in the meetings held in presentia.	observed	
2.7.4. It is recommended to make decisions on the most important issues of the company in the Board of Directors meeting by a qualified majority or a majority of votes of all elected members of the Board of Directors.	observed	The company's Articles of Association do not provide a special quorum of three-fourths majority of votes to make a decision on the most important issues of the company's activity.

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

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

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

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

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

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