



API Voting Recommendations for Annual General Meeting

Company: Detsky Mir PJSC

Meeting date: May 18, 2018

Record date: April 26, 2018

Company Overview

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

At the end of 2017, the Group comprised 622 stores with a total sales area of 688 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 (RCIF) established by the Russian Direct Investment Fund / RDIF (holding its stake through Floette Holdings Limited 7.016%; Exarzo Holdings Limited 7.016%);

other shareholders: 33.8690%

No.	AGM agenda item	API recommendation
1.	Determining 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 2017	FOR
3.	Approval of the annual accounting statements of Detsky Mir PJSC for 2017, 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 2017 financial year	FOR
5.	Determining the size of the Board of Directors of the Company	FOR

6.	Election of the Board of Directors of the Company	API recommends voting FOR Alexander Shevchuk* (an API-supported independent director)
7.	Election of the Audit Commission of the Company	API recommends voting FOR Marina Zhuravleva Alexander Patyukov Nadezhda Voskresenskaya
8.	Approval of the Company's auditor for 2018	ABSTAINED**
9.	Approval of the Company's restated Articles of Association	FOR

* The API recommends that the shareholders vote FOR the independent directors supported by the API. Taking into account the historically established quorum of 74-76%, the voting investors can elect one candidate. As a result of discussing the API's candidate, taking into account the highly professional management team and a sufficient number of industry experts on the Board and following meetings with one of the Company's independent directors, the API members holding stakes in Detsky Mir have proposed that the shareholders vote in support of Alexander Shevchuk who is specialized in corporate governance.

** The information provided is not sufficient for an affirmative voting recommendation to the shareholders on this issue. We recommend that the Company's Board of Directors should revise its policy of disclosing materials for the general shareholders meeting.

[In-depth review of the AGM agenda:](#)

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

AGENDA ITEM 1 DETAILS:

This issue includes electing the shareholders meeting chair and determining the rules of 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 RESOLUTIONS 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 2017	FOR
3.	Approval of the annual accounting statements of Detsky Mir PJSC for 2017, including the profit and loss statement	FOR

AGENDA ITEMS 2-3 DETAILS:

The Annual Report of Detsky Mir PJSC for 2017 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 (2 transactions for a total amount of RUB 32 billion) and related party transactions (8 transactions for a total amount of RUB 5.4 billion), etc.

The accuracy of data provided in the Annual Report of Detsky Mir PJSC is confirmed by a report delivered by the Audit Commission of Detsky Mir PJSC.

The accuracy of the annual accounting statements of Detsky Mir PJSC is confirmed by an audit report delivered by the audit firm CJSC Deloitte & Touche CIS and a report from the Audit Commission of Detsky Mir PJSC.

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

Item	2016	2017	Change year-on-year
Revenue, billion rubles	79.5	97.0	21.9%
Commercial, general business and administrative expenses ¹ , billion rubles	18.8	22.1	17.6
Gross profit, billion rubles	27.1	32.8	21.0%
Gross margin, %	34.1	33.8	6.7 p.p.
EBITDA, billion rubles	8.2	9.8	20.1%
EBITDA margin, %	10.3	10.1	-0.2 p.p.
Adjusted EBITDA ² , billion rubles	8.2	10.7	30.0%
Adjusted EBITDA margin, %	10.3	11.0	0.7 p.p.
Profit, billion rubles	3.8	4.8	26.3
Profit margin, %	4.8	4.9	0.1 p.p.
Adjusted profit ² , billion rubles	3.8	5.5	43.8%
Adjusted profit margin, %	4.8	5.7	0.9 p.p.

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

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

The Group's revenue increased by 21.9% as a result of opening many stores in 2017 (104 stores were opened) and the achievement of full capacity at the stores launched the year before; besides, the online segment where sales increased by more than half contributed significantly to the overall revenue growth: revenue from the online store increased by 67% to reach RUB 4.6 billion in 2017.

In 2017, the Group continued to implement its strategy aimed at improving operating efficiency, primarily by increasing labor productivity and cutting rental costs. The automation of business processes and new software solutions have sped up operations and reduced the labor input of employees. As a result, Detsky Mir reduced the share of commercial, general business and administrative expenses by 17.6%, its adjusted EBITDA margin reached a record level of 11.0%.

DRAFT RESOLUTIONS ON AGENDA ITEMS 2-3:

No. 2. Approve the annual report of Detsky Mir PJSC for 2017.

No. 3. Approve the annual accounting statements of Detsky Mir PJSC for 2017, 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 2017 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 its financial viability is ensured. 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 5.063 billion in 2017 against RUB 5.697 billion in 2016).

At their general meeting, the shareholders are asked to resolve to pay RUB 2.867 billion in 2017 dividends, i.e. RUB 3.88 per ordinary registered share. Taking into account the previously paid interim dividends for the 9-month period, the total amount of 2017 dividends will reach RUB 5.062 billion or 6.85 rubles per share (against 7.7 rubles in 2016). The amount of dividends has decreased by 11% compared with the 2016 level.

The dividend record date is May 29, 2018.

DRAFT RESOLUTION ON AGENDA ITEM 4:

4.1 Distribute part of the net profit earned by the Company in the 2017 financial year as follows: pay dividends in the amount of RUB 3.88 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 2,867,320,000.

4.2. Set May 29, 2018 as the dividend record date.

5.	AGM agenda item	API recommendation
	Determining the size of the Board of Directors of the Company	FOR

AGENDA ITEM 5 DETAILS:

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The size of the Board of Directors proposed for approval by the annual general meeting is equal to the current size of 10 (ten) members.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Determine the size of the Company's Board of Directors to be equal to 10 members.

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

AGENDA ITEM 6 DETAILS:

The shareholders have nominated 13 candidates, including 3 candidates nominated by an API member.

No.	Name	Candidate office / position (at the primary place of employment)	Nominated by	Years on the Board	Status
1.	Alexander Shulgin	CEO, Internet Solutions LLC	Sistema PJSFC	0	Non-executive director
2.	Olga Ryzhkova	Senior Vice President, RCIF Investment Management	Exarzo Holdings Limited, Floette Holdings Limited	1	Non-executive director
3.	Christopher Alan Baxter	Partner, Caster Capital	Sistema PJSFC	5	Non-executive director
4.	Vitaly Vavilov	Partner, Strategy Partners Group	Sistema PJSFC	1	Independent director
5.	Alexey Katkov	Managing Partner, Sistema PJSFC	Sistema PJSFC	0	Non-executive director
6.	Artem Zasursky	Vice President for Strategy, Sistema PJSFC	Sistema PJSFC	1	Non-executive director
7.	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)	Sistema PJSFC	0	Non-executive director
8.	James McArthur	Board Member, Benetton Group srl; Vice Chairman, Diamond Manufacturers; Chairman of Advisory Board, Galvan London; Chairman, Lulu Guinness, Capellino Design Ltd; Chairman, Pasta Evangelists Ltd; CEO & Director, ASHS Ltd	Sistema PJSFC	1	Independent director
9.	Gevork Sarkisyan	Director, Innova Partners Sarl	Sistema PJSFC	2	Independent director
10.	Vladimir Chirakhov	Chief Executive Officer, Detsky Mir PJSC	Sistema PJSFC	5	Executive director
11.	Andrey Morozov	Legal Director, Association of Institutional Investors	East Capital, for and on behalf of East Capital Russia	0	Independent director
12.	Elizabeth Anne Kirkwood	Former top manager at Wal-Mart Stores and Metro Cash &	East Capital, for and on behalf of	0	Independent director

		Carry	East Capital Russia		
13.	Alexander Shevchuk*	Executive Director, Association of Institutional Investors; Board member at OGK-2 and IDGCs of ROSSETI Group	East Capital, for and on behalf of East Capital Russia	0	Independent director

The Board of Directors shall be elected by cumulative voting.

*The API officially supports Alexander Shevchuk.

The current shareholdings in the Company are as follows:

1	Sistema PJSFC	52.10%
2	RCIF (Floette Holdings Limited, Exarzo Holdings Limited)	14.032%
4	CEO of the Company	1.70%
5	Christopher Alan Baxter	0.65%
6	Quasi-treasury securities	0.26%
	Total:	68.74%

The estimated passing score for a candidate, proceeding from the number of seats on the Board of Directors will be 6.87%, the minimum required quorum being 75.61%.

Taking into account the historically established quorum of 74-76%, the voting investors can elect one candidate. We assume that RCIF (the Russia-China Investment Fund established by state-owned Russian Direct Investment Fund / RDIF), Sistema PJSFC, the Company's CEO and Board Chairman will align themselves in voting. The passing score is therefore projected at about 7%.

The API members holdings stakes in the Company, suggest focusing on one candidate so as to elect a Board member representing them. Sistema PJSFC has announced a restructuring of the Group. The majority shareholder of Detsky Mir PJSC will probably dispose of some of its assets because of payments under the amicable agreement in the Bashneft case and a heavier debt burden. The above circumstances necessitate having an independent representative of investors on the Board of Directors. As a result of discussing the API's candidate, taking into account the highly professional management team and a sufficient number of industry experts on the Board and following meetings with one of the Company's independent directors, the API members holding stakes in Detsky Mir have proposed that the shareholders vote in support of Alexander Shevchuk who is specialized in corporate governance and can be tasked with the following:

- 1) Mitigating the risk of a change in control in case the major shareholder sells its stake;
- 2) Organizing a discussion of a succession plan and a long-term motivation system jointly with the Company and the Board members;
- 3) Conducting independent monitoring in the best interest of all shareholders and improving corporate governance practices.

The election of one independent director by investors' votes will improve the balance on the Board as regards offsetting the majority shareholder's influence on it. In 2017, the API also elected an independent director to the Board of Directors of Sistema PJSFC to strengthen the representative power of other shareholders on the Board. We consider this as a useful practice for the Company and its 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 6:

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Elect the following candidates to the Board of Directors of the Company:

1. Christopher Alan Baxter
2. Vitaly Vavilov
3. Artem Zasursky
4. Alexey Katkov
5. Tony Maher
6. James McArthur
7. Andrey Morozov
8. Elizabeth Anne Kirkwood
9. Olga Ryzhkova
10. Gevork Sarkisyan
11. Vladimir Chirakhov
12. Alexander Shevchuk
13. Alexander Shulgin

7.	AGM agenda item	API recommendation
	Election of the Audit Commission of the Company	API recommends voting FOR Marina Zhuravleva Alexander Patyukov Nadezhda Voskresenskaya

According to clause 2.1. of the Company's Regulations on the Internal Audit Commission, the size of the Audit Commission shall be determined by the Company's Articles of Association. Based on clause 39.1. of the Articles, the Audit Commission shall consist of *at least* three members. Therefore, the exact number of Audit Commission members is not provided for by the Company's official documents. However, it is clearly stated in the reference materials for the meeting (that are not regulatory in nature) that the Audit Commission consists of 3 members. In view of the above, the API recommends that the Company amend the Articles of Association to determine the exact number of Audit Commission members.

Sistema PJSFC has nominated three candidates. One candidate is nominated by the Board of Directors as no written consent from the candidate Marina Ivanova is available.

No.	Name	Candidate office / position (at the primary place of employment)
1.	Marina Zhuravleva	Deputy Chief Accountant, Director of Methodology, Sistema PJSFC
2.	Marina Ivanova	Undisclosed
3.	Alexander Patyukov	Head of Planning, Sistema PJSFC
4.	Nadezhda Voskresenskaya	Head of the document audits department, Head of the operational audits department, Executive Director for financial audit, Head of the financial audit sector, Internal Control & Audit Department, Detsky Mir PJSC

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 7:

Elect the following candidates to the Audit Commission of the Company:

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1. Marina Zhuravleva
2. Marina Ivanova
3. Alexander Patyukov
4. Nadezhda Voskresenskaya

8.	AGM agenda item	API recommendation
	Approval of the Company's auditor for 2018.	ABSTAINED

AGENDA ITEM 8 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 reference materials for the AGM do not disclose information on competitive auditor selection procedures, do not provide recommendations of the Board's Audit Committee, the results of voting by the Board of Directors / Audit Committee on recommendations to the general shareholders meeting, as well as information on the cost of services and the scope of non-audit services required for assessing factors potentially affecting the audit firm's independence. The available information is not enough for an affirmative voting recommendation to the shareholders on this agenda item. We recommend that the Company's Board of Directors should revise its policy of disclosing materials for the general shareholders meeting.

DRAFT RESOLUTION ON AGENDA ITEM 8:

Approve CJSC Deloitte & Touche CIS as the auditor of Detsky Mir PJSC for 2018.

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

AGENDA ITEM 9 DETAILS:

The changes made to the restated Articles recognize, in particular, the legally permitted possibility of shareholders' remote participation in a general meeting, including voting by filling in ballot papers electronically on the website, provided that such a possibility is provided for by the decision to convene the meeting.

Besides, the Articles recognize that an AGM announcement on the Company's official website <http://corp.detmir.ru> is the only compulsory way of notifying shareholders of a general shareholders meeting. The other means of notification (by a registered letter delivered to the shareholder's address specified in the Company's shareholder register, delivery against signature) remain recognized by the Articles as additional means of notification.

While canceling the need for compulsory notification by mail technically lowers shareholders' awareness of meetings, this does not apply to shareholders wishing to take part in a meeting. It should be noted that making announcements of events on corporate websites for notification purposes is legally admissible and used by quite a few major companies, resulting in significant cash savings.

DRAFT RESOLUTION ON AGENDA ITEM 9:

Approve the restated Articles of Association of Detsky Mir PJSC.

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

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