



API Voting Recommendations for Annual General Meeting

Company: **PJSC Dixy Group (DIXY)**

Meeting date: **June 1, 2017**

Record date: **May 9, 2017**

Company Overview

PJSC DIXY Group was established in 2003 as a holding company.

The core activity of DIXY Group of Companies is the development of a chain of retail grocery and FMCG stores. The authorized capital is RUB 1,247,500. It consists of 124,750,000 ordinary shares with a face value of RUB 0.01 each. The shareholding structure of the Company is as follows (% of the authorized capital):

- Dixy Holding Ltd.: 51.29%;
- Protsvetaniye Holdings Limited: 6.76%;
- other shareholders: 41.95%.

No.	AGM agenda item	API recommendation
1.	Approval of the Company's annual report for 2016	FOR
2.	Approval of the Company's annual accounting (financial) statements for 2016	FOR
3.	Distribution of the Company's profits (including the payment (declaration) of dividends) and losses for 2016	FOR
4.	Determining the number of the Company's Board of Directors members	FOR
5.	Election of the Company's Board of Directors members	API recommends voting FOR Alexander Arthur John Williams Alexander Kritskiy* (independent directors)
6.	Payment of remuneration to the Company's Board of Directors members	AGAINST**
7.	Election of the Company's Internal Audit Commission	API recommends voting as follows: FOR Laura Basangova Irina Shotaeva ABSTAINED: Yulia Zhuvaga
8.	Approval of the Company's Auditor for 2017 according to Russian Accounting Standards	ABSTAINED***

9.	Approval of the Company's Auditor for 2017 according to International Financial Reporting Standards	ABSTAINED***
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* The API recommends that the shareholders vote FOR the independent directors Alexander Arthur John Williams and Alexander Kritskiy nominated and supported by API members. Alex Williams who has been an API-backed independent director for several years has proven himself as a highly active member of the Board of Directors advocating an independent position on the activities of Boards of Directors of issuers. He possesses extensive experience in corporate governance, investment analysis and investor relations. Alexander Kritskiy has been proposed as a professional independent expert in the retail sector. To ensure the election of two independent directors, approximately 16.4% of the votes need to be consolidated for both candidates, provided that the votes are equally distributed between the two candidates (8.2% for each). The passing score calculation was based on retrospective data on the votes earned by the other members of the Board of independent Board of Directors members; the reduction in the amount of remuneration 5 times (as proposed) may force some of the currently active independent directors to leave the Company. As follows from our contacts with the current independent directors, this proposal, to the best of our understanding, was not enough material to issue an affirmative voting recommendation to the shareholders on this issue; the resolution shall be passed by a simple majority of votes. The Company has not disclosed information on the results of the auditor selection competition, the cost of audit and consulting services.

** The proposed draft resolution sets absolutely new parameters of remuneration payable to independent Board of Directors members; the reduction in the amount of remuneration 5 times (as proposed) may force some of the currently active independent directors to leave the Company. As follows from our contacts with the current independent directors, this proposal, to the best of our understanding, was not enough material to issue an affirmative voting recommendation to the shareholders on this issue; the resolution shall be passed by a simple majority of votes. The Company has not disclosed information on the results of the auditor selection competition, the cost of audit and consulting services.

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

1-2.	AGM agenda item	API recommendation
1.	Approval of the Company's annual report for 2016	FOR
2.	Approval of the Company's annual accounting (financial) statements for 2016	FOR

AGENDA ITEMS 1-2 DETAILS:

The annual report of DIXY Group for 2016 contains information on the key performance indicators achieved by the Company in 2016, development prospects, description of the main risk factors, information on related party transactions (**1 deal for a total amount of RUB 14,130.3 million**, subject matter: acquisition by PJSC DIXY Group of registered additionally issued shares of JSC DIXY Ug).

The reliability of the Company's 12-month Russian GAAP (RAS) accounting statements is confirmed by an audit report provided by CJSC Gorislavtsev and Co. Audit and an opinion of the Internal Audit Commission of PJSC DIXY Group.

The reliability of the consolidated IFRS statements of PJSC DIXY Group and its subsidiaries is confirmed by Ernst & Young LLC.

Please find below the key financial and operational performance indicators according to IFRS standards:

Item	2015	2016	Change, year-on-year
Revenue, million rubles	272,345	311,238	14.3%
Operating expenses, million rubles	(192,636)	(228,063)	18.4%
Operating profit, million rubles	5,809	837	-85.6%
Profit for the period, million rubles	589	(2,787)	-573.2%
Basic earnings per share, rubles	4.72	(22.48)	-576.3%
EBITDA, million rubles	13,470	9,601	-28.7%

EBITDA margin, %	4.9	3.1	-1.8 p.p.
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The 14.3% revenue growth in 2016 was driven by the opening of new stores in 2015-2016. The 18.4% increase in the cost of goods sold (operating expenses) results from the Group's business expansion.

DRAFT RESOLUTIONS ON AGENDA ITEMS 1-2:

No. 1. Approve the Company's annual report for 2016.

No. 2. Approve the Company's annual accounting (financial) statements for 2016.

3.	AGM agenda item	API recommendation
	Distribution of the Company's profits (including the payment (declaration) of dividends) and losses for 2016	FOR

AGENDA ITEM 3 DETAILS:

Net profit of PJSC DIXY Group according to RAS standards amounted to RUB 132.5 million. At the same time, DIXY Group posted a loss of RUB 2,787 million according to its consolidated IFRS financial statements. The shareholders are therefore asked to decide to pass 2016 dividends and to use the RAS net profit for corporate development purposes. It should be noted that the Company's net profit earned in 2015 was also allocated for corporate development.

DRAFT RESOLUTION ON AGENDA ITEM 3:

Decide not to declare and not to pay 2016 dividends. The Company's net profit for 2016 amounting to RUB 132,506,000 (one hundred and thirty two millions five hundred and six thousand rubles) shall be used for corporate development purposes.

4.	AGM agenda item	API recommendation
	Determining the number of the Company's Board of Directors members	FOR

AGENDA ITEM 4 DETAILS:

The size of the Board of Directors proposed for approval at the general meeting is not in contradiction with the resolution made at the extraordinary general meeting of the Company's shareholders in January 2017 to increase the number of Board members from 7 (as approved by the Annual General Meeting in 2016) to 9. The API supports the expansion of the Board of Directors as it increases the minority shareholders' opportunities to elect the candidates nominated by them to the Board, resulting in a more well-balanced Board composition.

DRAFT RESOLUTION ON AGENDA ITEM 4:

Determine the size of the Company's Board of Directors to be equal to 9 members.

5.	AGM agenda item	API recommendation
	Election of the Company's Board of Directors members	API recommends voting FOR Alexander Arthur John Williams Alexander Kritskiy (independent directors)

AGENDA ITEM 5 DETAILS:

All nine current Board of Directors members are included in the list of 13 candidates nominated by the shareholders. The API recommends that the shareholders vote FOR the independent directors Alexander Arthur Williams and Alexander Kritskiy nominated and supported by API members. Alex Williams who has been an API-director for several years has proven himself as a highly active member of the Board of Directors

independent position on the activities of Boards of Directors. He possesses extensive experience in investment analysis and investor relations. Alexander Kritskiy has been proposed as a professional the retail sector. To ensure the election of two independent directors, approximately 16.4% of the consolidated for both candidates, provided that the votes are equally distributed between the two each). The passing score calculation was based on retrospective data on the votes cast for the other of Directors at the Company's extraordinary general meeting in 2017.

No.	Name	Office / Position (at the primary place of employment)	Nominated by	Status
1.	Igor Kesaev	Chairman of the Board of Directors, PJSC DIXY Group	DIXY HOLDING LIMITED	non-executive director
2.	Sergey Belyakov	Chief Executive Officer, PJSC DIXY Group	DIXY HOLDING LIMITED	executive director
3.	Stephen John Wellard	None	DIXY HOLDING LIMITED	independent director
4.	Alexander Kobzev	Executive partner, law firm "Jus Aureum"	DIXY HOLDING LIMITED	non-executive director
5.	Artem Afanasiev	Head of the Legal Department and compliance control, PJSC DIXY Group; member of the Management Board, PJSC DIXY Group	DIXY HOLDING LIMITED	executive director
6.	Yuri Poletaev	Member of the Board of Directors, PJSC DIXY Group	DIXY HOLDING LIMITED	independent director
7.	Leo P <trick </trick MacLoughlin	No data available	DIXY HOLDING LIMITED	non-executive director
8.	Katsman Vladimir Leonidovich	President, Baltptitseprom	DIXY HOLDING LIMITED, CHANTREY HOLDINGS LIMITED	non-executive director
9.	Alexander Arthur John Williams*	Director, Taiga Capital (UK) Limited (United Kingdom of Great Britain and Northern Ireland)	The Russian Prosperity Fund	independent director
10.	Alexander Kritskiy	Director, Marbella Tourist Development SA (Spain)	The Russian Prosperity Fund	independent director
11.	Alexey Krivoshapko	Director for consumer market, retail chains and real estate, representative office of Prosperity Capital Management	The Russian Prosperity Fund	non-executive director
12.	Denis Spirin	Director for corporate governance, representative office of Prosperity Capital Management	The Russian Prosperity Fund	non-executive director
13.	Dmitriy Gutshin	CEO, LLC Fininvest Group	Nickors Limited	non-executive director

Members of the Board of Directors are elected by cumulative voting.

* The API officially supports these candidates.

Details on the API liaison with independent directors are provided on the API website at:

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

All independent directors backed by the API are open to direct contact with shareholders; please [contact us](#) for further information.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Elect the Company's Board of Directors in the following composition:

1. Igor Kesaev
2. Sergey Belyakov
3. Stephen John Wellard
4. Alexander Kobzev
5. Artem Afanasiev
6. Yuri Poletaev
7. Leo Ptrick MacLoughlin
8. Katsman Vladimir Leonidovich
9. Alexander Arthur John Williams
10. Alexander Kritskiy
11. Alexey Krivoshapko
12. Denis Spirin
13. Dmitriy Gutshin

6.	AGM agenda item	API recommendation
	Payment of remuneration to the Company's Board of Directors members	AGAINST

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AGENDA ITEM 6 DETAILS:

The following terms and conditions of paying remuneration to members of the Board of Directors were established by resolutions of the two previous general shareholders meetings of the Company (the 2016 Annual General Meeting and the extraordinary general meeting held in January 2017):

The remuneration payable to independent members of the Board of Directors (for the period of execution of their duties until the date of the next Annual General Meeting of the Company) shall be equal to USD 25,000 per person per quarter. No remuneration shall be paid to the other members of the Board of Directors for the period of execution of their duties until the date of the next Annual General Meeting of the Company.

The proposed draft resolution sets absolutely new parameters of remuneration payable to independent Board of Directors members:

It is proposed that the remuneration payable to each member of the Board (including independent directors) be set equal to USD 5,000 per quarter, excluding personal income tax. Additional remuneration shall be equal to USD 10,000 per quarter (excluding personal income tax) for the Chair of the Board of Directors and the chairs of the three Board Committees, USD 5,000 per quarter (excluding personal income tax) for the Deputy Chair of the Board. No additional remuneration payable for membership in Board Committees is provided for, which cannot be considered as good practice.

As follows from the calculations, the proposed remuneration system will "cost" the Company USD 360,000 per year, which is USD 40,000 below the current level (USD 25,000 x 4 to 4 independent Board members = USD 400,000). We regard the redistribution of remuneration in favor of non-executive directors by reducing the remuneration payable to independent Board members as a negative factor. The proposal for extra remuneration payable for the execution by members of the Board of Directors of additional duties seems reasonable, but the reduction in the amount of remuneration payable to independent directors five times should be considered as inappropriate, as some of the current independent directors will be forced to leave the Company.

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DRAFT RESOLUTION ON AGENDA ITEM 6:

Determine the remuneration of a member of the Company's Board of Directors (for the period of his service in this capacity) equal to USD 5,000.00 (five thousand) US dollars per quarter, excluding personal income tax. If a member of the Company's Board of Directors is elected as Chairman of the Board of Directors, he is paid additional remuneration in the amount of USD 10,000.00 (ten thousand US dollars) per quarter, excluding personal income tax, for the period of his service as Chairman of the Board of Directors. If a member of the Company's Board of Directors is elected as Deputy Chairman of the Board of Directors, he is paid additional remuneration in the amount of USD 5,000.00 (five thousand US dollars) per quarter, excluding personal income tax, for the period of his service as Deputy Chairman of the Board of Directors. If a member of the Company's Board of Directors is elected as Chair of the Board of Directors Committee, he is paid additional remuneration in the amount of USD 10,000.00 (ten thousand US dollars) per quarter, excluding personal income tax, for the period of his service as Chair of the Board of Directors Committee. All remuneration is paid in US dollars, if applicable, or in Russian rubles at the rate set by the Central Bank of the Russian Federation on the day of payment.

Set the amount of compensations payable to all members of the Company's Board of Directors for the period of their service in this capacity equal to the amount of actual expenses for accommodation and travelling to the place where the Company's Board of Directors and/or the Board of Directors Committees hold physical meetings, subject to documentary evidence of such expenses approved by the Company.

7.	AGM agenda item	API recommendation
	Election of the Company's Internal Audit Commission	API recommends voting as follows: FOR Laura Basangova Irina Shotaeva ABSTAINED: Yulia Zhuvaga

AGENDA ITEM 7 DETAILS:

The shareholders are asked to elect a new Internal Audit Commission consisting of three members. The Internal Audit Commission members proposed for election are not different from the Internal Audit Commission members elected at the Company's Annual General Meeting in 2016.

As of March 31, 2017, the Company acted as the sole executive body of JSC DIXY Ug, the Chief Financial Officer of which is a candidate to the Internal Audit Commission. Given a conflict of interest (the auditor actually being the object of the audit), we recommend that the shareholders vote "Abstained" on this candidate.

The two other candidates are employed by entities of Mercury Group which owns a controlling stake in the Company.

No.	Name	Office / Position (at the primary place of employment)
1.	Laura Basangova	Budgeting and Planning Officer, LLC Mercury Services
2.	Irina Shotaeva	Chief Accountant, LLC NDC Mercury; Chief Accountant, LLC Yulizim
3.	Yulia Zhuvaga	Chief Financial Officer, JSC DIXY Ug

Internal Audit Commission members are elected by a simple majority of votes.

DRAFT RESOLUTION ON AGENDA ITEM 7:

Elect the Company's Internal Audit Commission in the following composition:

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1. Laura Basangova;
2. Irina Shotaeva;
3. Yulia Zhuvaga.

8.	AGM agenda item	API recommendation
	Approval of the Company's Auditor for 2017 according to Russian Accounting Standards	ABSTAINED

AGENDA ITEM 8 DETAILS:

It is proposed that the shareholders approve the current auditor as the Company's auditor for the next reporting year according to Russian Accounting Standards.

The AGM-related materials do not disclose information on competitive auditor selection procedures, do not provide recommendations of the 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 Closed Joint Stock Company Gorislavtsev and Co. Audit (OGRN / Primary State Registration Number: 1027700542858, tax number: 7710255856) as the Company's Auditor for 2017 according to Russian Accounting Standards.

9.	AGM agenda item	API recommendation
	Approval of the Company's Auditor for 2017 according to International Financial Reporting Standards	ABSTAINED

AGENDA ITEM 9 DETAILS:

It is proposed that the shareholders approve the current auditor as the Company's auditor for the next reporting year according to International Financial Reporting Standards.

The AGM-related materials do not disclose information on competitive auditor selection procedures, do not provide recommendations of the 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 9:

Approve Ernst & Young LLC (OGRN / Primary State Registration Number: 1027739707203, tax the Company's Auditor for 2017 according to International Financial Reporting Standards.

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