



API Voting Recommendations for Annual General Meeting

Company: **Detsky Mir PJSC (DSKY)**

Meeting date: **May 16, 2019**

Record date: **April 22, 2019**

Company Overview

Detsky Mir Group is a multi-format retail operator leading in the segment of children's goods in Russia uniting the Detskiy Mir national retail chain, the ELC and ABC chains and the Zouzavr pet store chain.

At the end of the reporting year, Detsky Mir Group comprised 743 stores: 673 Detsky Mir stores in 252 cities of Russia and Kazakhstan, 66 ELC and ABC stores. The total shopping floor space of the stores is 768 thousand square meters.

The authorized capital of Detsky Mir PJSC is 295,600 rubles. It consists of 739,000,000 ordinary shares with a face value of 0.0004 rubles each.

The shareholding structure (% of the authorized capital, according to the Company's website):

Sistema PJSC and its subsidiaries: 52.099%;

Russia-China Investment Fund established by the Russian Direct Investment Fund / RDIF (Floette Holdings Limited: 7.016%;

Exarzo Holdings Limited: 7.016%);

Other shareholders: 33.8690%.

No.	AGM agenda item	API recommendation
1.	Establishing the procedure for the conduct of the Annual General Shareholders Meeting of Detsky Mir PJSC	FOR
2.	Approval of the annual report of Detsky Mir PJSC for 2018	FOR
3.	Approval of the annual accounting statements of Detsky Mir PJSC for 2018, including the profit and loss statement	FOR
4.	Distribution of profits and losses of Detsky Mir PJSC (including the payment of dividends) based on the results of the 2018 reporting financial year	FOR
5.	Election of the Board of Directors of the Company	API recommends voting FOR Alexander Shevchuk* (an independent director supported by the API)

6.	Election of the Internal Audit Commission of the Company	FOR
7.	Approval of the Company's auditor	FOR**
8.	Approval of the Company's restated Articles of Association	FOR

* The API recommends that the shareholders vote FOR the independent director supported by the API.

** We recommend that the Company's Board of Directors should revise its policy of disclosing materials on this agenda item to include information on competitive auditor selection procedures, recommendations of the Board's Audit Committee, the results of voting by the Board of Directors, as well as information on the cost of services and the scope of non-audit services.

In-depth review of the Annual General Meeting agenda:

1.	AGM agenda item	API recommendation
	Establishing the procedure for the conduct of the Annual General Shareholders Meeting of Detsky Mir PJSC	FOR

AGENDA ITEM 1 DETAILS:

This agenda item includes electing the shareholders meeting chair and determining the rules for holding the meeting, the procedure for vote counting and announcing the resolutions passed by the Annual General Meeting of Detsky Mir PJSC shareholders on the agenda items.

DRAFT RESOLUTION ON AGENDA ITEM 1:

- 1.1. Elect Andrey Shmakov as Chairman of the Annual General Meeting of Detsky Mir PJSC shareholders.
- 1.2. Elect Dmitry Bogatov as Secretary of the Annual General Meeting of Detsky Mir PJSC shareholders.
- 1.3. Delegate the Company's Registrar JSC Reestr (primary state registration number 1027700047275) to act as the tabulation commission of the Annual General Meeting of Detsky Mir PJSC shareholders.
- 1.4. Limit the speaking time to 20 minutes, the period for questions, answers and debates to 15 minutes following each speech.
- 1.5. The voting results and the resolutions passed by the Annual General Meeting of Detsky Mir PJSC shareholders on the agenda items shall be announced at the Annual General Meeting of Detsky Mir PJSC shareholders.

2-3.	AGM agenda item	API recommendation
2.	Approval of the annual report of Detsky Mir PJSC for 2018	FOR
3.	Approval of the annual accounting statements of Detsky Mir PJSC for 2018, including the profit and loss statement	FOR

AGENDA ITEMS 2-3 DETAILS:

The Annual Report of Detsky Mir PJSC for 2018 presents information on the main results of the business and financial performance of Detsky Mir Group and development priorities, reviews compliance with the corporate governance recommendations, anti-corruption measures, risk management, information on major transactions (1 transaction for a total amount of RUB 19.6 billion) and related party transactions (5 transactions for a total amount of RUB 5.7 billion), etc.

The accuracy of the annual accounting statements provided by Detsky Mir PJSC is confirmed by an audit report delivered by audit firm JSC Deloitte & Touche CIS.

Please note below the key figures representing the Group's financial and economic performance according to IFRS:

Item	2017	2018	Δ, %
Revenue, billion rubles	97.0	110.9	14.3
Commercial, general business and administrative expenses ¹ , billion rubles	22.1	24.2	9.5
Gross profit, billion rubles	32.8	36.8	12.2
Gross margin, %	33.8	33.2	-0.6 p.p.
EBITDA, billion rubles	9.8	11.9	21.4
EBITDA margin, %	10.1	10.7	0.6 p.p.
Adjusted EBITDA ² , billion rubles	10.7	12.7	18.7
Adjusted EBITDA margin, %	11.0	11.4	0.4 p.p.
Profit, billion rubles	4.8	5.7	18.8
Profit margin, %	4.9	6.0	1.1 p.p.
Adjusted profit ² , billion rubles	5.5	7.2	30.9
Adjusted profit margin, %	5.7	6.5	0.8 p.p.
Net debt	10.4	18.1	74.0
Net debt / adjusted EBITDA ratio ²	1.0	1.4	0.4

¹ unadjusted for expenses associated with the depreciation of fixed assets and intangible assets, as well as bonuses and incentives paid to the management team under the long-term incentive program.

² adjusted for the bonuses and incentives paid to the management team under the long-term incentive program.

The Group's revenue increased by 14.3% to RUB 110.9 billion resulting from the launch of 100 stores in 2018, the strong growth of like-for-like (LFL) sales in the Detsky Mir chain in Russia and higher activity of the stores opened in 2017 (104 stores opened).

Adjusted business, general and administrative expenses net of depreciation and amortization costs and LTI payments increased by 9.5% year-on-year to RUB 24.2 billion in 2018, which is 21.8% of the group's revenue.

Adjusted EBITDA increased by 18.7% to RUB 12.7 billion in 2018 against RUB 10.7 billion in 2017. The reduction in business, general and administrative expenses allowed the Company to increase the adjusted EBITDA margin to 11.4%.

Adjusted profit for the period increased by 30.9% to reach RUB 7.2 billion resulting from the stronger EBITDA and reduction in the effective income tax rate. Adjusted net profit margin increased to 6.5%.

As at December 31, 2018, the Company's debt totaled RUB 21.5 billion, short-term debt liabilities accounting for 41.6%, long-term debt liabilities for 58.4% of that amount. Net debt increased by 74.0% to RUB 18.1 billion. The Company's debt obligations are fully denominated in Russian rubles.

The net debt/adjusted EBITDA ratio increased to 1.4, mainly resulting from investments in the opening of the Bekasovo-2 own distribution center, and a change in the date of paying interim dividends for 9 months of 2017 to the majority shareholder, Sistema PJSFC, in the amount of RUB 1.1 billion.

The asset-light business model employed by the Company ensures a strong financial result and high return on capital. In 2018, adjusted operating return on invested capital (ROIC) before tax was 80%.

DRAFT RESOLUTIONS ON AGENDA ITEMS 2-3:

Item 2. Approve the annual report of Detsky Mir PJSC for 2018.

Item 3. Approve the annual accounting statements of Detsky Mir PJSC for 2018, including the profit and loss statement.

4.	AGM agenda item	API recommendation
	Distribution of profits and losses of Detsky Mir PJSC (including the payment of dividends) based on the results of the 2018 reporting financial year	FOR

AGENDA ITEM 4 DETAILS:

According to the Company's effective Regulation on the Dividend Policy, "the recommended amount of dividend payments shall be determined by the Board of Directors and is equal to at least 50% of the Company's net profit according to the consolidated annual financial statements for the previous year prepared according to IFRS, provided that the Company's investment program is properly implemented and financial viability is ensured. Besides, according to Russian laws, the total amount of dividends payable is limited to the amount of the Company's unconsolidated net profit under accounting (financial) statements based on Russian accounting standards."

The Company has historically paid up to 100% of the net profit according to RAS. Net profit of Detsky Mir PJSC amounted to RUB 6.538 billion in 2018 against RUB 5.063 billion in 2017).

At their general meeting, the shareholders are asked to resolve to pay RUB 3.289 billion in 2018 dividends, i.e. RUB 4.45 per ordinary registered share. Taking into account the previously paid interim dividends for the 9-month period, the total amount of 2018 dividends will reach RUB 8.84 per share (against 6.85 rubles in 2017). The dividend yield per common share at the current market price reaches 9.9%.

DRAFT RESOLUTION ON AGENDA ITEM 4:

4.1 Distribute part of the net profit earned by the Company in the 2018 financial year as follows: pay dividends in the amount of RUB 4.45 per ordinary registered share of Detsky Mir PJSC with a face value of RUB 0.0004 (four ten thousandths) each. The total amount of dividends payable by Detsky Mir PJSC is RUB 3,288,550,000.

4.2. Set May 27, 2019 as the dividend record date.

4.3. Pay the dividends in the form of money via bank transfer within the terms provided for by article 42 clauses 6, 8 of Russia's Federal Law on Joint-Stock Companies.

5.	AGM agenda item	API recommendation
	Election of the Board of Directors of the Company	API recommends voting FOR Alexander Shevchuk (an independent director supported by the API)

AGENDA ITEM 5 DETAILS:

According to clause 32.5 of the Company's Articles of Association, the number of members of the Board of Directors is subject to resolution by the general shareholders meeting and cannot be below 5. By resolution of the general shareholders meeting on September 20, 2018, the number of Board members was set equal to 10.

The shareholders and the Board of Directors have nominated 10 candidates, all of them being current Board members elected at the extraordinary shareholders meeting on September 20, 2018.

No.	Name	Candidate office / position (at the primary place of employment)	Nominated by	Years on the Board	Status
1.	Pavel Boyarinov	CEO, ORION Manufacturing Company LLC	Board of Directors of Detsky Mir PJSC	9 months	Independent director**
2.	Alexey Katkov	Managing Partner, Sistema PJSC	Board of Directors of Detsky Mir PJSC	1	Non-executive director
3.	Stanislav Kotomkin	Member of the Board of Directors, International	Board of Directors of Detsky Mir PJSC	9 months	Independent director**

		Flower Delivery Network LLC			
4.	Evgeny Madorsky	Chief investment officer, Sistema PJSC	Board of Directors of Detsky Mir PJSC	9 months	Non-executive director
5.	Tony Maher	Director, Da Vinci Capital Group Ltd, LPQ Russia Limited UK; Chairman of the Board of Directors, OJSC PROGRESS; ex-CEO, OKEY (2013-2015)	Board of Directors of Detsky Mir PJSC	1	Non-executive director
6.	Olga Ryzhkova	Senior Vice President, RCIF Investment Management	Exarzo Holdings Limited, Floette Holdings Limited	2	Non-executive director
7.	Vyacheslav Khvan	CEO, JSC Business-Realty	Board of Directors of Detsky Mir PJSC	9 months	Non-executive director
8.	Vladimir Chirakhov	Chief Executive Officer, Detsky Mir PJSC	Board of Directors of Detsky Mir PJSC	6	Executive director
9.	Alexander Shevchuk*	Executive Director, Association of Institutional Investors	EAST CAPITAL	1	Independent director
10.	Alexander Shulgjn	CEO, Internet Solutions LLC	Board of Directors of Detsky Mir PJSC	1	Non-executive director

The Board of Directors shall be elected by cumulative voting.

*The API officially supports this candidate.

** Given that the reference materials for the meeting do not provide any information on affiliation between the candidate and the Company, its substantial shareholder or counterparty, or absence thereof, the API cannot fully guarantee that the candidates are not actually affiliated with the Company, its substantial shareholder or counterparty. According to our information, based on a review of public information sources, these candidates are proposed by the majority shareholder as independent directors and industry experts.

Despite absence of competition between the candidates, the API recommends that the shareholders vote to support Alexander Shevchuk nominated by the Company's minority shareholders.

For details on the API's engagement with independent directors, please visit the official API website:

<http://api-russia.org>.

All independent directors supported by the API are open to direct contact with shareholders; please contact us for further information.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Elect the following candidates as members of the Company's Board of Directors:

1. Pavel Boyarinov
2. Alexey Katkov
3. Stanislav Kotomkin
4. Evgeny Madorsky
5. Tony Maher
6. Olga Ryzhkova
7. Vyacheslav Khvan
8. Vladimir Chirakhov
9. Alexander Shevchuk
10. Alexander Shulgjn

6.	AGM agenda item	API recommendation
	Election of the Internal Audit Commission of the Company	API recommends voting FOR on all candidates

AGENDA ITEM 6 DETAILS:

The new version of the Company's Articles of Association proposed for approval takes into account the API's recommendation to specify the exact number of the Internal Audit Commission members in the Articles. The size of the Internal Audit Commission is set equal to three members.

No.	Name	Candidate office / position (at the primary place of employment)
1.	Yuri Vikulin	Director for Planning, Sistema PJSFC
2.	Anatoly Panarin	Head of the Internal Control and Audit Department at Detsky Mir PJSC
3.	Marina Zhuravleva	Deputy Chief Accountant, Director of Methodology, Sistema PJSFC

The shares belonging to members of the Board of Directors, members of the Management Board and the sole executive body of Detsky Mir PJSC cannot vote on this issue. The resolution shall be passed by a simple majority of votes of the shareholders participating in the meeting.

DRAFT RESOLUTION ON AGENDA ITEM 6:

Elect the following candidates as members of the Company's Internal Audit Commission:

1. Yuri Vikulin
2. Anatoly Panarin
3. Marina Zhuravleva

7.	AGM agenda item	API recommendation
	Approval of the Company's auditor	FOR

AGENDA ITEM 7 DETAILS:

The shareholders are asked to approve CJSC Deloitte & Touche CIS, the current auditor of Detsky Mir PJSC, as the Company's auditor for the next reporting year.

The API proposes that the shareholders vote FOR on the approval of the auditor but also recommend that information on competitive auditor selection procedures, recommendations of the Board's Audit Committee, the results of voting by the Board of Directors, as well as information on the cost of services and the scope of non-audit services should be included in the meeting materials for assessing factors potentially affecting the independence of the audit firm's judgments.

DRAFT RESOLUTION ON AGENDA ITEM 7:

Approve JSC Deloitte & Touche CIS as the auditor of Detsky Mir PJSC for 2019.

8.	AGM agenda item	API recommendation
	Approval of the Company's restated Articles of Association	FOR

AGENDA ITEM 8 DETAILS:

The new version of the document is aimed at bringing the Articles of Association in line with the current laws. No innovations prejudicing the position or restricting the rights of shareholders are proposed in the new version.

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DRAFT RESOLUTION ON AGENDA ITEM 8:

Approve the new version of the Company's Articles of Association.

The AGM Voting Recommendations are based on the Annual General Meeting reference materials published on the Detsky Mir website. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: maksimov@api-russia.org.