

# SUSTAINABILITY REPORT

# 2015-2016



Detsky Mir

# TABLE OF CONTENTS

Message from the CEO.....	2		
<b>1. Confident Leadership</b> .....	4		
1.1. About the Detsky Mir Group.....	6		
1.2. The Children's Goods Market in Russia.....	12		
1.3. Consolidation Strategy: Key Results.....	16		
1.4. Record of Achievements .....	20		
<b>2. Sustainable Development</b> .....	22		
2.1. Our Approach to Sustainable Development and Interaction with Stakeholders .....	24		
2.2. Strategy of Corporate Social Responsibility.....	27		
<b>3. For Children and Their Parents</b> .....	30		
3.1. Safety of Products .....	32		
3.2. Customer-oriented Service.....	35		
3.3. Online Store.....	40		
<b>4. Responsible Supply Chain</b> .....	42		
4.1. Cooperation with Suppliers.....	44		
4.2. Procurement Management .....	47		
4.3. Information Technology .....	52		
<b>5. Decent Work</b> .....	54		
5.1. HR Management.....	56		
5.2. Our Employees .....	57		
		5.3. Engagement .....	59
		5.4. Motivation and Remuneration System .....	60
		5.5. Social Benefits .....	62
		5.6. Training and Development .....	64
		5.7. Labour Safety .....	66
		<b>6. Caring for the Future</b> .....	68
		6.1 Charity .....	70
		6.2 Ecological Responsibility .....	77
		Glossary .....	80
		List of Abbreviations .....	80
		Information About the Report.....	81
		GRI G4 Context Index.....	82
		Opinion on the Independent Non-Financial Approval of the Report.....	86
		Contacts .....	88

# MESSAGE FROM THE CEO



## Dear partners, colleagues and friends!

In 2015 and 2016, the Detsky Mir Group strengthened its leading market positions and enhanced the efficiency of its business processes. The financial results for the year 2016 were the best in the in the Company's history. Sustainability report 2015–2016.

More than 200 new Detsky Mir and ELC stores have been opened over the last two years, and by the end of 2016, we have a total of 525 stores. We entered retail markets in Chechnya, Ingushetia and Dagestan, and proceeded with implementing our development programme in Kazakhstan.

Following the provisions of the Detsky Mir Group's development strategy, in 2015–2016 our key goal was to increase the market share while retaining the level of financial and economic activity. We have successfully completed all of the tasks set by shareholders. The Group's sales comprised RUB 60.5 billion (+33,2%) in 2015, and in 2016 to RUB 79.5 billion (+31,4%). According to Ipsos Comcon, the Company's share on the children's goods market grew from 10% in 2014 to 17% in 2016.

In 2015, we opened the largest logistics centre for the children's goods segment in the Moscow region, with a total area of 70 thousand square metres that will allow us to

continue our expanding business at the current fast pace.

The development and improvement of a client-oriented business model remains our top priority. We adhere to the omnichannel approach, integrating all platforms and devices that the customer uses to interact with the Company. Detsky Mir's online store is a vital component of this approach. We consider this vector to be highly prospective and plan to actively develop it. The option of picking up online orders at retail supermarkets, launched in 2015, has become one of the key drivers of online store sales growth, which has ensured our leading position in the children's goods online sales segment in 2016.

The efficient management of business processes allows the Company to adapt to the economic situation in a confident and timely manner. The deployment of new IT solutions, such as a SAP platform, has enabled the Company to automate business processes, reduce costs and enhance labour productivity. By enhancing our operating efficiency, we have made our business model much more competitive.

As the absolute leader among Russian retailers of children's goods, the Detsky Mir Group fully understands its liability to the state and society. In the present challenging circumstances both for businesses and the state, the Company

remains a stable source of budget income. The total amount of taxes and fees paid by Detsky Mir in 2016 comprised RUB 4.1 billion.

By taking part in the Development Strategy for the Children's Goods Industry by 2020 approved by the Government of the Russian Federation, we offer a wide range of products produced by Russian manufacturers in Detsky Mir stores and thus contribute to the increase of domestic product sales.

We do the utmost to provide our employees with the most comfortable working environment, as well as opportunities for training and career development. The Detsky Mir Group's headcount comprises more than 10 thousand employees. Over the course of two years, we have provided approximately 5 thousand people with new employment opportunities.

Detsky Mir's charity foundation coordinates the Company's complex social activity; its priority is to help children in difficult life situations. The foundation invested RUB 287 million into charity projects for implementation in 2015–2016, with the majority of this amount raised from the funds attracted.

The Corporate Social Responsibility Policy of the Detsky Mir Group was developed and adopted in 2016; it is aimed at increasing charity scales

and encouraging a bigger number of employees to take part in volunteer activities over the coming years.

In 2017, Detsky Mir will celebrate its 70<sup>th</sup> anniversary – an age when our aspirations match our possibilities. The Company's projects are ambitious: we plan to continue the dynamic development of Detsky Mir's chain stores in Russia and Kazakhstan, to retain the current pace of development and increase it a to a bigger amount of sales outlets in the Moscow Region, Saint-Petersburg and in cities with a high potential for business growth and a population exceeding 50 thousand people. In the mid-term perspective, we plan to open at least 250 stores.

The Company's high investment attractiveness draws the attention of potential Russian and foreign investors; this trend is supported by the fact that in December 2015, 23.1% of PJSC Detsky Mir shares were purchased by the Russia-China Investment Fund. In 2017, the Company will continue communicating with potential investors.

We are aimed at providing our shareholders with a high income and keeping them proud of their investments, thus sharing in the Company's success.

**Vladimir Chirakhov,**  
CEO of PJSC Detsky Mir



# CONFIDENT LEADERSHIP

Our 70-year history and modern business approaches allow the Detsky Mir Group to win leading positions on the children's goods market

# 1.1. ABOUT THE DETSKY MIR GROUP



The Detsky Mir Group is the largest retailer of children's goods in Russia and Kazakhstan, uniting the Detsky Mir and ELC<sup>1</sup> brands. It offers toys, products for expectant mothers and infants, shoes and clothes, stationery, craft materials and products for active recreation.

A modern approach of doing business, combined with a recognisable brand with a 70-year history, ensures the unique character and leading position of the Detsky Mir Group on the Russian market.

As of 31 December 2016, 525 of the Group's stores operate in 171 Russian cities and 7 Kazakhstan cities. Of these existing stores, 480 belong to Detsky Mir and 45 to ELC. We are actively expanding our business: in 2015 we opened 103 new Detsky Mir stores and 1 ELC store, and in 2016 we opened 100 Detsky Mir stores and 1 ELC store.

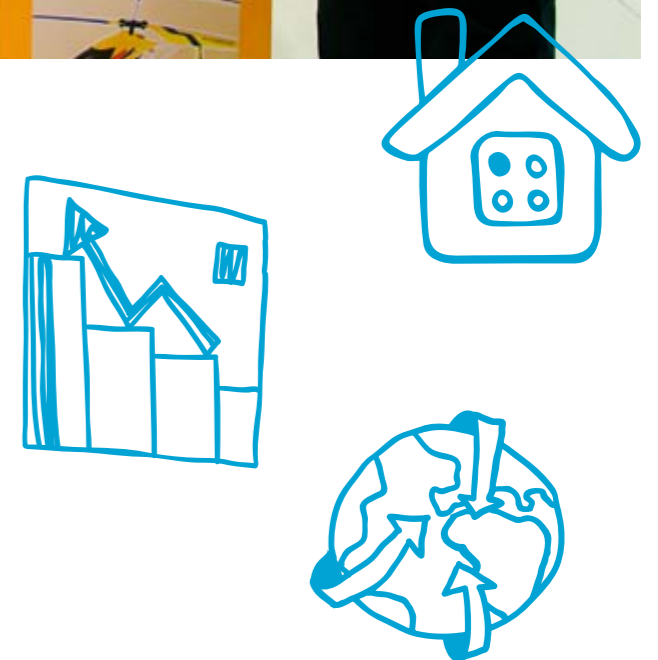
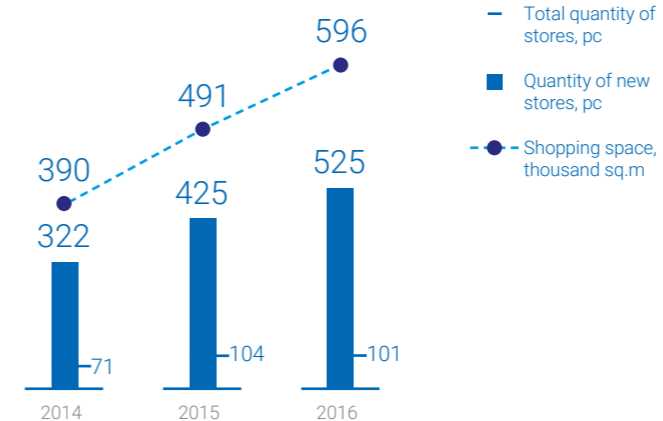
In 2015, the Company continued to implement the development programme in Kazakhstan; we opened the first supermarket in Almaty, representing a new concept similar to the Russian stores with renewed shop equipment, progressive merchandising standards and internal design. In 2016, 5 more stores were opened. Currently, there are 12 stores operating in Kazakhstan.

The year 2016 was heralded by the Company's entrance into the retail markets of Chechnya (Grozny), Ingushetia (Magas, Nazran) and Dagestan (Makhachkala). Furthermore, Detsky Mir chain stores were also opened in Arzamas, Bratsk, Buddenovsk, Gubkin, Domodedovov, Istra, Lukhovitsy, Lytarkino, Sergiev Posad, Solnechnogorsk, Staraya Kupavna, Chaikovsky and Chita.

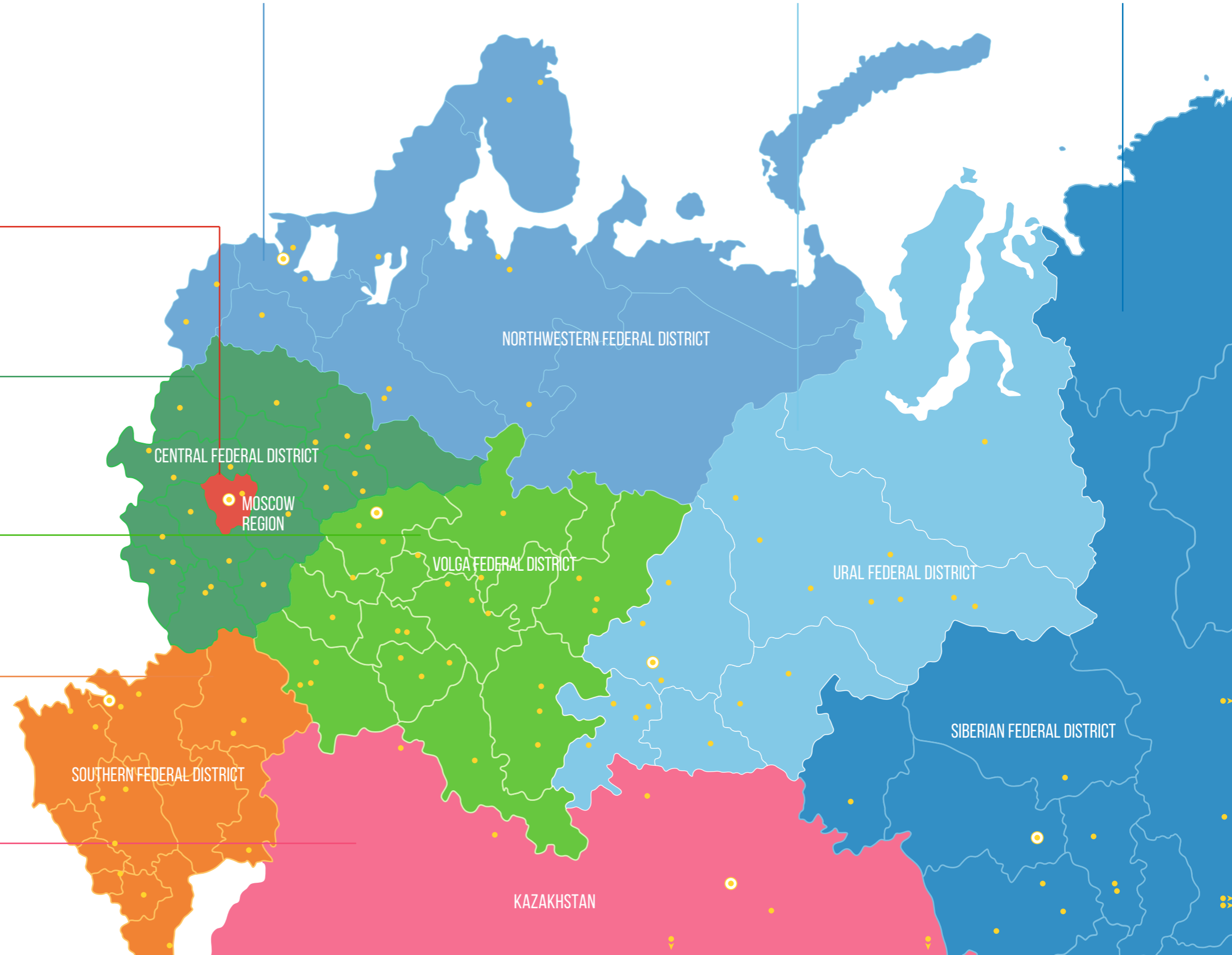
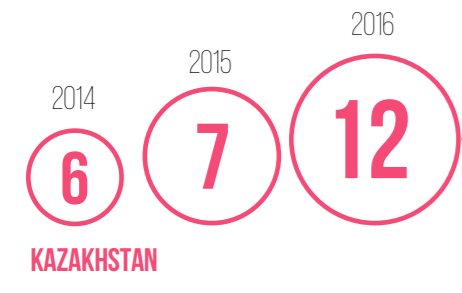
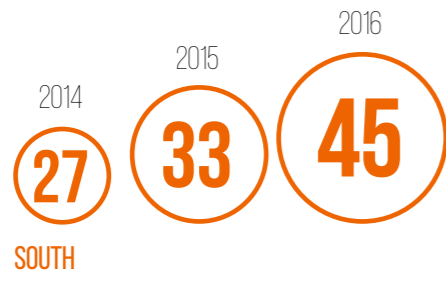
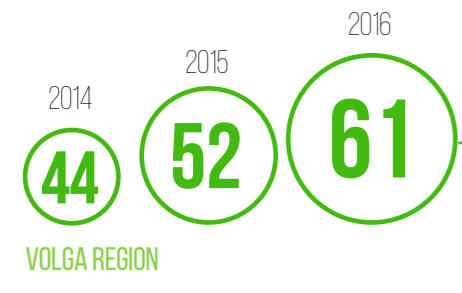
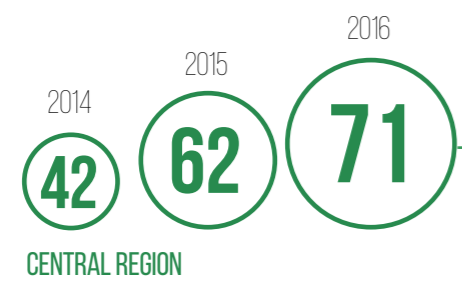
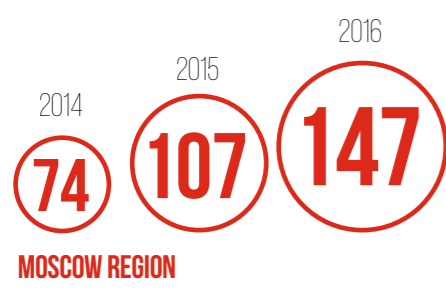
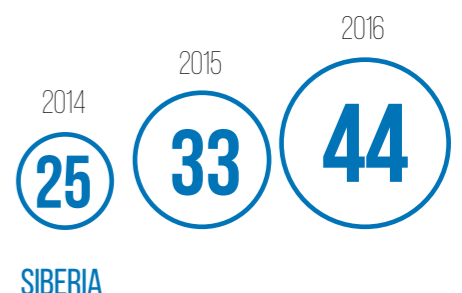
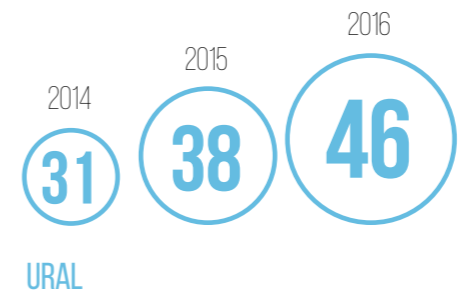
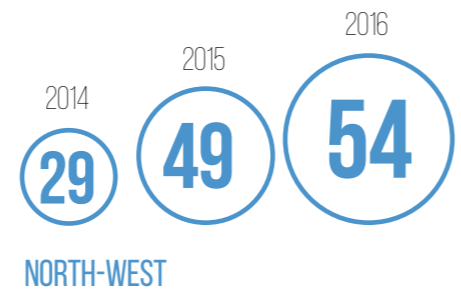
<sup>1</sup> Detsky Mir Group comprises PJSC Detsky Mir, Detsky Mir – Kazakhstan LLP and Kub-Market LLC.



Number of Detsky Mir Group Stores and Retail Areas



# GEOGRAPHY OF THE PRESENCE OF DETSKY MIR STORES



### THE NEW CONCEPT FOR STORES

Since 2014, Detsky Mir stores in Russia and Kazakhstan have been reflecting a new concept in accordance with the up-to-date standards of interior design. The renewal of old stores is performed in line with the new concept requirements. Depending on the retail

area and product range, there are four store categories (See table "Formats used at Detsky Mir chain stores").

All stores use the same zoning adapted to ceiling height, and expanded aisles for easier accessibility and movement with prams. Merchandise display became easier to understand, more obvious

and more logically sound. There are also promotional spots for promoting special offers and products with discounts.

Flagship stores contain interactive child zones to enable parents to combine entertainment and shopping, encouraging them to come back to our store.

#### Formats used at Detsky Mir chain stores

Size of the store	Retail area, square metres	Average number of products (excluding clothes and shoes)
Mini	< 600	6,500
Super	600–1,500	11,000–14,000
Hyper	> 1,500	16,000
Flagship	> 2,000	18,500

#### Number of Stores Reflecting the New Concept

Detsky Mir chain stores in Russia and Kazakhstan	2013	2014	2015	2016
Total amount of stores opened in one year	34	55	103	100
Amount of new stores implementing the new concept, with new stores and reconstructed stores taken into consideration (over a year)	1	58	105	101
Amount of stores implementing the new concept by the end of the year (total accrued)	1	59	164	265
Total amount of operating stores by the end of the year	226	280	380	477
Share of stores implementing the new concept out of the total amount of chain stores	0.4%	21.1%	43.2%	55.6%



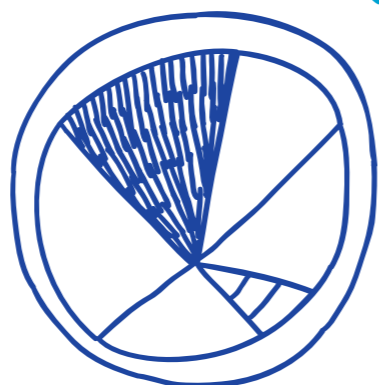
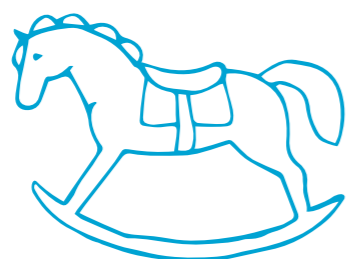
### THE DETSKY MIR GROUP AND THE SKOLKOVO FUND HAVE SIGNED AN AGREEMENT ON STRATEGIC COOPERATION

In October 2016, the Detsky Mir Group and the Skolkovo Fund agreed to implement a project aimed at revealing innovative ideas, service solutions for development and starting to create an updated format for Detsky Mir retail stores. Authors of the best proposals will gain an opportunity to implement their project at the chain's new flagship store.



A Member of the Management Board – the Deputy General Director on Operating Activities of the Detsky Mir Group, Farid Kamalov, and vice-president of the Skolkovo Fund and CEO of the IT cluster, Igor Bogachev, signed the cooperation agreement

# 1.2. THE CHILDREN'S GOODS MARKET IN RUSSIA



In 2013, the Government of the Russian Federation approved the Development Strategy for the Children's Goods Industry by 2020, providing for a reduction in the share of imported products and an increase in the share of Russian products on the domestic market from 20% (as of 2013) to 42%.

According to expert analysis, in 2015 the share of Russian children's goods amounted to 23%. Items produced by Russian manufacturers in the segment of children's clothes and shoes comprise 10–15%, while in the segment of toys their share comprises 10–20%. The biggest share of items produced by Russian manufacturers comprises approximately 70–80% and belongs to the segment of baby food and diapers.

The plan of events for 2016–2020 is aimed at implementing a Strategy that stipulates the inclusion of children's products into industry-specific plans concerning import substitution, as well as updating the standards of children's goods, and monitoring of the quality and safety of the products, including baby food.

According to Ipsos Comcon, the volume of the children's goods market in Russia comprised RUB 519.5 billion. According to analysts' forecasts, the market is expected to grow by an average of 1.5% p.a., reaching RUB 554.4 billion by 2020.

After the market had experienced a double-digit growth in 2011–2013, it reached a state of long-term stagnation. The current economic situation made Russian citizens review their approach to purchasing children's goods. In

2015, price became a much more important factor, resulting in a change in customer behaviour, with their attention being drawn to cheaper products. This state of affairs led to the transition of customer demand from premium and mid-segments to mass market and low-price segment. Domestic products and private labels are gaining popularity, as their prices are lower than the prices of similar foreign or brand products. The Internet is becoming a more and more source for sales; it offers a wide range of products, attractive prices and the possibility to assess, choose and consult before purchasing a product.

The children's goods market remains one of the least vulnerable markets to the crisis (along with the basic goods market): it demonstrated growth after both crises in 2008–2009 and in 2014–2015.

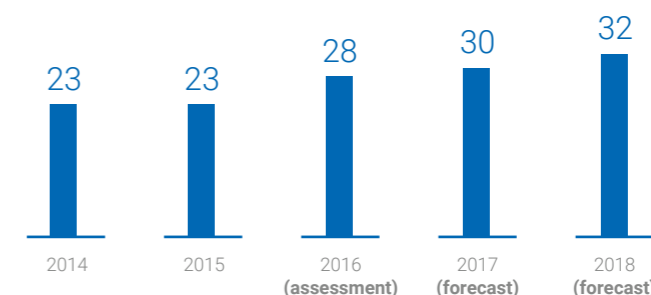
In 2016, some players withdrew from the market, leading to a short-term fall in the share of specialised retailers. However, these retailers remain as the main sales channel, in addition to hyper- and supermarkets. The share of online trade shows stable growth and is expected to comprise more than 9% in 2017.

During the last three years, the biggest share of the market stability belonged to children's wear (~30%), baby goods (~26%) and toys (~21%), with the segment of baby goods demonstrating the highest growth rate.

Children's goods sales in Russia differ depending on the region and income level. According to Ipsos Comcon, Moscow experienced the biggest spending on children's products per capita in 2016 (RUB 11.4 thousand as compared to RUB 6.9 thousand in other cities of Russia). More than a quarter (27%) of Russian citizens' total spending on children's goods is registered in Moscow. The Detsky Mir Group is actively expanding its presence in the Moscow Region (in 2016, 40 new stores opened) and in Saint Petersburg. The total quantity of stores in the Moscow Region and in Saint Petersburg comprised 147 and 33 stores respectively by the end of 2016.

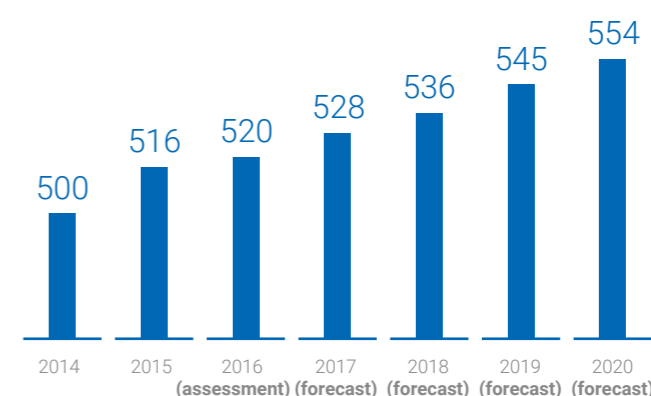
According to Ipsos Comcon, the Company's share on the Russian children's goods market by total revenue (including customer pick-up) comprised 17% by the end of 2016 (13% in 2015), and 6% in the first half of 2017 in online

Share of Russian Children's Goods on the Market (excluding Baby Food), %



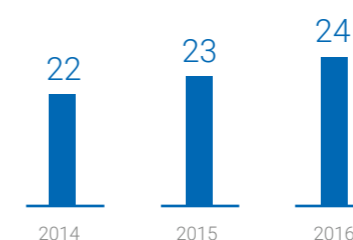
Source: Report on the aims and objectives of the Ministry of Industry and Trade for 2016 and key operating results for 2015

Size of Children's Goods Market in Russia, RUB billion per year

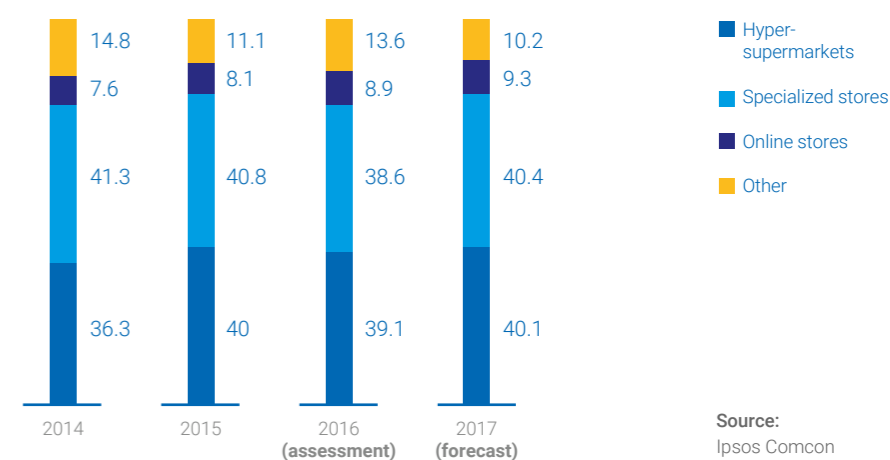


Source: Ipsos Comcon

Share of the Sale of Private Labels in Detsky Mir Chain Stores, %



Structure of Children's Goods Market by Sales Channel



Source: Ipsos Comcon



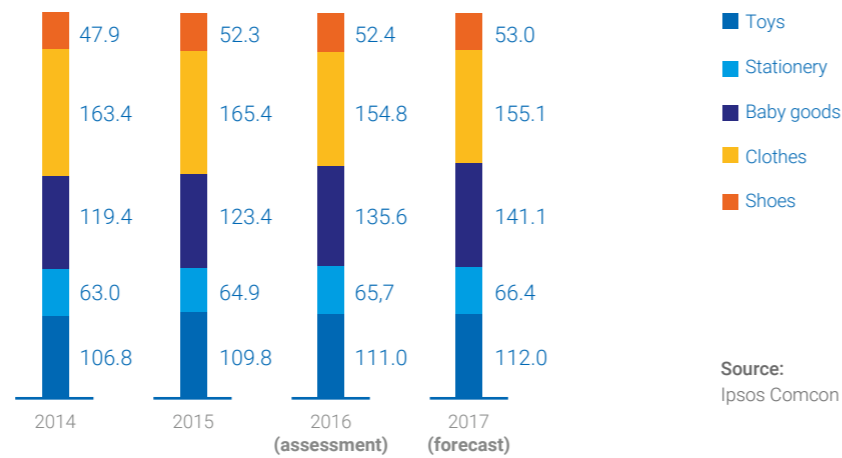
sales channel (3% in 2015). The Detsky Mir Group is the absolute leader among Russian retailers of children's goods, as the share of the nearest competitor is three times smaller.

The key drivers of market share growth in 2015 were represented by the segments of toys and baby goods, demonstrating market share growth from 17.6% to 23.7% and from 11.8% to 18.2% respectively.

In 2015, the number of children from 0 to 12 years old reached 22.2 million. Concerning this matter, Russia surpasses other European countries. The average annual growth rate in 2008–2015 comprised 2.8%, which is higher than in many developed and developing countries. In recent years, this trend is expected to continue with the average annual growth rate of 1.4%, meaning that the number of infants will exceed the number of children reaching the age of 13. The number of children in Russia is expected to comprise 22.9 million.

The number of children in different age groups remains relatively the same with a slight reduction in the number of children from 0 to 4. Nonetheless, sales in the baby goods segment, which the Company feels very confident about, are growing faster than in other segments.

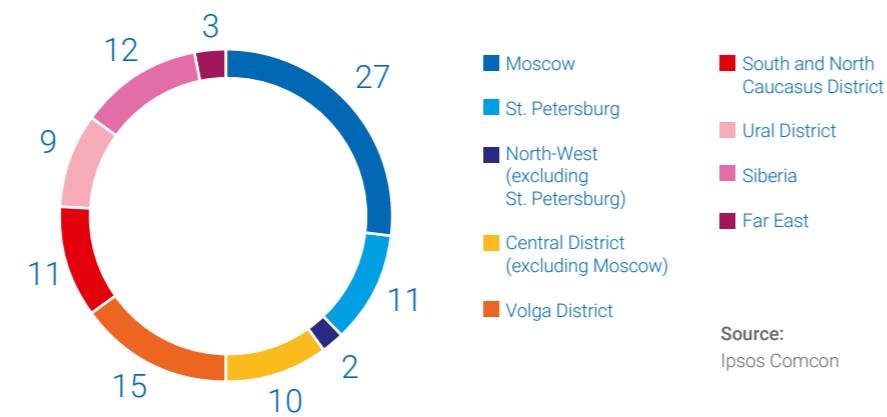
Size of Children's Goods Market by Category, RUB billion



- Toys
- Stationery
- Baby goods
- Clothes
- Shoes

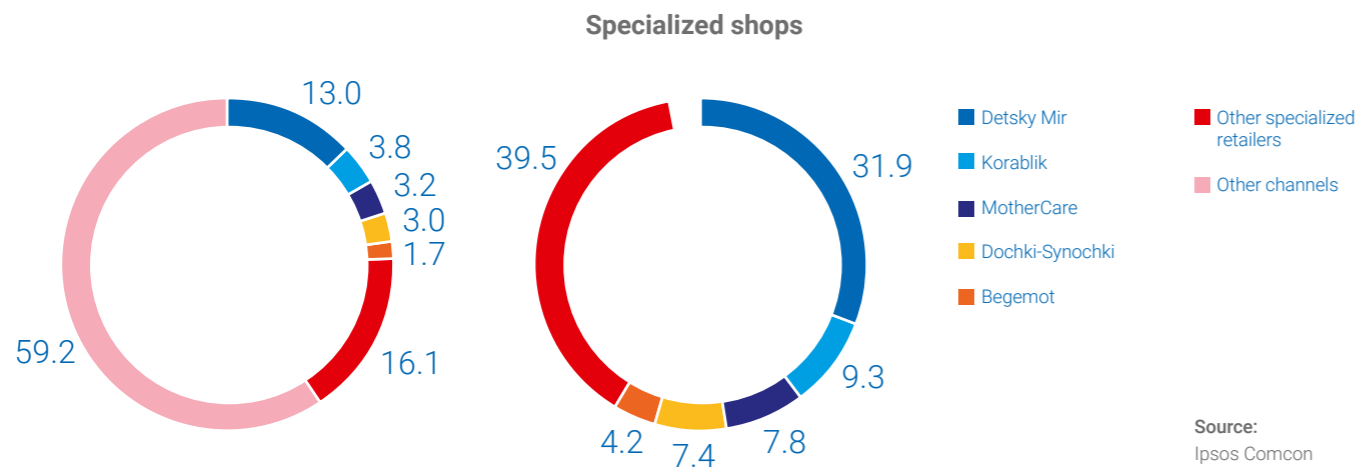
Source: Ipsos Comcon

Structure of Children's Goods Market by Costs in 2016, %



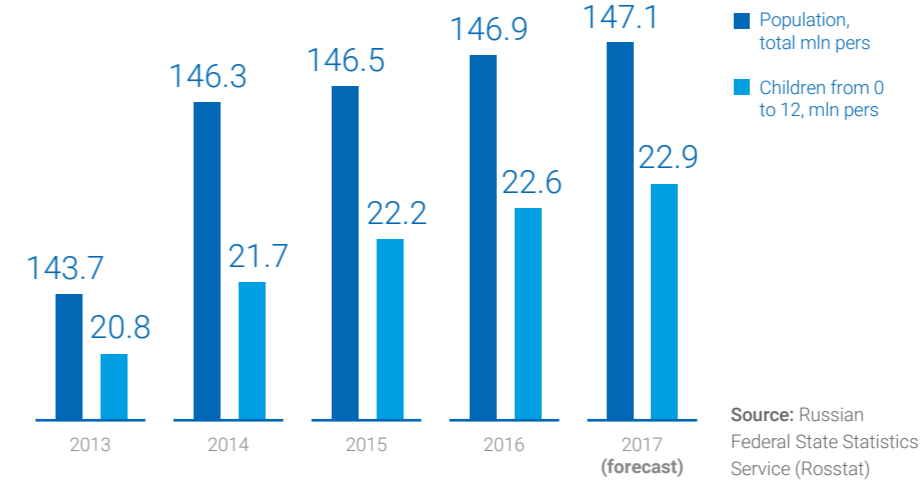
Source: Ipsos Comcon

Key Players on the Children's Goods Market in Russia in 2015, %



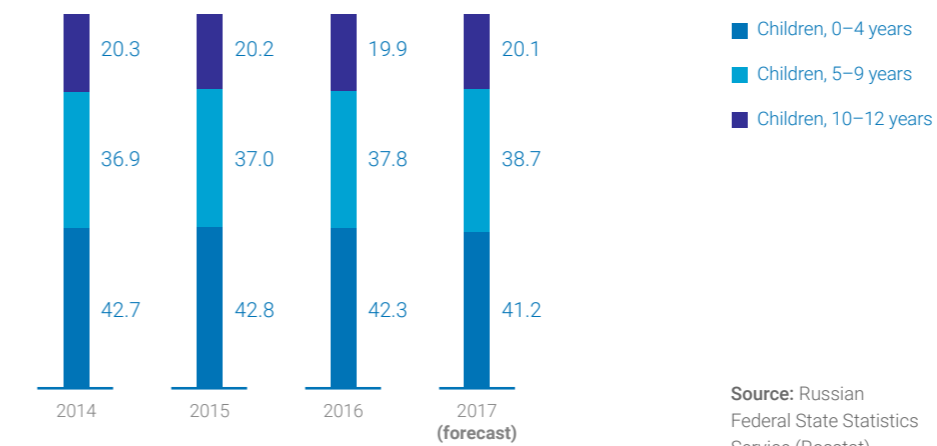
Source: Ipsos Comcon

Stable Growth of the Number of Children, ages 0 to 12 years



Source: Russian Federal State Statistics Service (Rosstat)

Age Structure of Children from 0 to 12, %



Source: Russian Federal State Statistics Service (Rosstat)

## MATERNITY CAPITAL

Since 2007, the Russian government has been implementing a special social maternity capital programme aimed at supporting families with two or more children; in 2016, the programme amounted to RUB 453 thousand (in 2007 – RUB 250 thousand.).

Maternity capital can be used:

- for housing improvement;
- for the education of children;
- for the development of the mother's future pension;
- for purchasing products and services necessary for the social adaptation and integration of disabled children into society (since 2016).


Since the programme's implementation, the birth rate in Russia has grown by 30%. In 2016, the programme was prolonged until the end of 2018.

## THE CHILDREN'S GOODS MARKET IN KAZAKHSTAN

The birth rate in Kazakhstan is experiencing a boom: every year approximately 400 thousand children are born in the country; since 2007, average growth rates of new-born children has comprised more than 3%. The number of children in 2015 comprised 4.1 million (22.8% of the population), with the average annual growth rate expected to remain at 1.2% until 2020.

According to experts, the children's goods market in Kazakhstan comprises approximately KZT 400 billion and is actively developing with annual incremental value of 10–15%.

# 1.3. CONSOLIDATION STRATEGY: KEY RESULTS



The strategy goals set by the Detsky Mir Group in 2012 were reached by 2015. In 2015, the Group updated the strategy. Our key goal is to increase our market share while retaining the same level of financial and economic activity. Our competitive advantages will allow us to reach the strategic goals we have set.

### Strategic goals of the Detsky Mir Group

- Sustainable development of chain stores
- Growth of LFL sales and gross profit per square metre of a store
- Integration of omnichannel sales strategy
- Investments into supply chain and infrastructure
- Increase of operating efficiency and profitability

The Detsky Mir Group successfully implemented its development strategy in 2015–2016. Despite the fact that retailers are suspending expansion programmes, we adhere to an organic growth strategy that allows us to confidently strengthen our leading positions and increase our share on the children's goods market.

We have built a successful client-oriented business model, having broadened the geography of our presence and increased the amount of stores, by adjusting prices at retail and on online stores, and having offered our customers the best prices in such product categories as hygiene and baby food.

The scale of our business allows us to remain the No. 1 customer for the majority of suppliers, which positively affects the conditions of our cooperation.

From 2013 to 2016, the Company's revenue increased more than twofold, from RUB 36 billion to RUB 79.5 billion. The quantity of the Group's stores increased from 252 to 525, their area incremented from 320 to 596 thousand square metres. The Company's share on children's goods market grew from 8% to 17%.

Competitive and attractive prices led to the growth of LFL sales and, correspondingly, of revenue, which positively affected the gross profit per

## RESULTS FOR THE PAST 2 YEARS

**+205**

new stores

Revenue growth by

**75%**

totaling RUB 79.5 billion

**17%**

share of children's goods market (+7 percentage points)

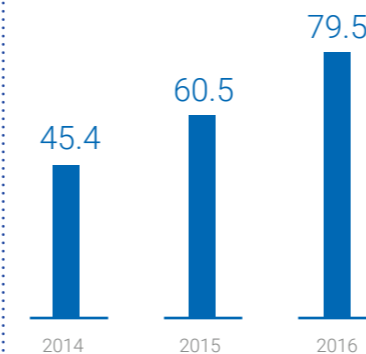
**6%**

market share of the Internet shop in the H1 2016 (+3 percentage points)

**7.4**

RUB billion of dividends paid

**Detsky Mir Group Revenue, RUB billion**

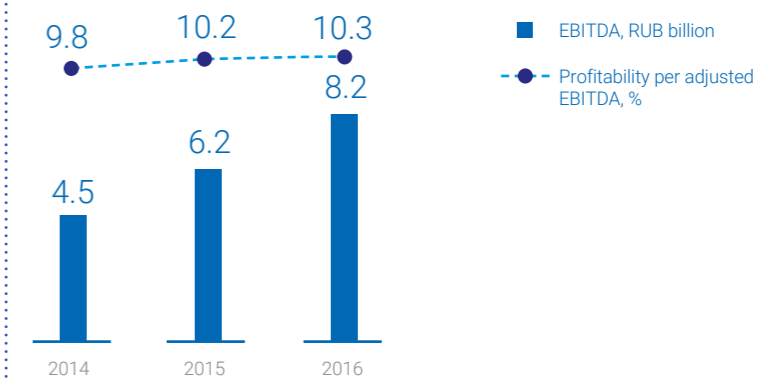


square metre indicator. Conducted in the meantime, events devoted to a reduction in expenses allowed us to maintain average annual revenue growth rates at the level of 30% and an adjusted EBITDA at the level of 44% over the last four years.

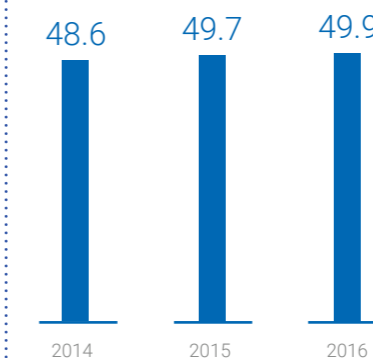
Revenue growth was mainly driven by the increase of sales in LFL chain stores by 10.8%. Sales in LFL stores grew as a result of larger receipt amounts (+6.2%) and the average size of receipts (+4.4%). The increase in average receipt size is stipulated not only as a result of inflation but also as a result of the attraction of new customers.

Revenue growth has also been ensured by the opening of a significant number of stores in 2015–2016, and growth in the capacity of stores opened in 2014–2015.

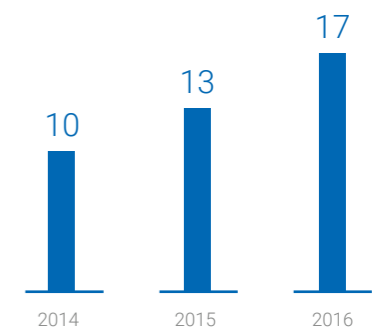
**Adjusted EBITDA<sup>1</sup>**



**Gross Profit per Square Metre, RUB thousand per square metre**



**Detsky Mir Group's Share on the Russian Children's Goods Market, %**



<sup>1</sup> Adjusted EBITDA is calculated as profit before interest, taxes, exchange losses, addition due to the acquisition of a controlling interest in associates, financial costs and revenues, and the depreciation of fixed and intangible assets, adjusted for single effects due to the sale of the "Yakimanka Children's Gallery," and the building and payment of remunerations under the long-term motivation programme.



Detsky Mir's strategy in terms of assortment management was aimed at optimising the product grid, reducing the share of non-liquid product items, increasing the share of private labels and market share across all the segments, especially in the category of traffic-generating hygiene and food products. In 2016, the share of baby goods in the turnover of goods grew by 2 percentage points when compared to 2015, which has significantly affected the growth of receipt amounts in LFL stores.

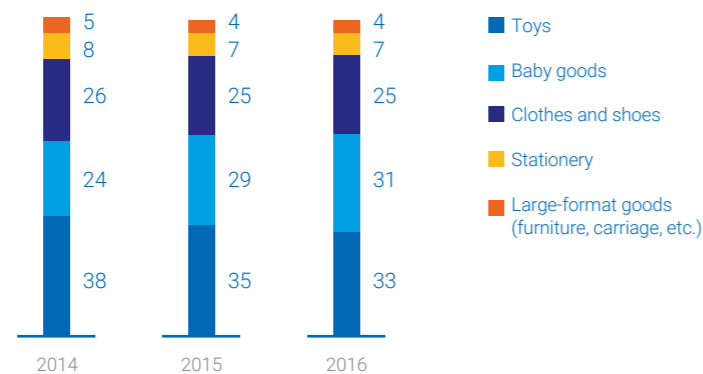
The double-digit growth of LFL is a result of the competitive pricing policy, marketing activity and developments in merchandising. The opening of new stores under the implementation of the new concept, an attractive loyalty programme and competitive prices stimulated the growth of LFL sales.

Significant increase of income by the end of 2016 was stipulated by the growth of operating efficiency and rapid revenue growth.

The ratio of commercial, administrative and other operating costs to revenue decreased from 28.2% in 2014 to 23.7% in 2016 due to corrections performed by the Company and the implementation of projects aimed at increasing the operating efficiency.

The opening of a warehouse in the village of Bekasovo (Moscow Region)

### Structure of Detsky Mir Group's Revenue by Product Category, %



### Growth of LFL Sales (Like-for-like<sup>1</sup>), %

	2014	2015	2016
LFL sales <sup>2</sup>	13.7	12.3	10.8
Amount of LFL <sup>3</sup> receipts	8.3	3.7	4.4
Average LFL <sup>4</sup> receipt	5.0	8.2	6.2

<sup>1</sup> LFL stores of Detsky Mir chain are stores that have been operating for at least a year since their opening. Stores that have not been operating for more than a month by the time of repair works and reconstructions are excluded from LFL.  
<sup>2</sup> Ratio between goods turnover of LFL stores for the reporting period as compared to the similar period of the previous year  
<sup>3</sup> Ratio between amount of LFL stores' receipts for the reporting period as compared to the similar period of the previous year  
<sup>4</sup> Ratio between the average purchase price at LFL stores for the reporting period as compared to the similar period of the previous year

is one of the key projects in this field. Utilisation of our own warehouse allowed us to reduce logistics expenses, increase the centralisation of supply, enhance the efficiency of trading stock management and, as a result, increase the turnover of goods (more details are provided in the Centralisation of Logistics Activity section).

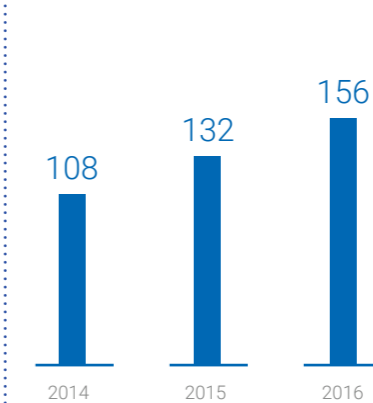
Transition to a unified SAP platform also played important role in the Group's efficiency enhancement. It allowed us not only to create a unified information space, and the possibility to obtain analytical information online, but also to significantly optimise key business processes as a result of their automation (more details are provided in Information Technologies section).

PJSC Detsky Mir paid a record amount of dividends in 2016, totalling RUB 4.4 billion, which is further proof of the Company's investment attractiveness.

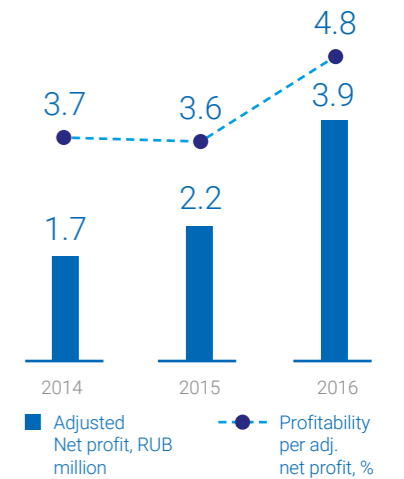
The Detsky Mir Group was the largest taxpayer in the children's goods segment for the years of 2015–2016. The amount of taxes paid in 2016 by Detsky Mir Group grew by 26.8% and amounted to RUB 4.112 billion, with RUB 92.997 million having been paid to the federal budget of Kazakhstan.

<sup>1</sup> Adjusted net profit is a net profit without one-off expenses in connection to sale of the Children's Gallery "Yakimanka" building (including a corresponding tax effect) in 2014, loss from goodwill depreciation in 2015, and performance pay to the management under the long-term incentive programme (LTI) (including a corresponding tax effect).  
<sup>2</sup> Social contributions were made to the MHIF, FSS and FIU in Russia, with social contributions also made to the mandatory pension fund and social taxes paid in Kazakhstan. Personal income tax includes personal income tax in Russia and individual income tax in Kazakhstan.

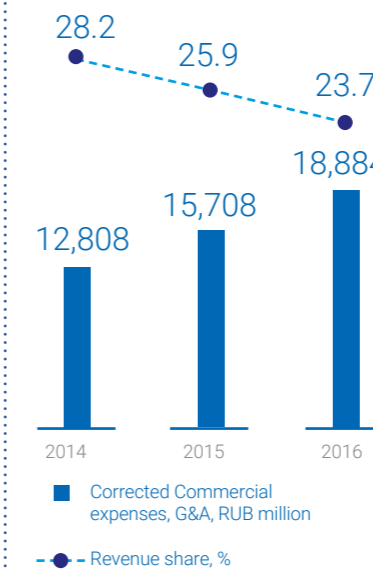
### Number of Visitors to Detsky Mir Group Stores, million persons



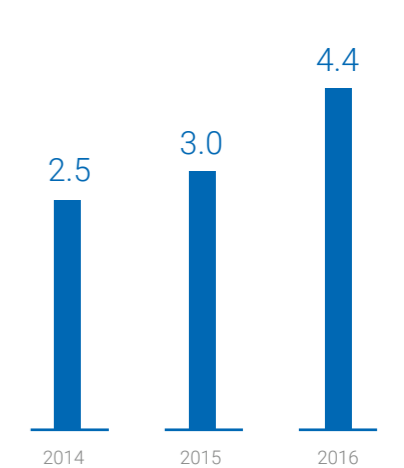
### Adjusted<sup>1</sup> Net Profit of the Detsky Mir Group



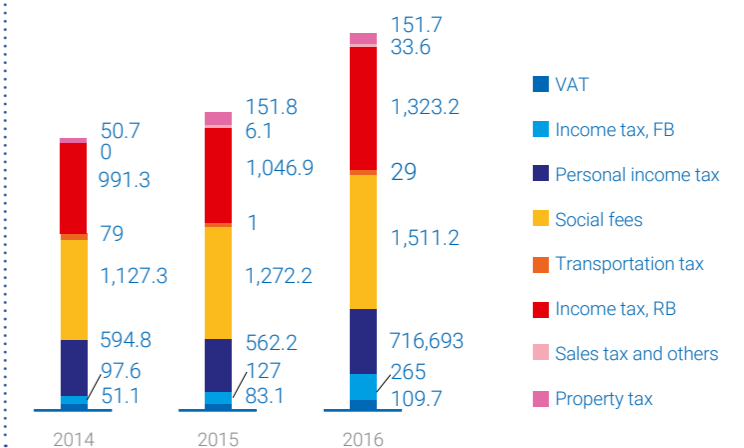
### Reduction in Ratio of Expenses to Revenue at the Detsky Mir Group



### Dividends Paid in 2014–2016, RUB billion



### Taxes Paid to Federal and Regional Budgets in 2014–2016, RUB million<sup>2</sup>



# 1.4. RECORD OF ACHIEVEMENTS



**116<sup>TH</sup>  
PLACE**

in Forbes' Top 200 Largest Private Companies rating

**+20 PLACES** compared to 2015

**+35 PLACES** as compared to 2014

**170<sup>TH</sup>  
PLACE**

in RBC's Top 500 Largest Private and Municipal Companies in Russia

**+33 PERCENTAGE** points compared to 2015

Winner of the Customer eXperience Awards Russia 2015 in the category of **Best Customer Experience in Non-Food Retail**

Detsky Mir won The **Golden Bear** national prize for the children's goods industry for the years 2015–2016

**IN 5 CATEGORIES:**

**Person of the Year** (General Director Vladimir Chirakhov), **Store of the Year** (Internet shop [www.detmir.ru](http://www.detmir.ru)), **Best Products for Expectant and Nursing Mothers** (the collection of clothes under the store's own brand "Just Mom Ulla"), **Social Project of the Year** (the Operation Toys project), **Store of the Year** (the opening of the flagship Detsky Mir store on Vozdvizhenka St., 10)

**THE TOP  
10  
MANAGERS**

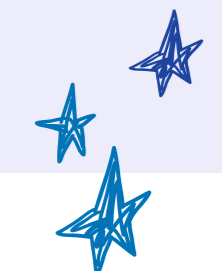
of the Detsky Mir Group, including CEO Vladimir Chirakhov, were included in the TOP 1000 Russian Managers rating in 2015–2016

**DETSKY MIR — ABSOLUTE LEADER ON THE CHILDREN'S GOODS MARKET**

In June 2016, the Detsky Mir Group was announced as the winner in the Leading Company of the Year category of the Russian Retail Awards. The winners were determined by a national jury that included representatives from the Ministry of Industry and Trade of the Russian Federation, the Russian Association of Retail Market Experts, the Union of Independent Networks of Russia, Nielsen Russia, the RusBrand Commonwealth of Manufacturers, Deloitte, INFOline, and Gaffer & Gaffer law firm.

According to the event's initiators, the award is a symbol of quality, confirming the professionalism of trade networks for consumers and partners. It acknowledges the outstanding industry achievements of top managers, significantly contributing to the development of retail and creating a civilized market of consumer services in Russia.

A year earlier, in June 2015, the Detsky Mir Group was announced as the winner in the Breakthrough of the Year category.



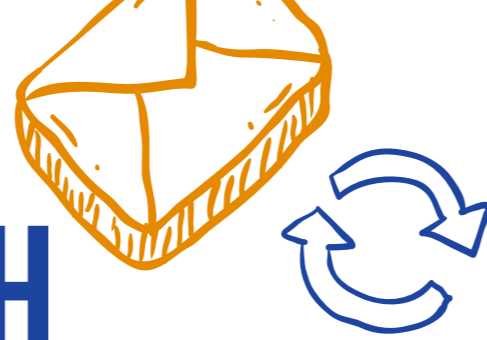
2



# SUSTAINABLE DEVELOPMENT

Our commitment to the international goals of sustainable development are the determining factors for the priority pillars of the Detsky Mir Group's corporate social responsibility strategy

# 2.1. OUR APPROACH TO SUSTAINABLE DEVELOPMENT AND INTERACTION WITH STAKEHOLDERS



A responsible approach to business operations is a vital element of our strategy, as well as the key to sustainable development and strengthening of leadership positions on the children's goods market and in the sphere of social responsibility. Matters concerning a responsible approach to business operations are discussed at the meeting of the Board of Directors, including strategic development vectors and key performance indicators.

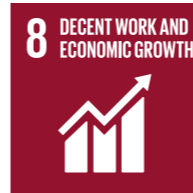
The key goal of the Detsky Mir Group, in the sphere of sustainable development and corporate social responsibility, is to provide the younger generation with high-quality and safe products at affordable prices.

On one hand, our corporate social responsibility activities reflect our core operations concerning the children's goods trade; on the other hand, they are integrated into the global context of sustainable development and challenges that humanity is facing.

We support the Agenda concerning sustainable development approved by the UN in September 2015. We have adopted three of the seventeen goals set in the Agenda to which we can make the most significant contribution due to the specifics of our activity: the provision of decent work and economic growth (more details are provided in Decent Work section), responsible consumption and production (more details are provided in Environmental Responsibility section), and high-quality education.

## 3 GOALS

to which we can make the most significant contribution due to the specifics of our activity



Among the products available at our store, the majority belongs to toys and craft materials. We are sure that they stimulate the imagination of children and help them to explore the world and develop, enabling them to grow up and become active members of society with high potential. Children start developing from the moment they are born and acquired knowledge and skills become the basis for further development. Offering a wide range of high-quality products to parents and children, we contribute to the achievement of this goal. By implementing our charity programmes, we help children whose possibilities to develop are limited, e.g. children from families with low income, from orphanages, etc. (more details are provided in Charity Activity section).

Furthermore, we pay special attention to the protection of children's rights across all aspects of our activity.

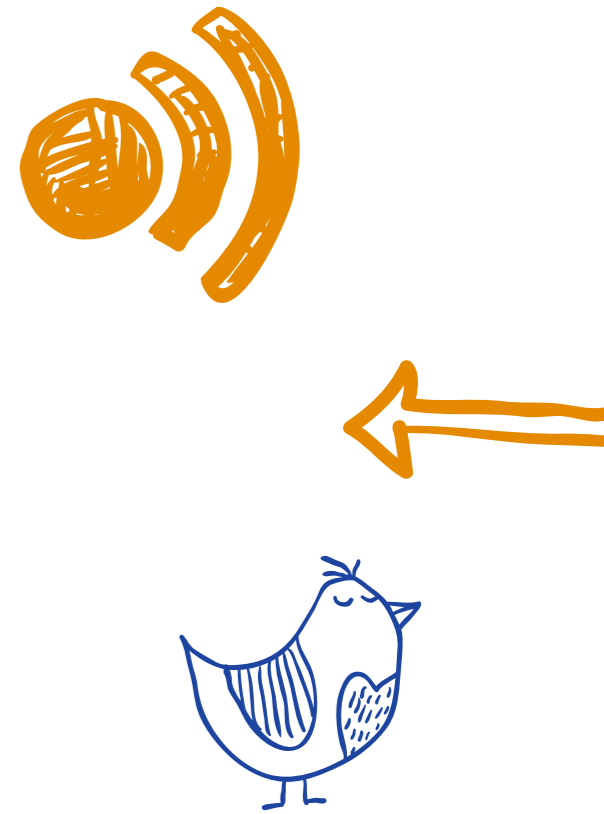
### Support of the Children's Rights and Business Principles Initiative, developed by UNICEF

Principle	Our actions	More details
1. All business should meet the responsibility to respect children's rights and commit to supporting the human rights of children	We support the UN Convention on the Rights of the Child ratified by the Russian Federation	—
2. All business should contribute towards elimination of child labour, including in all business activities and business relationships	For us, the use of child labour in any aspect of our activity is inappropriate and forbidden	—
3. All business should provide decent work for young workers, parents and caregivers	Our personnel policy includes the most significant issues concerning the employer-employee relationship, for example, safety in the workplace, a decent salary, and social guarantees (including child-care leave and a flexible schedule for young mothers)	Decent Work section
4. All business should ensure the protection and safety of children in any business activities and at any facility	We care about the safety of children during their visits to our stores. The design of our new concept includes wider passages to make the shopping experience more comfortable and all interactive zones were developed in collaboration with the leading global producers and meet all safety requirements	—
5. All business should ensure that products and services are safe, and seek to support children's rights	The safety and quality of children's products are our key priority. All of our products have respective certificates. Our products undergo product safety and quality assurance at all stages of their life cycle	Safety of Products section
6. All business should use marketing and advertising that respects and supports children's rights	We address our marketing communications with all due responsibility to make sure they meet all the legal requirements and do not violate children's rights	Client-oriented Service section
7. All business should respect and support children's rights in relation to the environment and land acquisition and use	We do the utmost to reduce the impact our activity has on the environment as well as to explain to children how important the environment is and that it is necessary to take care of it	Environmental Responsibility section
8. All business should respect and support children's rights in security arrangements	We respect children's rights in all of the security arrangements in our activity	—
9. All business should help to protect children affected by emergencies	As part of our charity activity, we support children affected by emergencies	Charity Activity section
10. All business should reinforce community and government efforts to protect and fulfil children's rights	A significant part of our activity is represented by charity and volunteer programmes aimed at helping children in difficult life situations. These programmes draw society's attention to children's problems	Charity Activity section

The achievement of the goals set is impossible without continuing dialogue with our key stakeholders, and we do pay a lot of attention to achieving them.



# 2.2. STRATEGY OF CORPORATE SOCIAL RESPONSIBILITY



## Interaction with Key Stakeholders

Group of stakeholders	Goals of interaction	Methods of interaction
Suppliers	To procure high-quality goods, form an enabling competitive environment, and minimise the risks of supply disruption	<ul style="list-style-type: none"> <li>To design and implement joint projects on assortment planning and merchandising</li> <li>Industry-specific conferences</li> <li>Exhibitions for suppliers</li> </ul>
Employees	To form their engagement into the Group's core activity so that they would provide innovative ideas concerning the perfection of its internal processes and the increase the customer service level	<ul style="list-style-type: none"> <li>Evaluation of professional knowledge</li> <li>Corporate intranet</li> <li>Web tutor educational portal</li> <li>Study of the engagement level</li> <li>Hotline</li> </ul>
Customers	To understand their preferences and expectations concerning the further development of the Group	<ul style="list-style-type: none"> <li>Study of their satisfaction level</li> <li>Focus groups with customer participation</li> <li>Feedback system</li> <li>Newsletters with information on special offers via SMS and e-mail</li> </ul>
Industry-specific organisations	To share experience with the experts and understand perspectives of market development	<ul style="list-style-type: none"> <li>Industry-specific conferences</li> <li>Round tables</li> </ul>
Local communities	To contribute to the higher living standards in the regions and availability of our products for children and their parents	<ul style="list-style-type: none"> <li>Corporate volunteer programmes</li> </ul>

As it logically follows our active social responsibility activity, the Strategy of Corporate Social Responsibility was developed and approved by the Detsky Mir Group in 2016. This document will play an eminent role in the development of the Company's social activity in recent years. The Strategy of Corporate Social Responsibility suggests that the scale of charity activity will be increased and a larger number of employees will be involved in volunteer programmes.

The Strategy is based on the following principles:

- The transparency of social programmes, including mechanisms of their implementation that do not allow the concealment or faking of information.
- Interaction with stakeholders: dialogues, feedback with the recipients of social help provided by the Company.
- Consistency:
  - Consistency and responsibility for current and previous activity, as well as for their future impact on the environment;
  - Regularity, continuity;
  - Integration of principles from the Strategy of Corporate Social Responsibility across all management processes.
- Significance and relevance of the projects; Scale and significant exposure; Regular assessment of the programmes' efficiency.
- Prevention of conflicts of interest, from influences of political bias, and from the support of separatist confessions and nationalistic movements.



New Year's party for children living in orphanages

### Priority Areas of the Strategy of Corporate Social Responsibility at the Detsky Mir Group

Key indicators	Comments
<b>Responsibility of a corporate citizen</b>	
<ul style="list-style-type: none"> <li>Contribution to the economic development of the country</li> <li>Taxes</li> <li>Creation of employment</li> <li>Minimisation of negative impact on the environment</li> </ul>	<ul style="list-style-type: none"> <li>Revenue – <b>RUB 79.5 billion</b> in 2016</li> <li>Taxes paid – <b>RUB 4.1 billion</b> in 2016</li> <li>Amount of employment opportunities created – <b>RUB 5.5 thousand</b> in 2014–2016</li> <li>Projects on separate board collection, ecologically friendly bags, energy-saving lighting</li> <li>More details are provided in the Consolidation Strategy, Key Results, Regular Personnel and Environmental Responsibility sections</li> </ul>
<b>Responsibility to business partners and customers</b>	
<ul style="list-style-type: none"> <li>Good business practice</li> <li>Professional standards</li> <li>Public reporting documentation according to international standards</li> <li>Compliance with legal and ethical norms</li> <li>Compliance with corporate management norms</li> </ul>	<ul style="list-style-type: none"> <li>Transparency of ownership structure, financial and operating indicators, structure of the Board of Directors</li> <li>Product quality assurance and Hotline for customers</li> <li>Establishment of and participation in the work of Association of Children's Goods Industry: countering infringement products and "uncivilized trade"</li> <li>Accession into the Anti-Corruption Charter of Russian Business</li> <li>Compliance with laws on advertising, consumer protection, by the use of ethical methods of promotion</li> <li>Application of the Corporate Code of Conduct and the Code of Ethics</li> <li>Disclosure of financial results on a quarterly basis. Issue of Annual Report</li> <li>Since 2004, annual audit of the consolidated financial statements prepared in accordance with the US GAAP has been carried out</li> <li>Sustainability Report as per the international guidelines of Global Reporting Initiative has been published biannually</li> </ul>
<b>Responsibility to Society (Charity)</b>	
<ul style="list-style-type: none"> <li>Fair compensation and motivation</li> <li>Investment in the professional development of the personnel</li> <li>Significant investments in occupational health and safety measures</li> </ul>	<ul style="list-style-type: none"> <li>We are committed to observing the labour laws of the countries where we operate, to respecting human rights and individual freedom, and to preventing any form of discrimination and harassment</li> <li>The Company has implemented a time-bonus system for the payment of labour that takes into account not only individual performance, but also the financial results of the whole Group or a particular store for the year</li> <li>Total occupational health and safety costs of PJSC Detsky Mir in 2016 amounted to RUB 11.9 million</li> <li>See more details in the Decent Work section</li> </ul>
<b>Social Responsibility (Charity)</b>	
<ul style="list-style-type: none"> <li>Social and charity projects</li> </ul>	<ul style="list-style-type: none"> <li>220 thousand children with deprived backgrounds from 550 social institutions of Russia and Kazakhstan are under the patronage of the Company</li> <li>See more details in the Charity Activity section</li> </ul>

The document includes key performance indicators for the CSR strategy.



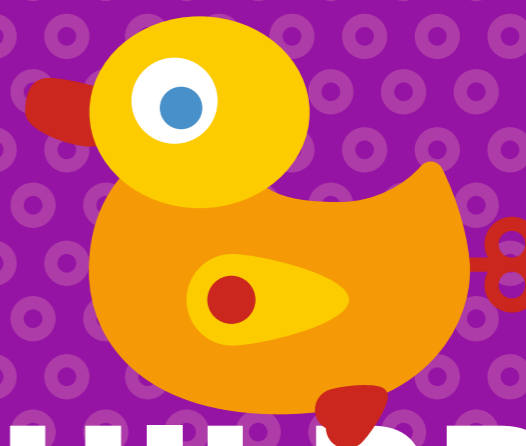
Charity fair at the flagship Detsky Mir store on Vozdvizhenka St., 10

### Key Performance Indicators for the CSR Activities of the Detsky Mir Group

KPI	Description	Actual value	Target values	Weight
Corporate volunteering level	Share of employees from the Company's total personnel who are involved in general corporate programmes and projects	15%	Acceptable 14% Target 15% Aggressive 16%	40%
Involvement of the Company in joint projects with JSFC Sistema	Average weighted coefficient of the Company's participation in integrated programmes and projects (taking into account scale of the activities)	65%	Acceptable 14% Target 15% Aggressive 16%	30%
CSR translation in mass media and social media	Share of mentions of CSR projects from the total number of publications about the Company in the mass media (Mediology), social media and the Blogosphere (Yandex)	10%	Acceptable 14% Target 15% Aggressive 16%	30%



3



# FOR CHILDREN AND THEIR PARENTS

Our main task is to provide to the younger  
with generation safe and high quality  
products at affordable prices

# 3.1. SAFETY OF PRODUCTS



Children's goods are subject to strict quality and consumer safety requirements. Ensuring the safety and quality of products is our key obligation to customers, as well as a prerequisite for increasing customer loyalty to our stores. We carry out our activities in full compliance with the Law on Protection of Consumers' Rights and the Rules of Trade of the Russian Federation.

One of the main challenges of the children's goods industry is the sale of counterfeit products, which carry a potential threat to the health of the younger generation. The Detsky Mir Group purchases products directly from the largest international manufacturers and suppliers, which guarantees the high quality of the products. In cooperation with industry associations, we participate widely in initiatives aimed at limiting the circulation of illegal products.

## PRODUCT SAFETY AND QUALITY CONTROL SYSTEM

In Detsky Mir Group, safety and quality control of products is provided at each life-cycle stage: from choosing the supplier and placing the order, to arranging the goods on the shelves of our stores and working with feedback from customers.

We guarantee that all goods offered in chain store locations and in the Detsky Mir online store have undergone all the necessary procedures to confirm compliance with regulatory documents in the field of technical regulation in the territory of the Customs Union (technical regulations, the Law on Protection of Consumers' Rights, and the Rules for the Sales of Certain Types of Goods). All goods have statutory documents required; without them, it would not be possible to import the goods into the customs territory of the Russian Federation and sell them at retail.

Thanks to our well-established and efficient safety and quality control processes, in addition to our long-term cooperation only with proven and well-regarded testing laboratories and highly qualified experts of certification bodies, we manage to prevent the

All activities to verify the conformance of products to safety and quality requirements are provided in the certification bodies and testing laboratories accredited in the prescribed manner and included in the Unified Register of Certification Authorities and Testing Laboratories (Centres) of the Customs Union, accredited by the Federal Service for Accreditation

Purchase of products which have passed laboratory tests with positive results

Constant monitoring of changes in laws on technical regulation in the Russian Federation and the Customs Union

Timely inspection of products certified previously to extend the validity of documents of conformance, including repeated sample tests on products certified previously

## Systematic Product Safety and Quality Control

### DETSKY MIR GROUP WAS AWARDED THE INDUSTRY TRUST CERTIFICATE

In March 2016, the Detsky Mir Group was awarded the Industry Trust Certificate stating that 'Counterfeit products are not sold here' from the Association of Children's Goods Industry. Thus, the Company has been one of the two companies in the segment of children's products who was given the certificate.

appearance of defective products on our stores' shelves at the initial stage of certification, namely during laboratory testing.

The quality control processes are managed by specialists from the Certification, Quality and Claims Department. Cooperating with the leading international manufacturers

of children's goods, we check the availability of documentation (in particular, test reports and ISO certificates) confirming product compliance with the applicable regulatory requirements of the country of origin and are required for obtaining documents confirming the quality of products in accordance with the laws of the Russian Federation.

As part of cooperation with the product manufacturers of our store brands, quality control is provided at every stage of production. In this case, we organise the certification process independently.

To reduce any possible risks from unscrupulous suppliers, manufacturers are required to increase product quality control. If there are heavy claims in respect of quality and safety, the entire consignment of goods shall be returned to the supplier, and any prospective cooperation with them shall be ceased.

To confirm the compliance of products for children and teenagers with the mandatory requirements of the Customs Union's technical regulations, we submit a work request, a set of documents established by the regulation, and samples of certified products to the certification body.

Each customer can get a copy of the certificate for any product at any Detsky Mir store. Within 3 days, they may review the original certificate for the product.

Having reviewed the received documentation, the certification body shall identify the product and make a decision as to whether to test the product samples in the testing laboratory. In case of positive findings from the laboratory test of products, the certification body will issue documents of conformity for the Company's products (certificates of conformity, declarations of conformity, certificates of state registration, and explanatory letters on products not subject to mandatory conformity assessment).

All certificates of conformance for the Company's products are processed by the certification department and entered into a single SAP database that is accessible to all retail stores. The information about the documents obtained is transferred to the customs department of the Company.



Taking into account the growth of the Detsky Mir Group's businesses (see the Confident Leadership section) in 2015–2016, the number of customer complaints about product quality has decreased significantly (by 40% in 2013–2014). In total in the reporting period, 16 non-conformance notices in respect of the products sold were issued; taking into account the scale of business, this number is within the acceptable values.

In case of any defects in a product after purchase, in the course of its operation and after receiving a complaint from the customer, we check the documentation for this product thoroughly and take all necessary measures to prevent the sale of products of inadequate quality. In particular, additional tests of the product are carried out if necessary. If, after the examination, the testing laboratory issues a certificate of manufacturing defects, the defective product shall be replaced with a new item or, if the customer so desires, the cost of the product is refunded.

### PRODUCT LABELLING

Labels that are adequate, readable and accessible for inspection by the customer provide identification of the product and bring basic information about the product to the customer.

We adhere to the following labelling rules for the products of our own store brands of the Detsky Mir Group:

- disclosure of information intended to establish the compliance of products to the current requirements of the laws of the Russian Federation, including the Technical Regulations of the Customs Union, the Law on Protection of Consumers' Rights, the Rules for the Sales of Certain Types of Goods, and contracts on assortment, quality and safety;
- bringing all necessary information about the goods to the attention of interested parties, in accordance with the list established by the Federal Law on Protection of Consumers' Rights;

- drawing customer attention to the products, emphasizing the products' advantages on packaging and labelling to increase sales.

We include in the labels all information mandatory in accordance with the regulatory requirements (country of origin, date of manufacture, warranty period, minimum age, etc.) Labels may also contain additional information and warning signs concerning the safe operation of the product. For example, for PVC toys intended for bathing: Use the toy only in shallow water and under the supervision of adults; for radio-controlled goods: Keep this toy out of direct sunlight, etc.

During the reporting period, there were no cases of inconsistency of labels on the Company's store brand products with regulatory requirements, which indicates the efficiency of our performance in this area.

## 3.2. CUSTOMER-ORIENTED SERVICE



Implementation of an affordable price policy for the mass segment and offering of the widest product range for our customers is one of the strategic objectives of the Detsky Mir Group, which corresponds to the principles of our customer-oriented approach.

With walking distance to socially important goods for the population, Detsky Mir has the most extensive network of stores both in the capital and in the regions of Russia. The range of children's products in Detsky Mir stores totals to about 20–30 thousand items.

We adhere to the principle of uniform pricing and assortment of goods in all stores of our network, regardless of the region in which they are located. To achieve this, we optimise internal business processes, we make persistent efforts to cooperate with suppliers, and we develop sales in the online channel. Affordability of our products for customers is ensured through:

- increase in the share of the range of domestic products, the average price of which is lower than that of imported goods, while the level of quality is comparable;
- development of own store brands that allow us to offer products at prices below the market level by eliminating additional mark-ups by manufacturers;
- holding promotional events, making special offers to loyal customers and holding regular seasonal sales;
- granting of a 3% discount for goods in the Moscow area, subject to presentation of the Muscovite Social Card;
- development of our own loyalty programme, which allows loyal customers to purchase goods at discounted prices.



## SUPPORTING FAMILIES WITH CHILDREN

The Detsky Mir Group is a key partner in the implementation of a social project aimed at dealing with minimal retail margins for socially important categories of goods, including products for the new-borns.

Since 2005, the Detsky Mir chain has participated in the social project of the Government of Saint Petersburg for supporting families with children. The local Government offers social payments to the families: a lump sum upon the birth of a child and monthly payments for children below the age of seven. Financial aid is transferred to "Infant and Pre-school" bank cards issued by PJSC Bank of Saint Petersburg. Families can use these monetary funds that have been transferred to their social cards to buy goods at the stores that received accreditation from the Administration of Saint Petersburg, including the Detsky Mir chain.

In March 2016, the Detsky Mir Group became the first partner of a social project implemented by the Department of Labour and Social Protection of the Moscow City Government. As part of

the project, low-income families with children are provided with certificates that allow them to cover up to 100% of the cost of the purchase, excluding baby food, in one of the partner stores. Additionally, a customer may get a 3% extra discount with the Muscovite Social Card, or cover up to 20% of the cost of the purchase with the chain's Loyalty Programme bonus points.

## NEW PRODUCT CATEGORIES

### Maternity Wear

In April 2015, the Detsky Mir chain started to sell maternity wear. Products of this category are mainly sold at specialized shops. Detsky Mir chain stores became the first full-line retail operator on the children's goods market to offer its customers a wide range of clothes and undergarments for expectant mothers.

Customers are offered a range of goods for expectant mothers of both domestic and foreign production. Among the famous Russian producers, the Detsky Mir chain has undergarments for pregnant women and nursing mothers of the FEST brand (Kostroma), as well as maternity wear from the company's



*"By launching the corners for expectant mothers, we plan to expand our target customer group: mothers-to-be come to the store and get familiar with the assortment while expecting their baby. We aim to make the most attractive offer to our customers: bright clothing, comfortable design, soft and convenient fabrics with affordable prices."*

Maria Volodina,  
Clothing and Shoes  
Commercial Director  
of the Detsky Mir Group

private label Just Mom Ulla, thanks to which the Company was announced the winner in the nomination Best Maternity and Nursing Goods.

### Sportswear

In April 2015, Detsky Mir also presented a new sportswear collection for children aged 2–12 produced under the private label JOMOTO.

These products are presented in the medium minus price segment, allowing consumers to purchase high-quality clothes at reasonable prices, at the same time enabling the Detsky Mir chain to significantly increase its market share in sportswear segment.

The products are made of specially designed durable material that does not hinder a child's movements, is easily washable, does not stretch and shrink over the course of time.

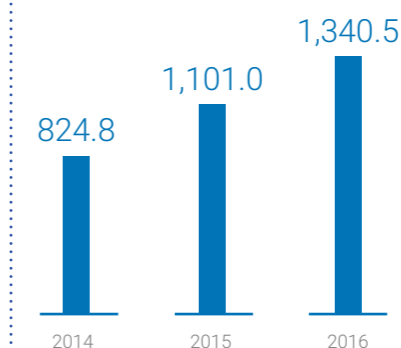
The JOMOTO brand also offers footwear for children aged 2–12 for athletic training and outdoor activities. The lightweight and flexible insoles reduce the load on child's feet and spine due to a shock absorbing system. Our footwear is produced with the use of up-to-date high-technology materials.

## GIFT CARDS

The Detsky Mir Group continues to implement projects aimed at improving the level of service in the chain's retail stores. One of these key projects is the sale of gift cards and online gift certificates. According to the results of 2016, sales at Detsky Mir from gift cards and online gift certificates grew by 22% YOY to RUB 1.34 billion.

Customers can pay for the cost of purchases with the gift card at any store location of the Detsky Mir chain. Gift cards and online gift certificates with the following values are sold: RUB 300, 500, 1,000, 1,500, 2,000, 3,000 and 5,000. In 2016, we started selling flexible value cards that allow the customer to place a sum between RUB 300 and RUB 50,000 divisible by RUB 100. The card is valid within 12 months from the date of purchase. Gift cards can be used unlimited number of times until the balance is zero. For the clients' convenience, a special service was developed to check the card's balance online. The

## Detsky Mir Group Revenue from the Sale of Gift Cards and Online Gift Certificates, RUB million



online store allows customers to buy online gift certificates that can be used at chain stores locations within Russia. Depending on the occasion, such as a birthday of a boy or a girl, or the birth of a new child, clients can choose a free cardholder designed to suit the occasion.

Gift cards and online gift certificates are very popular since they greatly save time and allow its receiver to buy the necessary things for him/herself and ensure that the gift is a pleasant and desired one. The positive dynamics of gift cards and online gift certificates sales in Russia has allowed us to expand the project's geography: in 2015, the sale of gift cards was implemented in Kazakhstan.

Both individuals and legal entities can use gift cards from the Detsky Mir chain in Russia and Kazakhstan. Gift cards and online gift certificates are an effective tool when implementing internal programmes aimed at increasing staff loyalty, performing motivational projects for clients and partners, holding promotional and advertising events when promoting goods and/or services.

## LOYALTY PROGRAMME

Detsky Mir chain stores have a loyalty programme for customers by the name of Yo-Yo. The loyalty card is given out to customers upon any purchase. It allows customers to accumulate 5% of the cost of purchases. For families with many children, this bonus amounts to 7%. With accumulated bonuses, one can pay for up to 20% of the cost of the purchases, except for

specific categories of goods and goods participating in promotions and special offers.

To be able to use bonuses, a client should fill out a registration form and provide his/her personal data. 200 welcome bonuses are accrued upon completion of the form. 200 gift bonuses are accrued for a child's Birthday. The clients who provided their telephone numbers or e-mails receive notifications on promotions and private sales.

The number of loyalty programme participants made 14.7 million people as of the end of 2016. The percentage of purchases (in receipts) performed by the programme participants comprised 71.3%.

Our loyalty programme's efficiency is confirmed by the larger than average receipt amount of loyalty programme members, which is 33% higher compared to the customers who have no loyalty card issued.

## CUSTOMER SATISFACTION SURVEY

Since 2015, the Detsky Mir chain has started to assess its clients' loyalty by means of the NPS (Net Promoter Score) index.

Starting from 2016, the NPS has been measured in the Company on a quarterly basis. The key element of the survey is a poll given to shoppers. As part of the survey, between 7 and 8 thousand retail store respondents are polled, as well as nearly 1.5 thousand online store clients, and over 2 thousand online store visitors who did not complete a purchase but agreed to complete the survey.

In the course of the survey's first stage, the customers are offered to

NPS (Net Promoter Score) is an index of customer loyalty and loyalty to a company to assesses their repurchase willingness via their willingness to recommend the company to friends, relatives and colleagues. It is an important indicator of a company's operation along with traffic, turnover, average receipt amount, etc.

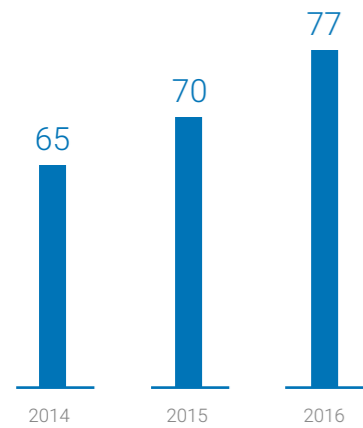
## DETSKY MIR IS KIDZANIA'S PARTNER IN RUSSIA

In January 2016, the Kidzania park opened in Moscow: a miniature town for kids aged 4–14 where they can try out a variety of professions, while learning practical skills and obtaining knowledge about the world around us. The project's base principle is "Learning through play."

Kidzania's objective is to show children various opportunities that they can expect to do in the future, to orient them in the right direction in their development and help them choose a job they would be passionate about. That is why everything is absolutely lifelike at Kidzania: young visitors to Kidzania develop useful social skills, acquire financial literacy basics, learn to set goals and how to achieve them independently.

The Detsky Mir Group built a miniature analogue of a children's goods supermarket in Kidzania 50 square meters in total area. Kids can try out being sales clerks, sales assistant, marketing experts or try the role of a customer. The mini supermarket is performed using an interactive concept that the Company has been replicating successfully across Russia since 2014.

**Percentage of Purchases by Loyal Customers, %**



answer the following question: "How likely is it that you would recommend Detsky Mir to your friends, relatives and colleagues?" The survey's second stage finds out the reasons affecting visitors' loyalty and thus, the NPS.

The survey's goal is to get feedback from our clients. By taking into account their opinion, we can improve our service and enhance our visitors' loyalty. Based on the survey, we can modify the stores' operation, and get to know our strengths and weaknesses directly from our customers. In the long run, the above-mentioned factors affect the Company's customer satisfaction and therefore, have a positive influence on our performance.

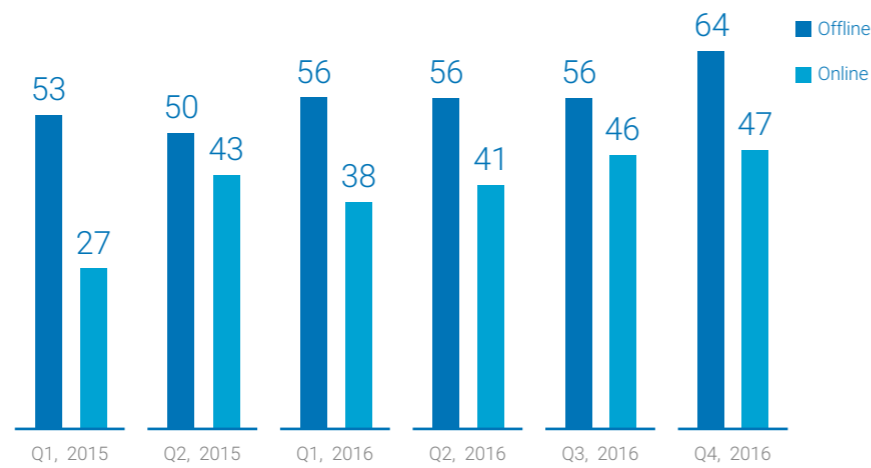
**FEEDBACK MECHANISM**

The Detsky Mir Group has an effective feedback mechanism, making it possible for everyone to contact us and file a claim using the following communication lines<sup>1</sup>:

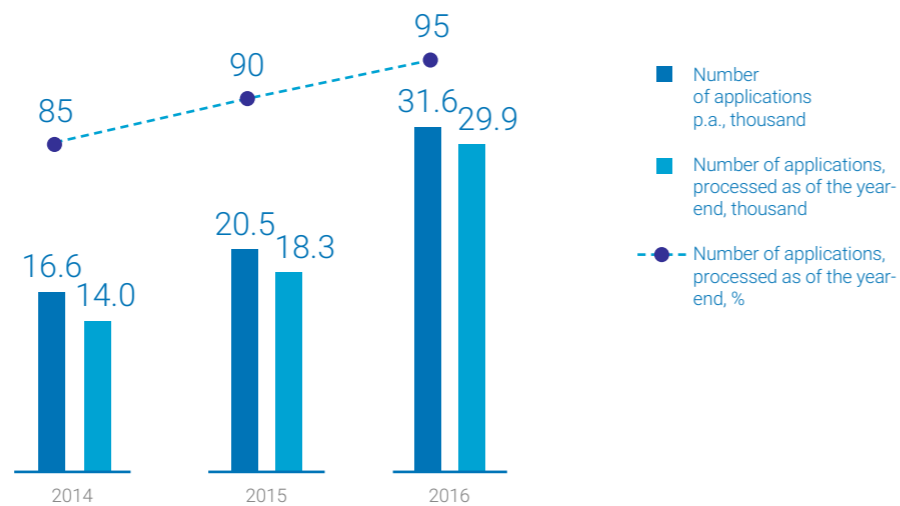
- leaving a comment on Yandex. Market;
- feedback form on the Detsky Mir online store website;
- banners on the online store website;
- making a call to our hotline;
- feedback left on social networks;
- e-mail address: shop@detmir.ru.

<sup>1</sup> Here a claim is understood as any registered enquiry received from a client and implying a response.

**Customer Satisfaction Survey Findings (NPS)**



**Number of Filed and Processed Claims from Clients**



All claims are registered in the integrated feedback management system and forwarded to relevant specialists for handling. Specialists from relevant units have access to the integrated feedback management system for prompt control and response to claims on such topics as: questions regarding goods, online store operation, opting out of mailing and messaging lists, questions regarding the loyalty programme, and questions regarding gift cards and online gift certificates.

68.7 thousand claims were received in 2014–2016. The Company is continually improving the quality of its interaction with customers; as a

result of this, 95% of all claims were processed in 2016.

**FAIR ADVERTISING**

To keep our customers updated and informed of active campaigns, special offers and sales, as well as new and interesting products available at our stores, we use a range of communication lines, the most significant of them being television and the chain's own advertising newspaper issued once every two weeks. We also reach our customers through SMS and email notifications, using segmentation of our clients' preferences based on their questionnaires and purchase history.

The Detsky Mir Group uses only those communication lines that have proved to be highly effective:

- TV spots;
- mass and targeted SMS and email notifications;
- free distribution of the chain's own advertising newspaper delivered to home mailboxes;
- posted materials in the retail space, including window dressing;
- online marketing;

All advertising materials of the Detsky Mir Group are reviewed and pre-approved by the Legal Department. The main principles we follow while preparing advertising materials include transparency, honesty, and legal compliance. For the past three years (2014–2016), only three cases of non-compliance with regulations concerning marketing communications were registered across the Group. Only one of them resulted in an administrative penalty. One case is currently under consideration. The third case had a penalty cancelled as a result of an appeal.



Tatyana Mudretsova, Marketing Department Director of the Detsky Mir Group

"In childhood, there are lots of things that happen for the first time: first steps, trips, and discoveries. This is what makes childhood a happy and unmatched experience. At Detsky Mir, every parent can present his/her child all the best and necessary things for a happy childhood, thanks to reasonable prices and a wide range of products."



**NEW POSITIONING OF THE CHAIN**

At the end of 2015, the Detsky Mir chain launched a new advertising campaign on TV that was developed in partnership with the Lowe Adventa agency (presently known as MullenLowe). It is the first output of cooperation, of which our new brand positioning and communication concept were developed.

Children's goods with moderate prices and invaluable moments of childhood are the two major

components of our new advertising image. Since 2016, Detsky Mir's advertising campaigns have been using a new slogan for the brand that outlines renewed chain positioning: "A happy childhood is available to everyone!"

Videos are available on the Detsky Mir official channel on YouTube: <http://www.youtube.com/user/detmirtv/videos>.

# 3.3. ONLINE STORE



In 2016, the Detsky Mir online store (<http://www.detmir.ru>) became the largest specialised player in the children’s goods market. We pay great attention to its development and improvement.

The key advantages of online store include:

- access to a wider range of products compared to smaller sized offline shops (for three years, product assortment was expanded by almost four times to 40 thousand items as of December 2016);
- opportunity to return a product bought online via any retail store of the chain;
- opportunity to collect and spend bonus points within the Yo-Yo loyalty programme integrated with offline channel.

In recent years, the chain’s online store has demonstrated an unprecedented

In 2016, due to the growth of the service level and by expanding product assortment, revenue has increased

**MORE THAN  
2-FOLD**

The percentage from the online store in the Company’s revenue in 2016 grew to

**3.5%**

growth in sales. Due to the growth of the service level and by expanding product assortment, revenue has increased more than twofold in 2016. The percentage from the online store in the Company’s revenue in 2015 comprised 2.1%, and as of the end of 2016, grew to 3.5%.

One of the key drivers of revenue growth was the launch of an in-

store pick-up service in June 2015: about 50% of online store orders in 2016 had pick-up points in the chain stores’ locations. One of the reasons online segment is growing is because Detsky Mir now has a presence in all major regions, which allows for the arrangement of a quick delivery.

First and foremost, pick-up service is popular among those of our clients who would like to receive their orders promptly. In as little as several hours after the order is placed, the one customer can pick it up at one of the chain’s store locations. It is convenient, prompt and free.

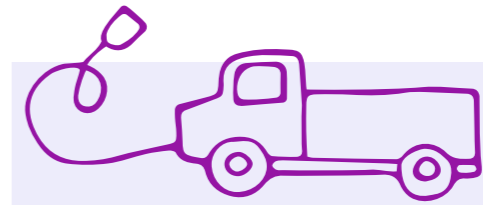
According to Detsky Mir’s online store research, the most popular goods that customers order through pick-up points are baby goods and toys.

In addition, under the partner agreement with Ozon.ru, orders can be received at Ozon.ru pick-up points. Thus, as of the end of 2016, the online store has 1387 of its own and partner pick-up points. Delivery to the chain’s own pick-up points is free, and the delivery to the partners’ pick-up points is paid by the customer according to the partner company’s rates.

Online store customers can also have their goods delivered to their home or office via courier service.

In the course of developing our online service, we plan to implement and offer our customers a mobile version of the online store and continue to improve the quality and convenience of the delivery of goods.

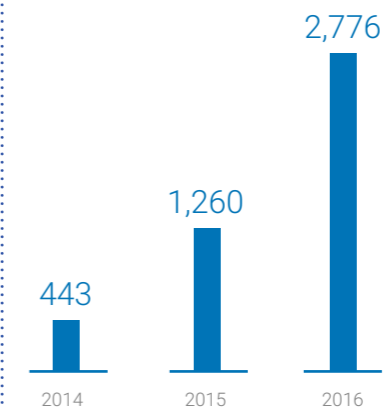
We implement an omnichannel approach that integrates all platforms and devices that the client uses while interacting with the Company. Combining all communication channels that the customer uses in order to receive all information on their every action, such as his/her purchases, requests, enquiries, solved and unsolved problems, allows us to obtain integrated information and provide the highest level of service to our customers.



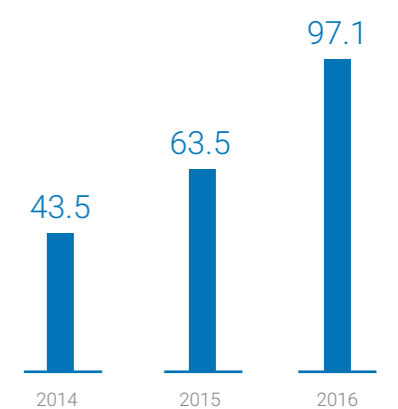
**ABOUT  
1,387** own and partner pick-up points as of the end of 2016

**50%** of online store orders in 2016 had pick-up points in the chain stores’ locations

Online Store Revenue, RUB million



Online Store Traffic, million visits



## BREAKTHROUGH OF THE YEAR

In 2016, the Detsky Mir online store was announced the winner in one of the most competitive categories of the Large Turnover Award, a Russian professional award in the field of e-commerce – the category of Breakthrough of the Year.

The Large Turnover Award is granted for outstanding achievements and meaningful contributions to e-commerce development to online stores, multichannel retailers, e-commerce professionals, as well as projects and persons that have significantly influenced the industry.



# RESPONSIBLE SUPPLY CHAIN

The efficient management of all processes related to the supply of goods ensures the business's reliability and stability

# 4.1. COOPERATION WITH SUPPLIERS



Given the industry specifics, the scale and goals of Detsky Mir Group require increasingly effective supply chain management and the building of long-term partner relationships with suppliers.

We have over 600 suppliers from 21 countries, including: Russia, China, India, Hong Kong, the Netherlands, Germany, etc. In 2016, the top 10 largest suppliers of clothing and shoes covered 44% of supply categories, while the top 10 largest suppliers of toys; baby goods and large-size goods covered 42%.

We have

OVER  
**600**  
SUPPLIERS  
FROM **21**  
COUNTRIES

We solve problems related to the optimization of purchasing prices, the effective assortment management, to improving quality control of goods via concluding direct contract with major manufacturers, who specialise in particular product groups or their representatives in Russia, and to reducing the number of distributors. This allows us to secure profitable prices, mitigate currency exchange risks and ensure direct access to goods.

As of 31 December 2016, among our suppliers, we had 7 direct suppliers in the toys category, 58 in the baby goods category, 59 for large-size goods, and 22 for stationery and other goods.

With our suppliers, we are also aiming to conclude exclusivity agreements that increase traffic, promote the growth of same-store sales, increase customer loyalty and protect us from price competition in the pre-sale period. Thus, in 2016, exclusivity agreements

were signed with companies such as Mattel, Hasbro, Lego, Maclaren and Artsana.

For the past two years, Detsky Mir Group has supported an all-Russian School Uniform Competition organised by the Ministry of Industry and Trade, in cooperation with the Ministry of Science and Education of the Russian Federation, as part of promoting consumer and textile industries in Russia.

In 2015, the winners of the all-Russian School Uniform Competition 20 flagship stores of the Detsky Mir chain in Moscow and St. Petersburg over 260 thousand items for resale, totalling RUB 380 million.

The development of private labels is one of the strategies of the Detsky Mir Group. At the moment, we own 25 private labels in the clothing and footwear category. Each of these labels has their own target audience, assortment and price positioning.

In August 2015 at the Detsky Mir flagship store in Moscow, there was an exhibition dedicated to the history of school uniform fashion, starting with unique school uniform samples from the imperial period up to the present day; the school uniform of the Competition winners were also displayed. In April 2016, 15 manufactures from Moscow and the Moscow Region took part in the school uniform exhibition organised by the Ministry of Industry and Trade, in cooperation with the Department of Education of the City of Moscow, at the Detsky Mir site.

## ALL-RUSSIAN SCHOOL UNIFORM COMPETITION

This competition is held to popularize school uniforms of domestic manufacture and ensures that best items are entered into the assortment of retail chains.

**114 designers** and **73 enterprises** from across Russia participated in the Competition. The assessment criteria considered both an aesthetic component, and the quality of materials, hygiene factors, comfort, usability and affordability of the school clothes.

The winners' list comprised the companies from different Russian regions: Smena, Smena by Guschina, Ufimskiy trikotazh, BTK Group, and Sky Lake. Cooperation with the Detsky Mir chain was the grand prize awarded to them.

Long-term orders for school uniforms ensured a safeguard that allowed the manufacturers not only to avoid discontinuing production, but also to increase their production volumes.

Firstly, these events offer companies an additional opportunity to present consumers with domestic products. Secondly, they encourage trading companies to cooperate with Russian producers.



We developed the design for eight private labels ourselves, while the others were developed by designers invited exclusively to the Detsky Mir Group. All private labels are produced by our partner companies.

The sale of private label goods of domestic and foreign production enables us to control pricing, to comply with the quality requirements and ensure the safety of materials they are made of, in turn significantly reducing the stock turnover cycle.

The producers of private label goods, in turn benefit from steady orders, and cost reduction in branding and logistics. As a result, we have the opportunity to offer our customers high quality goods at the most attractive prices.

The winners of the all-Russian School Uniform Competition sold

**260**  
THOUSAND  
PRODUCTS

in the flagship stores of the Detsky Mir chain

The percentage of private label goods in the clothing and footwear categories comprised 60–70% of the Detsky Mir Group's turnover. In the toys and baby goods categories, it comprised 7% and 1% respectively in 2016.

### APPRECIATION OF THE COMPANY'S PRIVATE LABELS

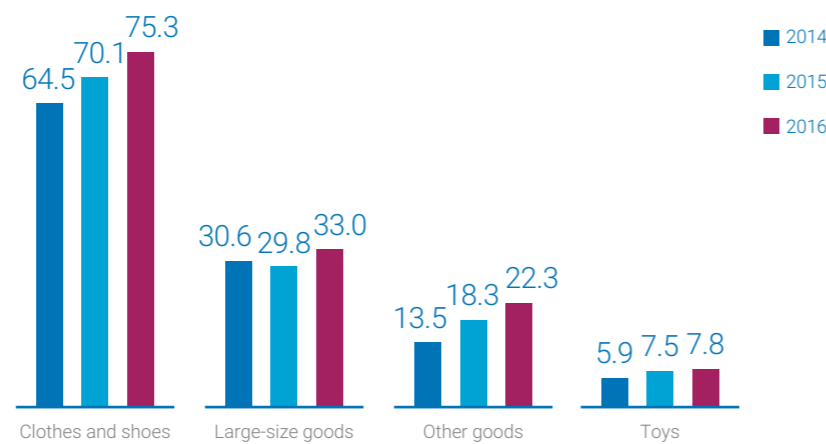
The Detsky Mir chain's private labels were appraised highly as part of the Private Label Awards contest involving the Retail Companies Association (ACORT).

Detsky Mir won the prize in the category of Best Brand in the Children's Goods Segment. The following Company's' private labels were announce the winners:

- Futurino (children's clothing);
- Favaretti (children's footwear);
- Attivo (arts and crafts sets).

The Contest's participants included 37 retail chains that nominated 88 private label product lines and 43 manufacturing companies from 14 countries.

Percentage of Private Labels in Turnover by Category, %



### KIDS FASHION FESTIVAL

In October 2016, as part of the 33rd season of Mercedes-Benz Fashion Week Russia, the Detsky Mir Group presented its new collection, Spring and Summer 2017.

The collection's hallmark is natural fabrics: cotton, linen, and bamboo combined with light denim and viscose that provide comfort along with beauty to young fashion plates.

As part of the Kids Fashion Festival at MBFW Russia, the Russian office of the Disney Company, in cooperation with the Detsky Mir chain, have also presented a clothing collection inspired by the heroes of the film the Beauty and the Beast.

# 4.2. PROCUREMENT MANAGEMENT



### Commercial Procurements

The procurement of products by the Detsky Mir Group is planned for each product category on the basis of assortment matrices aligned with the assortment policy and covering the list of all items. The matrices are based on the results of studies made by category managers, the results of monitoring competitors' assortments, as well as fashion trends and significant events in the movie and entertainment industry. Based on these analytical materials, we revise the conditions of cooperation with existing suppliers and conclude new contracts on a regular basis.

Suppliers can contact us on their own initiative; some of them are invited for cooperation at industry exhibitions or by using public information sources.

An important stage of the supplier selection and approval process is the meeting of the Assortment Committee – a cross-functional body made up of experts from different units of PJSC Detsky Mir (including, among others, the Commercial Directorate, the Certification Department, the Marketing Department, etc.). The Assortment Committee is authorised to take strategic decisions on the approval of the list of suppliers, amendment of the terms and conditions of cooperation with existing suppliers, the modification of the assortment matrix, etc.

### PROCUREMENT FOR THE GROUP'S OWN NEEDS

Procurement of goods and services for the Group's own needs is an important area for the optimisation of business processes and the enhancement of their efficiency. The main categories of such procurement include: the supplies of retail and warehouse equipment, construction and assembly work, marketing and advertising, and transportation services. Around 95% of goods and services procured for the

Group's own needs are provided by Russian suppliers. The remaining 5% are procured from foreign suppliers due to the absence of domestic analogues.

In 2016, PJSC Detsky Mir was honoured with the highest award by the experts of the National Procurement Transparency Ranking project as a company with assured transparency status, along with private company ranking leaders such as PJSC Tatneft and PJCS Gazprom Neft.

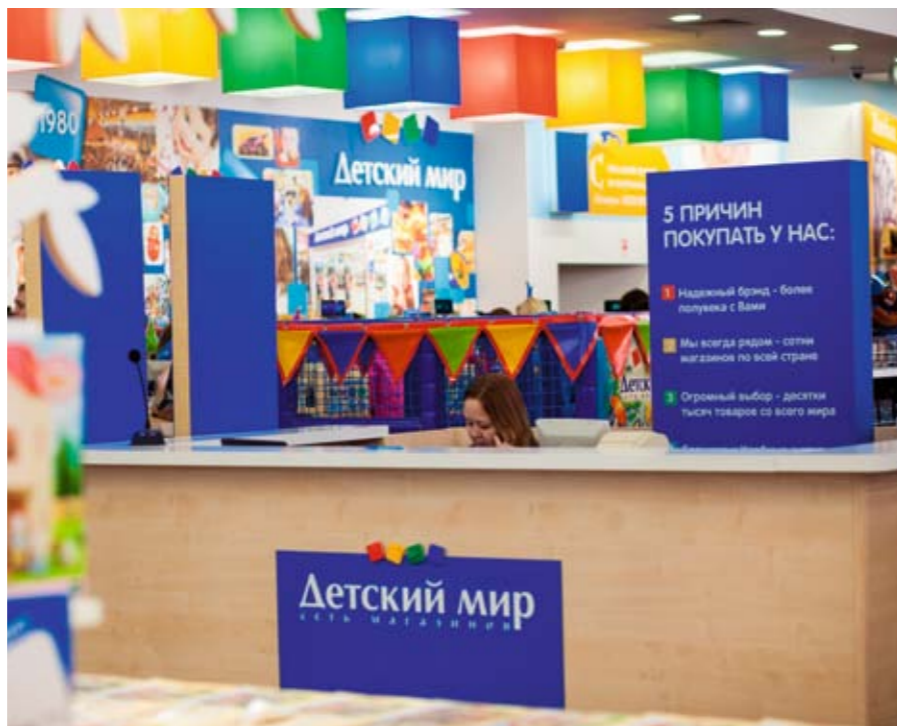
The National Procurement Transparency Ranking project (<http://nrpz.ru/>) is an independent non-governmental research centre focusing on monitoring state and corporate procurements for transparency and legal compliance.

**Procurement System Improvements in 2015–2016**

In the reporting period, the Detsky Mir Group has achieved a significant reduction in the delivery costs of materials, goods and services thanks to the corporate Electronic Document Interchange (see the Information Technology section) and the transfer of 95% of procurement to the electronic trading platform (CJSC Sberbank-AST trading platform), which resulted in a significant increase in competition among potential suppliers.

Business process changes that include the transfer of functions from the Customer to the Buyer in such categories as logistics, construction, marketing and IT allowed us to minimise procurement timeframes. Consolidation of procurement for certain categories also contributed to cost reduction.

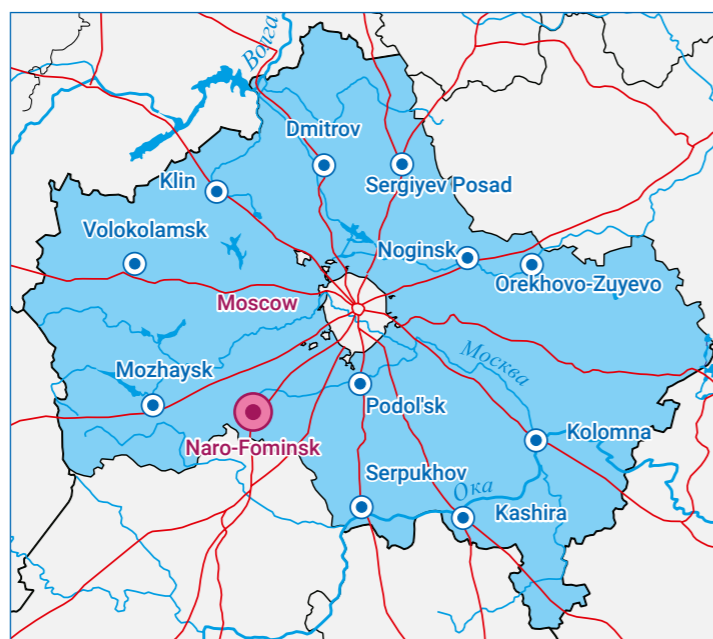
According to the Company's estimates, the economic benefit of procurement procedures comprised RUB 700 million in 2015–2016.



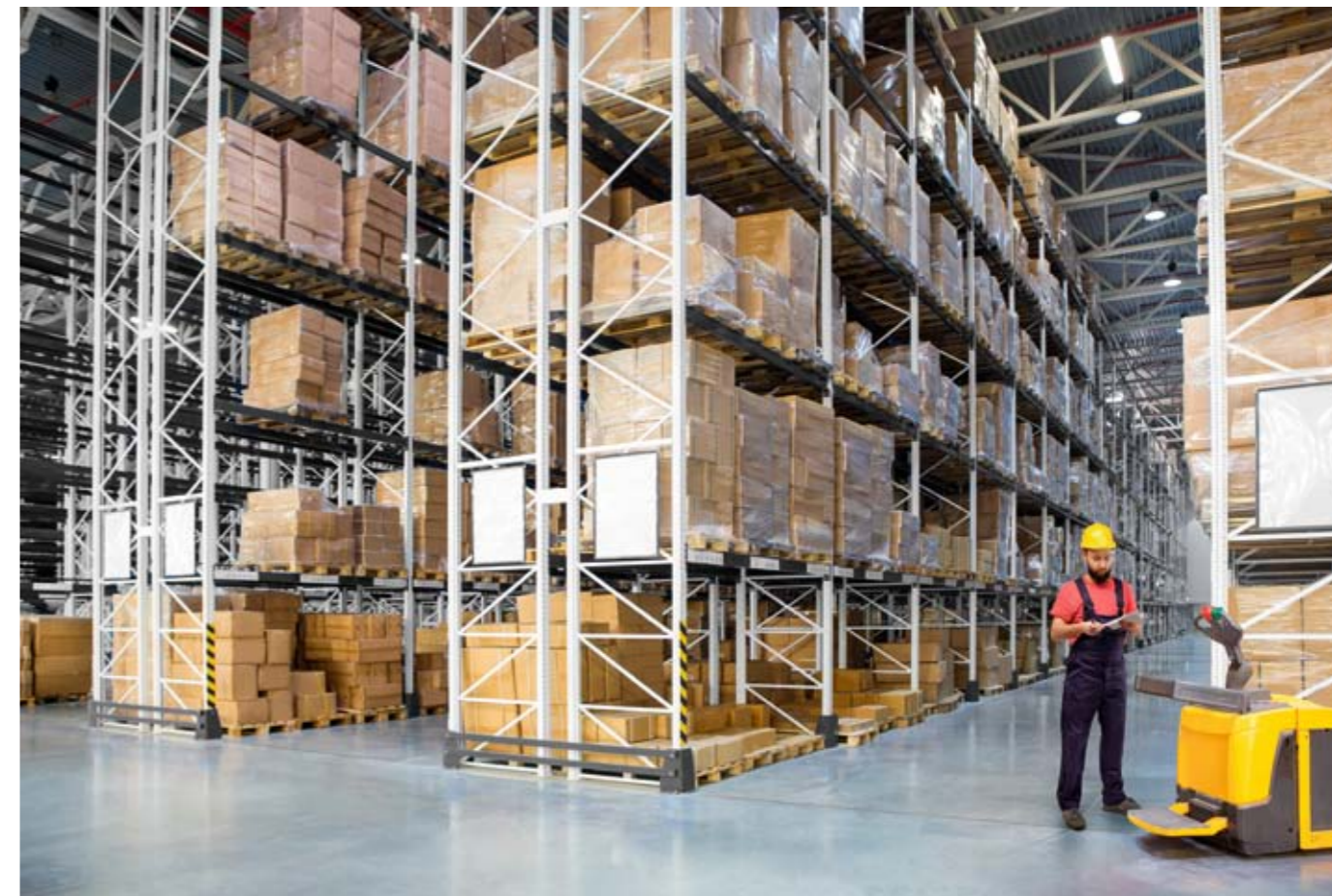
**CENTRALISATION OF LOGISTICS OPERATIONS**

To ensure continuous product availability in our stores, we need to be able to control product inventory. Therefore, one of our goals is the

centralisation of logistics activities. In 2014, 26% of products were channelled through the Group's central warehouse in Krekshino (Moscow Region), whereas 74% were delivered directly by distributors.



<b>Warehouse area</b>	70,467 sq. m (+100 sq. m checkpoint)
<b>Location</b>	Bekasovo village (Naro-Fominsky District, Moscow Region)
<b>Direction</b>	South-East, Kievskoe highway, 50 km from the Moscow Ring Road
<b>Commissioning date</b>	June 23, 2015



In May 2014, we launched our distribution centre, putting it into operation in the territory of PNK-Bekasovo in the Naro-Fominsk District of the Moscow Region in 2015.

The Detsky Mir Group's new distribution centre, with a total floor area of 70 thousand square metres, became the largest specialised logistics terminal in the segment of children's goods retailers. It meets all up-to-date requirements for such terminals, which allows us to ensure its continuous operation and to have goods supplied to the chain's stores in due time. The PNK-Bekasovo distribution centre has a combined storage system for warehousing the entire assortment of the chain's goods.

Opening our own warehouse allowed to us enhance the centralisation of logistics operations (the percentage of turnover processed through the warehouse) from 26% in 2014 up to 65% in 2016. By 2019, we are planning to increase this indicator to 75–80%, which will allow to us enhance stock turnover in the stores, eliminate stock outs (the absence of products

The PNK Group was the developer for the logistics complex in Bekasovo. Investments into the project comprised RUB 3 billion. The PNK Bekasovo industrial park is the first project implemented in cooperation with the Government of the Moscow Region as part of the investment programme "The Development of Industrial Parks on the Territory of the Moscow Region until 2015". The PNK Group not only invests in modern complex construction, but it also covers the development of transport and social infrastructure of adjacent territories at its own expense, including the construction of an elevated roadway above the railroad in Bekasovo.

on the shelves) and build a solid logistical platform for the further expansion of our business.

In 2015, a SAP EWM warehouse management system was implemented at our warehouses, allowing us to see the supply chain full cycle, starting from the order placement, order processing in the warehouse or store, until the final delivery to the customer (for more details on this, please see the Information Technology section).

In 2015–2016, warehouse operations of Detsky Mir's online store and ELC (Early Learning Centre) subsidiary

were be transferred from 3PL-operators<sup>1</sup> to a warehouse in Krekshino, with a total area of 20 thousand square meters, rented by the Company under a long-term lease agreement.

Around 1.5 thousand new jobs to serve the logistics complex (1,176 jobs were already created as of the end of 2016) will contribute considerably to the development of the Moscow Region's economy.

<sup>1</sup> 3PL-operator is a specialised company that provides outsource logistics services.

## MAJOR REGULATIONS ON COUNTERACTING CORRUPTION:

- Anti-Corruption Policy of JSC Detsky Mir
- Code of Ethics of JSC Detsky Mir
- Conflict of Interest Management Policy of JSC Detsky Mir
- Anti-Fraud Policy of JSC Detsky Mir
- Procurement Policy of JSC Detsky Mir
- Office Supplies and IT Policy for PJSC Detsky Mir employees
- Concept for counteracting corruption in PJSC Detsky Mir



*"Detsky Mir is the only retailer of the children's goods segment to have joined the business community in its cooperative efforts to counteract corruption, and in forming principles to reject its manifestations, both when interacting with public authorities and within corporate relations."*

Sergey Bellevich,  
Director of Legal  
Department of  
the Detsky Mir Group

### COUNTERACTING CORRUPTION

The absence of corruption is an important factor for improving the company's business efficiency. As such, on a regular basis, we assess corruption risks, check our business partners and candidates for positions, introduce standards and procedures to ensure due diligence of the Group and monitor our compliance with these standards.

To prevent problematic situations from arising, we develop anti-corruption training programmes for our employees and monitor the efficiency of our actions in this area.

On a quarterly basis, the Company's employees receive newsletters with memos on compliance with counteracting corruption principles. Workshops and seminars on compliance with anti-corruption procedures are held annually, including those conducted by outsource consultants.

The Company's Legal Department employees consult the staff, as well as counterparties, on issues related to anti-corruption documents application adopted by the Company.

The existing documents on counteracting corruption are updated and new ones are introduced when necessary.

In order to improve the efficiency of combating risks, countering improprieties, the early detection of potential cases of corruption, fraud or other violations in the activities of PJSC Detsky Mir and its non-public subsidiaries, an internal corporate alert programme "WARNING FROM THE EMPLOYEES!" was developed and implemented. <http://corp.detmir.ru/about/the-staff-warned>.

Messaging channels and media (anonymous):

- E-mail: [report@detmir.ru](mailto:report@detmir.ru)
- Telephone numbers: +7 (495) 781-08-30 (voicemail) or +7 (800) 250-00-00 with key phrase "Warning from the employees!"
- Mailing address: 1 Timiryazevskaya St., Moscow, 127422, Attn.: Head of Legal Department and/or Head of Internal Control and Audit Department and/or Head of Corporate Security Department, with a private and confidential note.

### THE RESULTS FOR THE REPORTING PERIOD:

In 2016, our Concept of counteracting corruption was approved at PJSC Detsky Mir, thus serving as the Company's basic document in this sphere.

A section for counteracting corruption was added to the Company's website, <http://corp.detmir.ru/shareholders-and-investors/corporative-governance/anti-corruption-2>. The section contains a Code of Ethics, an Anti-Corruption Policy, a Conflict of Interest Management Policy, and a Code of Corporate Conduct, all of which are publicly available. Published information is updated when necessary.

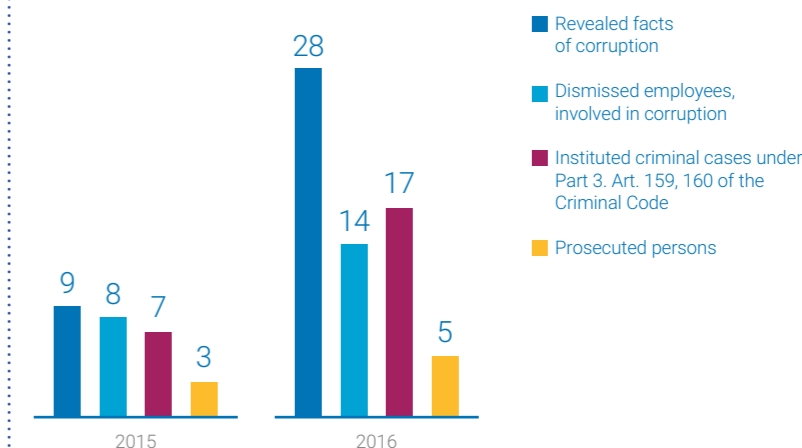
In March 2015, PJSC Detsky Mir signed the Anti-Corruption Charter of the Russian Business. The Ceremony for joining the Charter and the issuance of a corresponding certificate took place on 26 March as part of the International Conference Public-Private Partnerships against Corruption, held under the auspices of the United Nations.

The Anti-Corruption Charter of the Russian Business was developed as part of the National Plan on counteracting corruption for 2012–2013, approved by the Decree of the President of the Russian Federation No. 297 of 13 March 2012.

The Charter members are aiming to comply with international regulations, and Russian legislation related to preventing and counteracting corruption; they are governed by ethical standards of open and fair business.

Over 1000 companies joined the Charter from 2012 through 2016.

### Results of Activities on Revealing Corruption in 2015–2016



PJSC Detsky Mir's affiliates, Kub-Market LLC (ELC) and Detsky Mir – Kazakhstan LLP, have implemented anti-corruption procedures and have put into effect basic anti-corruption documents.

In 2015–2016, the Company's principal anti-corruption documents were adopted in with new wording:

- Code of Ethics (2016);
- Office Supplies and IT Policy for PJSC Detsky Mir employees (2016);

- Procurement Policy of JSC Detsky Mir (2015);
- Procedure for a Contractual Workflow at JSC Detsky Mir's Head Office (2015);
- A template for an additional agreement and reservation clause for contracts in force to mitigate the risk of corruption (2015).

# 4.3. INFORMATION TECHNOLOGY



The integrated automation of all activities of the Detsky Mir Group creates an integrated infosphere for data exchange between consumers, suppliers, the Group's companies and their key divisions, ensuring transparency of business processes and improving their efficiency.

## AUTOMATION OF BUSINESS PROCESSES

In the reporting period, we continued our activities in the automation of the Group's business processes, based on the integrated SAP IT platform.

In 2015–2016, the following SAP solutions were implemented:

- SAP ERP (Enterprise Resource Planning) – an integrated system for the overall automation of management. Introduced in Russia and Kazakhstan, covers all processes across the company except HR management (the latter uses 1С ЗУП [Salary and Management]).
- SAP EWM (Extended Warehouse Management) – a warehouse management system providing the overall automation of stock movement. Operates in the company's two distribution centres.

When introducing SAP, it was integrated with POS-system<sup>1</sup> called Profi-T, which provided the overall integration of the Company's IT Landscape. This ensured the efficient management of pricing, conveying the right prices to each cash desk, and receiving sales reports promptly.

## ELECTRONIC DOCUMENT INTERCHANGE

The broad geography of stores of the Detsky Mir chain in Russia and Kazakhstan (covering 178 cities total), as well as a large number of suppliers, determine the specific character of tasks for the optimisation of document

<sup>1</sup> POS-system (POS – Point of Sale) – a hardware and software system that has a typical set of cash functions.

flow. The retailer sends dozens of thousands orders monthly to counterparties, processes the response EDI<sup>2</sup>-messages, and delivers closing accounting documents on supplies.

In order to reduce operational costs, the Company has taken to a decision to computerise original document processing. In 2015, an EDI<sup>3</sup> full-cycle with product suppliers was implemented. This allowed us to minimize or totally discard hard copies thanks to digitisation.

## THE COMPANY'S LONG-TERM IT PLANS INCLUDE:

- improvement of the EDI system – the development and implementation of a cross functional accessory document;
- implementation of the application pattern of the electronic document called The Act of Acceptance that uses EDI when performing direct supplies to stores in Kazakhstan;
- creating a data processing back-up centre in order to ensure database security;

<sup>2</sup> EDI – electronic data interchange.

<sup>3</sup> EDI – electronic document interchange.

mid-2013

Project development

Autumn 2014

Pilot and field testing

January 2015

SAP implementation (excluding stores)

May 2015

SAP implementation in stores

August 2016

SAP implementation in Kazakhstan

## Stages of SAP Implementation Project at the Detsky Mir Group

- updating cash desk software to comply with requirements set forth in the Federal Law No. 54-FZ of 22 May 2003 (in force as of 8 March 2015) on "Concerning the use of cash register equipment in carrying out cash settlements and (or) settlements using payment cards";
- IT portal development for online interaction with the Detsky Mir Group's suppliers.



"The transition to electronic document flow is a result of our focus on reducing general expenses and improving the quality of store operation and personnel efficiency. Reducing manual operations in the process of order placement, in the supply chain and in the final acceptance of goods has allowed us to reduce the risk of making mistakes. Automation of the transfer and verification of invoices and consignment notes has contributed to the optimisation of accountants' work and the withdrawal from the long-term storage of hard copies of documents."

Alexander Shlyapochnikov,  
member of the Detsky Mir Management Board,  
Director of IT Department

## MAJOR BUSINESS EFFECTS OF IT PROJECTS AT THE COMPANY:

- Solving of the problem of integration for different information systems.
- Seamless information interoperability across the entire Detsky Mir chain.
- Improving the quality of management reporting.
- Improving the quality of automated orders.
- Elimination of discrepancies in web banner information.
- Providing an in-store pick-up service thanks to the visibility of stock balance online (with no two-day delays as before).
- Simplification of VAT reporting formation due to digitised invoices.
- Minimising the risk of mistakes involving the human factor.
- Reducing working hours needed for mechanical operations.
- Reducing the time needed for processing each document in the chain of "order to delivery".
- Ensuring transparency of the document interchange process.
- Reducing the negative impact on the environment related to paper document flow.
- Immediate receiving of information by suppliers upon acceptance of the goods in stores and distribution centres.

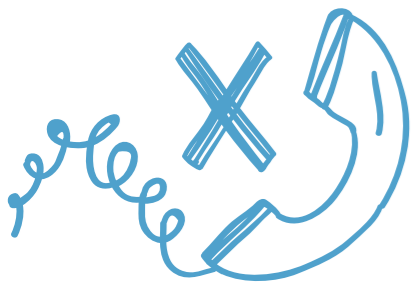


5

# DECENT WORK

The Detsky Mir Group consists of a group of professionals united by a common goal to make a contribution to the development of the business

# 5.1. HR MANAGEMENT



Employees of the Detsky Mir Group are our key asset and the base of the Group's internal stability and future development. We actively introduce best HR management practices in order to create the most comfortable working conditions for our employees and allow them to reach their potential.

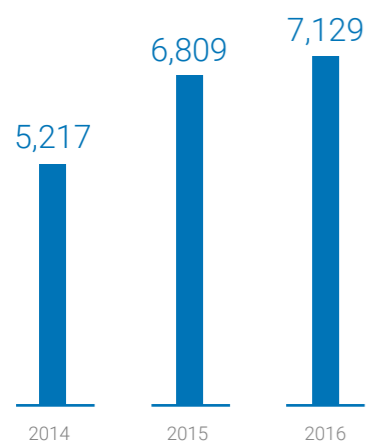
We build relations with our employees based on common goals, mutual respect, long-term partnership, mutual interest, due diligence and fairness.

We are committed to complying with employment legislation in the countries of our presence, respecting human rights and freedom, and avoiding any discrimination and harassment.

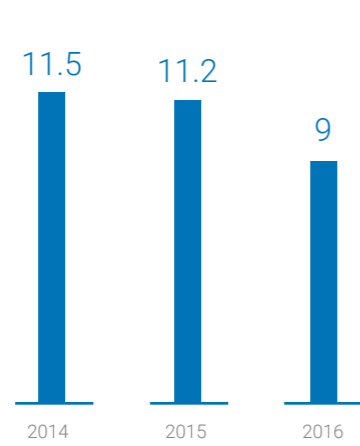
Our HR personnel management policy is aimed at the creation of a cohesive and effective team of professionals committed to the high standards of work quality and united by a shared desire to contribute to the development of the Company and our society as a whole.

Automation of the business process and the implementation of new software solutions have helped us reduce the time and labour input needed per business process. As a result, the number of employees providing the operation of one store reduced from 26 persons in 2013 to 21 person in 2016.

**Detsky Mir Group's Total Costs for Personnel<sup>1</sup>, RUB billion**

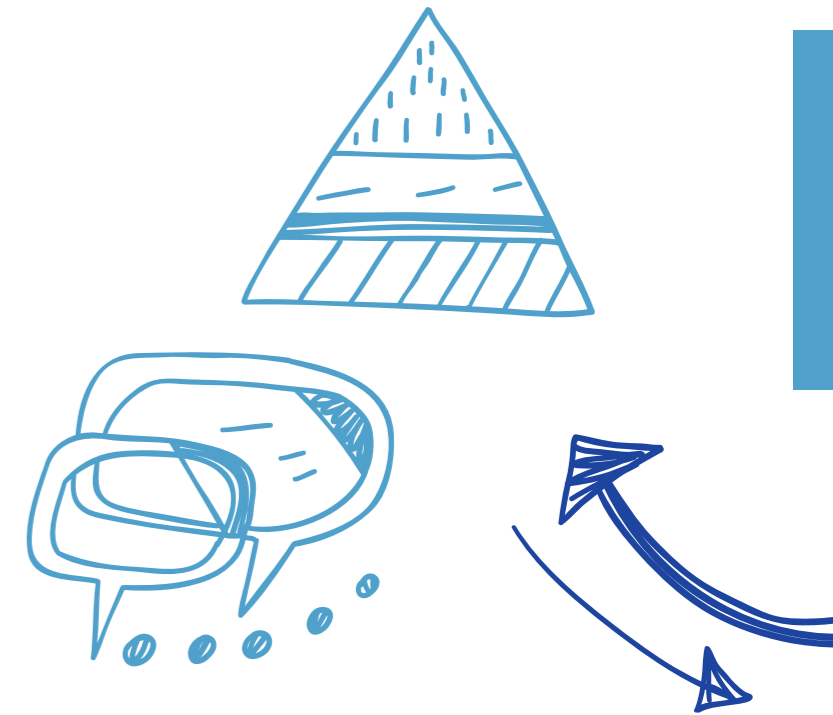


**Percentage of Total Revenue Costs for Personnel, %**



<sup>1</sup> The total costs for personnel include a payroll fund, insurance payments, personnel training and selection, healthcare expenses, personnel outsourcing, etc.

# 5.2. OUR EMPLOYEES

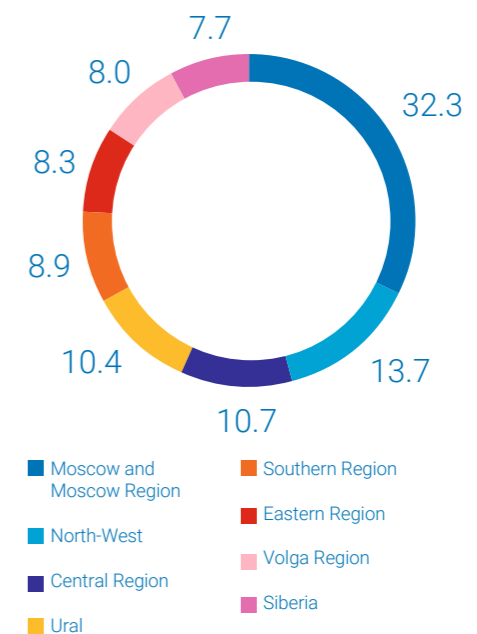


Detsky Mir Group's headcount exceeded 10 thousand people in 2016. For the last three years, it has increased by 30% as a result of the chain's significant expansion in Russia and Kazakhstan (see the Confident Leadership section). Despite an increasing number of retail stores, the number of managing personnel has remained the same at the head office and regional offices. 96.4% of all employees work at PJSC Detsky Mir.

**Detsky Mir Group's Headcount, persons**



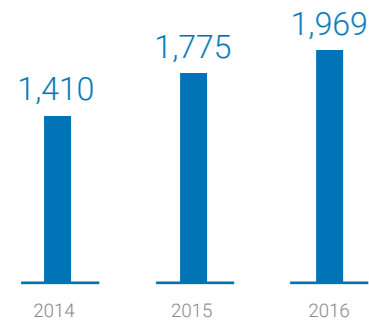
**Breakdown of Retail Employees at PJSC Detsky Mir by Regional Division (RD) in 2016, %**



As of 2016, the average age of the Detsky Mir Group's employees is 29.5 years old. These consist of mature specialists at their sharpest, most responsible and highly engaged. The majority of employees (94.4%) are younger than 50, with three quarters of them being women.

As a result of the improvement of working conditions, the development of a corporate culture, and providing a wide range of opportunities for professional and career growth, the level of employee turnover has gradually decreased over the reporting period. The Group's turnover indicators do not exceed the respective averages for the retail sector.

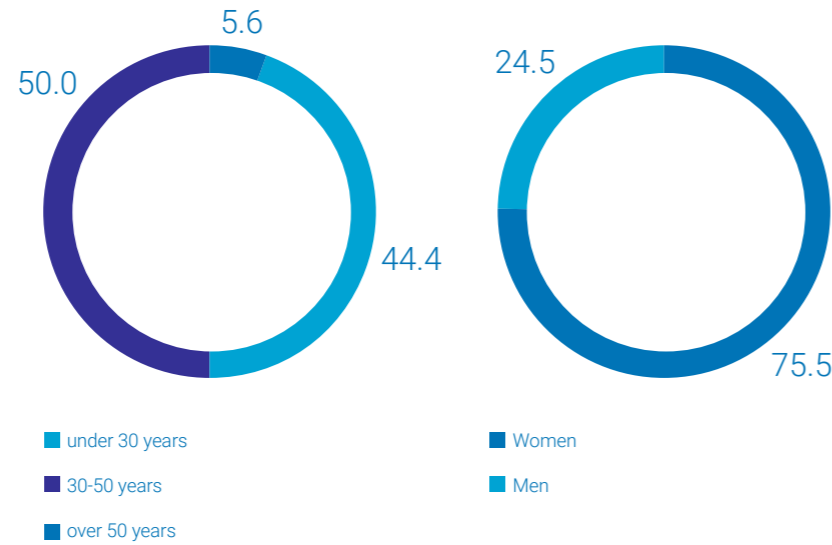
**The Number of New Jobs Created at Detsky Mir Group**



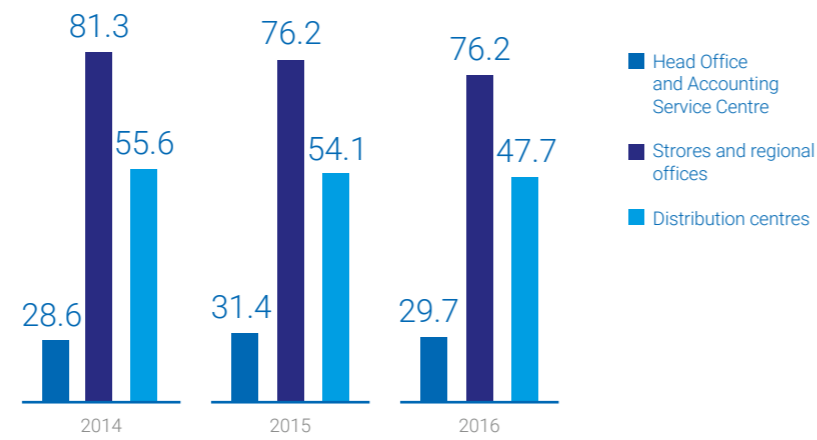
**ABOUT  
5 THOUSAND**

new workplaces were created by the Detsky Mir Group in Russia in 2014–2016

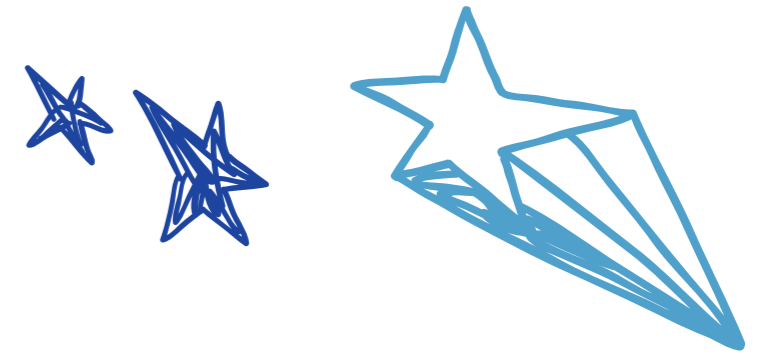
**Breakdown of the Detsky Mir Group's Employees by Age in 2016, %**



**Employee Turnover at the Detsky Mir Group, %**



# 5.3. ENGAGEMENT



A high level of staff engagement contributes to the increase in employee productivity and business efficiency.

The Detsky Mir Group conducts employee engagement surveys on an annual basis. It is our goal to find out, straight from the source, how our employees view various aspects of life at the Group in order to understand our strengths and weaknesses, identify issues to focus on and areas where actions need to be taken to improve the situation.

According to the results of an employee engagement survey conducted in 2016, we have substantially increased the level of employee engagement in the reporting period.

It has also discovered that the overwhelming majority of the Detsky Mir Group's employees:

- understand the company's goals and strategy and their connection to the work of employees (88% of respondents);
- highly appreciate their immediate supervisors and have confidence in them (84% of respondents);
- believe that there is an atmosphere of cooperation and mutual support at the Company (81% of respondents);

- note that the Company creates conditions that drive their success (76% of respondents).

According to a 2016 survey, the aggregated engagement of employees amounted to 76% of PJSC Detsky Mir, and amounted to 77% for the employees of Detsky Mir Kazakhstan LLP.

In order to enhance the staff engagement level at the Detsky Mir Group, we have deliberately implemented actions in the following areas:

- developing motivational tools for achieving strong performance;
- improving the employee reward system;
- building and maintaining a stable and attractive image of the Group as an employer.

**DETSKY MIR GROUP WAS ANNOUNCED EMPLOYER OF THE YEAR**

Representatives of AON Best Employers and its Russian partners, AXES Management, assessed the applicants for the title of Employer of the Year based on the surveys of employees, top management, and the companies' HR representatives. In the course of gathering information, the experts examined four key indicators: engagement, confidence in the leadership, sustainable development and culture of efficiency, and the employer's brand.

The winners of the International Award AON Best Employers Russia for 2016 were announced as part of the HR forum Strategic Issues in Human Resource Management, held by Vedomosti Business Daily. Apart from the Detsky Mir Group, 13 other companies were announced winners including MTS, the State Atomic Energy Corporation Rosatom and LEROY MERLIN.

# 5.4. MOTIVATION AND REMUNERATION SYSTEM



Ensuring a high level of motivation and decent remuneration for employees are key aspects of personnel policy at the Detsky Mir Group.

We have a time-plus-bonus remuneration system. All employees receive a fixed official salary set forth in their labour contract, as well as additional payments for overlapping positions, working extra hours at night, on weekends and/or public holidays. The remuneration depends not only on the individual employee's effectiveness, but also on the annual financial performance of the entire Group.

The head office's employees receive an annual bonus, depending on the achievement of KPIs.

Retail staff receives a monthly operation bonus set as a per cent of the store's actual turnover. The amount of the monthly operation bonus for administrative and management staff is additionally influenced by the achievement of KPIs. Additionally, employees who have demonstrated the best performance during their appraisal and received the grade of expert are eligible for an additional bonus.

For line warehouse employees who have worked over a year, a monthly seniority pay is provided, with the amount depending on the number of years of continuous employment at the Company.

The size of remuneration is revised once a year, based on the data of the average compensation offered on the labour market.



## LONG-TERM MOTIVATION PROGRAMME

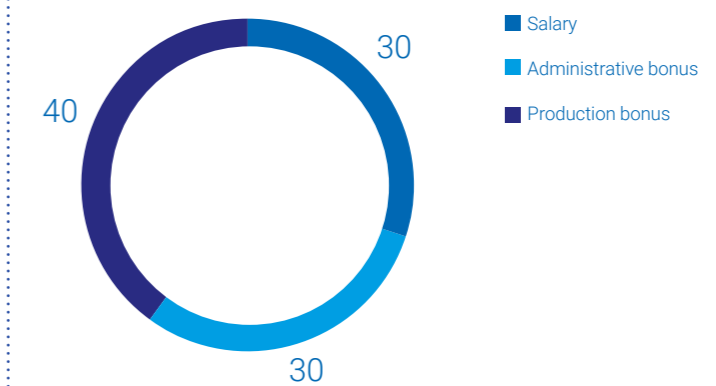
In September 2016, PJSC Detsky Mir's Board of Directors approved a new long-term financial incentive programme for employees called the Motivation Programme 2<sup>1</sup>.

According to the Motivation Programme 2, certain employees holding management positions are entitled to get remuneration based on shares (so-called phantom shares), which they will be provided with once a year from 2016 through 2018.

In case of a liquidity event, the participant of the Motivation Programme 2 shall receive upon the resolution of Board of Directors the corresponding number of the Company's shares or a cash reward based on the Company's ordinary share market price.

<sup>1</sup> Motivation Programme 1 was in effect since 2014.

Remuneration of Retail Staff at Detsky Mir's Chain Locations, %

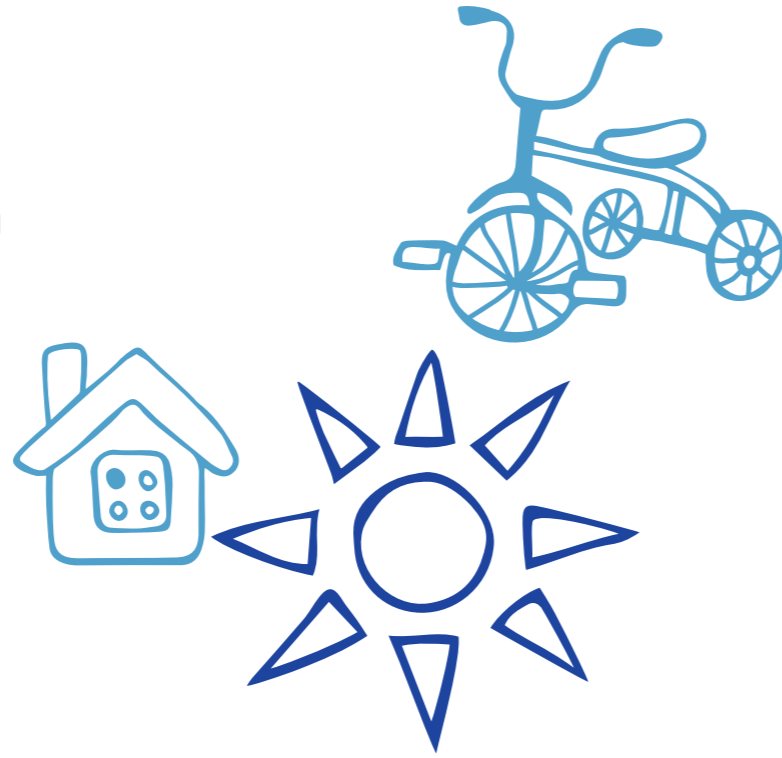
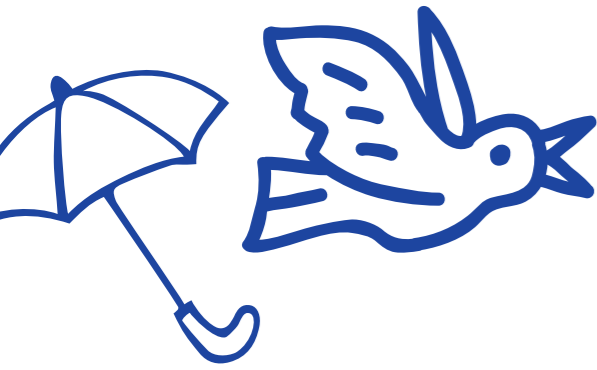


PJSC Detsky Mir Average Employee Wages, RUB thousand

	Stores in Russia		Stores in Moscow	
	Manager	Specialist	Manager	Specialist
2014	44.7	26.2	50.9	30.6
2015	44.4	26.9	54.5	33.1
2016	45.5	26.9	54.6	33.1



# 5.5. SOCIAL BENEFITS



We are developing a system of corporate benefits as a tool for staff motivation. In addition to free corporate training, the Company offers the following benefits to its employees:

- a discount at all chain's stores is available to all employees from the first day of employment, regardless of the period of employment;
- employees of the stores that are open until 23:00 and that are located far from public transport stops are provided with transportation service to their homes;
- warehouse employees are provided with transportation service to and from the site and free meals on the territory of the logistics centre;
- employees with children under three years of age have an opportunity to work flexible hours or part-time;
- all employees of the head office and regional offices, store directors and warehouse managers are covered by a voluntary medical insurance (VMI) programme.

An efficient cost management system allowed us to reduce costs of voluntary medical insurance, with a simultaneous increase in the number of employees participating in the programme. In 2016, an insurance company with more attractive conditions was chosen.

The Detsky Mir Group's Policy also allows employees who are in difficult life situations to receive financial aid.



## FORMATION AND DEVELOPMENT OF CORPORATE CULTURE

We put a lot of effort into making our head office, retail, and warehouse staff feels that they are part of a single team working together to achieve common goals.

The Detsky Mir Group organises teambuilding events on a regular basis: sporting events, volunteer and charity initiatives, Community Clean-up Days, conducts the Labour Team action; in addition, we celebrate public holidays, company dates, and employees' individual dates together.

The Detsky Mir Group promotes a healthy lifestyle among its employees, i.e. by organising sporting events, such as the annual Spartakiad Sistema JSFC. For employees participating in industry and cross-industry sports tournaments, the Company arranges trainings with professional coaches, pays for the rental of sports facilities, and supplies the teams

with uniforms. The Company's employees can use corporate discounts at major fitness centres.

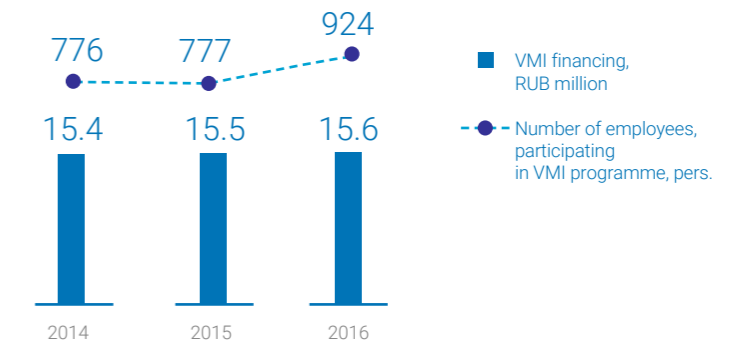
As part of a Labour Team campaign held twice a year (shortly before 1 September and before New Year's), all of the head office's employees – from the General Director to low-level managers – work in one of the chain's stores as a sales assistant or a warehouse employee. Such a campaign allows office employees to see the store's operation "from the inside," to assess the actual workload of the staff, to define bottlenecks in relative business processes and make suggestions on how to eliminate them, and to estimate the efficiency of innovations in place. Furthermore, thanks to the campaign, the store personnel have the opportunity to socialise with the Company's management and raise any vital questions they may have.

The New Year's corporate event held for the head office's employees and regional division managers includes an award ceremony for employees who have made a significant contribution to the Company's development.

The Company has a telephone hotline that allows each employee to confidentially address an enquiry or a leave a comment. The number of the hotline is available on the corporate web portal and at each retail store, in addition to being emailed to employees on a weekly basis. The project's goal is the prompt communication and clarification of issues related to the Company's Procurement Policy, accounting and financial reporting, compliance with internal regulations, as well as any social or HR issues. Enquiries received from an employee are forwarded to the relevant division of the Company's head office, with the maximum response time being two weeks on average.

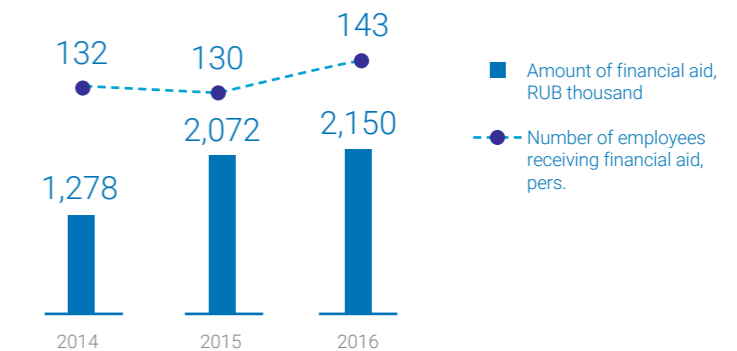
The Detsky Mir Group has a Co-Financing programme: any employee can donate a part of their salary to the Company's Charity Foundation, to be spent on helping children of employees who are in difficult life situations. (For details, please see the Charity section).

## Voluntary Medical Insurance for Detsky Mir Group's Employees<sup>1</sup>



<sup>1</sup> According to Kazakh legislation, voluntary medical insurance is not provided at Detsky Mir – Kazakhstan LLP.

## Financial Aid to Detsky Mir Group Employees



Employees of the Detsky Mir Group are notable participants in the activities of Spartakiad Sistema JSFC

# 5.6. TRAINING AND DEVELOPMENT



We believe that it is only possible to achieve the Company's strategic goals with the personal contribution of each employee. Our investment in human resources enables the improvement of the Detsky Mir Group's financial performance.

One of our achievements in the field of personnel training and development is the established continuous system of on-going training for all employees via a large number of distance-learning courses.

We pay special attention to upgrading the skills and developing the core competencies of our retail employees, which guarantees the improvement of customer service and boosts sales.

Each category of the chain's retail staff regularly takes free training courses in accordance with the mandatory training matrix. The matrix includes both training courses in technical skills for line staff (e.g., Product acceptance) and courses for management staff (e.g., Personnel management).

The Detsky Mir Group has two corporate training centres. The training centre, which is a part of the Group, develops training courses and delivers them to retail staff and

regional managers. The head office's employees have trainings at the corporate university of Joint-Stock Financial Corporation Sistema in accordance with individual development plans,<sup>1</sup> or upon the division manager's request.

The head office's employees receive the following types of training:

- mid-term training (one or two week-long courses);
- short-term skill upgrading courses in the employee's field of specialisation, such as finance or law;

<sup>1</sup> Drafted for the leading specialists and above.

- long-term training, provided on the basis of a special training agreement, according to which the Detsky Mir Group pays all training costs, while the employee commits to work for the company for at least one year upon the completion of his/her training.

The continuous training and the regular appraisal of employees' professional knowledge are consistent with the concept of employee categorisation (implemented since 2014). The proportion of employees who have passed their trainings (a certain % of the training) is a significant operation indicator of the store, regional division, and the Company.

## RESULTS OF 2015–2016

In 2015–2016, we were modernising our training courses by updating training programmes, visuals, and by automating organizational and training processes.

The results for the reporting period include:

- A license for educational activity was obtained; license subtype: additional professional education.
- A professional development programme called "Fire Safety Basics for Management and Employees Responsible for Fire Safety in Trade Organizations, Public Catering Systems, Warehouses and Stores" was developed; the programme was approved by the Ministry of Civil Defence and Emergency Response in April 2016.

- A professional development programme called "Labour Safety Training for Employees of the Company" was developed; the programme was approved by the head of the State Labour Inspection in Moscow in June 2016.
- Starting from the 2nd quarter of 2016, a distance-learning programme for ELC employees was implemented.
- 11,728 employees participated in training in 2015, with 14,360 employees participating in 2016.

We are actively developing distance-learning technologies for our employees. In 2015–2016, for the purpose of modernising the training portal, the following steps were taken:

- Access to the Internet training portal of Detsky Mir Group, including to the one on the corporate website, was secured. Employees can be trained at their workplaces and can also use their persona computers for this purpose whenever it is convenient to them.
- A system of multiple browsers for the training portal was implemented (this gives employees the opportunity to enter and work from any browser or from any mobile device).
- The training portal was activated using encrypted security protocol (https).

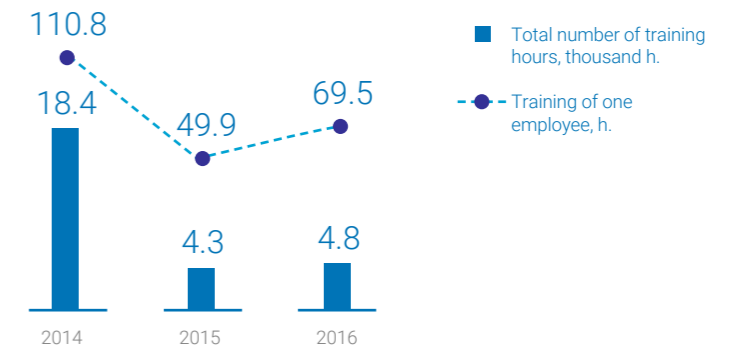
The significant reduction in the number of training hours in 2015, when compared to 2014, is a result of the transfer to the unified informational SAP platform (for more details, please see the Information Technologies section) As the result of revision of the training programmes, the number of courses and time needed for training were reduced without a loss of in the quality of knowledge obtained.

## EVALUATION OF EMPLOYEE ACTIVITY

Evaluation of each employee's personal efficiency is an important resource for the Company as it helps to develop the corporate culture and to organise business processes.

All employees of the Detsky Mir Group undergo evaluation procedures of

Total Number of Training Hours of the Detsky Mir Group's Employees



Total Number of Training Hours of the Detsky Mir Group's Employees, hours

	2014 <sup>1</sup>	2015	2016
Number of training hours by gender			
Men	11,079	6,603	8,402
Women	99,710	43,260	61,138
Number of training hours by category of employees			
Sales staff	75,912	49,291	68,880
Office staff	34,877	572	660

<sup>1</sup> The method used to calculate the amount of course hours (the total number of hours) has been changed: since 2015, the actual time spent training is calculated, not the difference between the beginning and the end of the training as previously thought.

their professional knowledge and performance efficiency, regardless of their position or work record.

Evaluation of the professional knowledge of Detsky Mir's chain store employees is carried out twice a year. On the basis of its results, one of the following grades is assigned to each employee:

- Specialist – assigned after the successful evaluation of professional knowledge;
- Expert – assigned for the achievement of set KPIs and for outstanding results demonstrated during the evaluation procedure.

Employees who are assigned the grade of expert are included in the candidate pool and are regarded as potential substitutes for management vacancies in retail.

Evaluation of the performance efficiency of the head office's employees is carried out once a year on the basis of the approved KPI.

772 transfer applications to senior positions, in the category of administrative store management staff, were submitted in 2016, 62% of which were approved. In total, 665 "vertical" and "horizontal" employee transfers of were made in the retail chain.

# 5.7. LABOUR SAFETY



The Detsky Mir Group pays special attention to labour safety issues. Comfortable and safe labour conditions are a key factor influencing our hiring and retaining of qualified personnel. The labour safety system at the Company is based on the full observance of existing legislation in Russia and Kazakhstan concerning this sphere.

### Employees Responsible for Labour Safety

Head office	Retail	Warehouse
Heads of structural divisions and departments	Directors of stores and their deputies	Heads of shifts Head of the warehouse and its deputies

Employees responsible for labour safety are appointed by the CEO of the Company upon completing a training course amount of 40 hours. These employees are trained mainly in person by our Training centre, which possesses the respective license.

All employees are introduced to labour safety upon employment; afterwards they are regularly instructed in accordance with the requirements of labour legislation. Warehouse workers are trained additionally in electrical safety. The Company informs not only

its employees on labour safety, but also the employees of its subcontractors.

The employees who are responsible for labour safety also perform checks aimed at uncovering any possible safety violations.

Observance of labour safety requirements in the Detsky Mir Group's retail stores is controlled by performing comprehensive examinations of the adherence to the regulatory standards of the Group, including a section on the labour safety of employees. Inspections

of chain stores are carried out under the supervision of the territorial management in accordance with a set schedule without the notification of the stores' management. If any violations are discovered, recommendations for their removal are given, resulting in an additional follow-up inspection.

Despite the fact that the activity of Detsky Mir Group does not involve the use of dangerous technologies, we strive for the maximum reduction of possible risks relating to industrial injuries and the occurrence of occupational diseases.

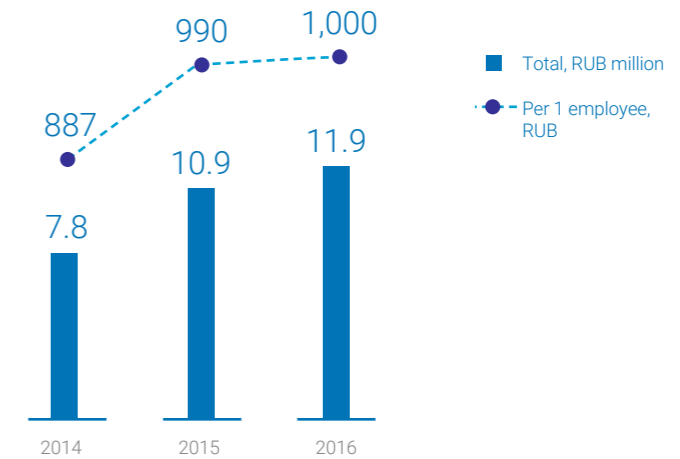
For the purpose of minimising the occurrence of injuries at our offices, shopping premises and warehouses, the following key measures and initiatives have been implemented:

- a special evaluation of labour conditions (work places are evaluated by independent certified companies, with the class of labour conditions of 2.0 meaning allowable labour conditions); as of the end of the reporting period, a special evaluation of labour conditions was carried out at PJSC Detsky Mir, and 100% of work places were inspected;
- introductory, primary and secondary instructions, made at least twice a year, are given to personnel on labour safety, as well as on fire and electrical safety;

- the timely training and retraining of the heads of divisions and responsible employees in accordance with programme "Labour Safety" is carried out by our own corporate Training Centre, and if necessary, with outsourcing to specialised training centres and state labour inspectors;
- the creation of Committees for checking employee knowledge of labour safety requirements;
- checking on the observance of the Rules of internal labour routine and fire safety arrangements;
- the development of regulations and guidelines for structural divisions and departments of the Company, as well as instructions and labour safety programmes. All documents related to this segment are placed on the corporate portal for use by employees while they are at work.

The above-mentioned measures have allowed the Company to prevent the occurrence of any occupational diseases and preserve

### Labour Safety Expenses at PJSC Detsky Mir



the allowable low level of work-related injuries at the Detsky Mir Group within the reporting period. 9 incidents followed by work-related injuries occurred at PJSC Detsky Mir in 2016; no injuries resulting in death were registered. At Detsky Mir – Kazakhstan LLP and Kub-Market LLC (ELC), no industrial injuries were registered in 2014–2016.

The total expenses for labour safety in 2016 amounted to:

- at PJSC Detsky Mir – RUB 11.9 million, 1,000 RUB per 1 employee;
- at Kub-Market LLC – RUB 237.8 thousand, 1,149 RUB per 1 employee;
- at Detsky Mir – Kazakhstan LLP – RUB 52.8 thousand, 235 RUB per 1 employee.





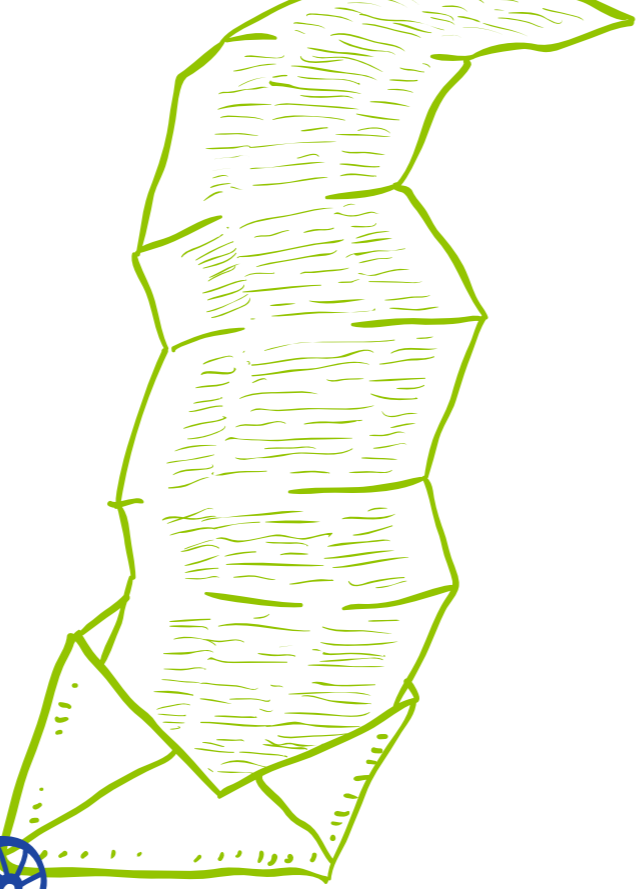
# 6 /

# CARING FOR THE FUTURE



The charity activities of the Detsky Mir Group are aimed at the support of children experiencing hardship

# 6.1. CHARITY



We see our social responsibility to society at large in improving the quality of children's life, and in taking care of those in difficult life situations.

By performing social and charity projects, we strive to improve the living conditions at social institutions for children, to raise their level of socialisation and to reveal the creativity of little citizens of Russia.

We invite our employees to take part in these projects, thereby increasing their involvement. Raising the level of corporate volunteering is one of our targets under the implementation of our CSR Strategy (see the Strategy of Corporate Social Responsibility section).

The Detsky Mir Group took 25<sup>th</sup> place in the Leaders of Corporate Charity, with 2016's rating having risen by 4 positions YoY.

The rating following the results of 2015 was issued in November 2016 by the Donors Forum non-profit foundation, PwC and Vedomosti Business Daily.

### CHARITY TARGETS OF THE DETSKY MIR GROUP:

- contributing to the spiritual advancement of the individual, and strengthening the prestige and the role of family in society;
- contributing to protecting childhood, maternity and paternity;
- contributing to the provision of healthcare to children and adult citizens;
- contributing to the promotion of physical fitness and a healthy lifestyle;
- contributing to developments in education, science, culture and arts activities;

- contributing to the provision of social support to low-income families with children and the social rehabilitation of children and adults with disabilities;
- contributing to the prevention of children being orphaned, promoting the adoption of children who have been left without parental care;
- contributing to socialising graduates of residential care facilities to ensure their economic independence, and their personal and professional self-determination by performing career guidance in the field of competitive professions.

### CHARITY PRINCIPLES:

- an objective need (expediency) for charity assistance;
- transparency and responsibility of decisions made to render charity assistance;
- conformance with charity priorities;
- the practical efficiency of charity activities;
- the availability of funds for charity assistance;
- control of the targeted expenditure of funds allocated for charity assistance.

### CHARITY FOUNDATION

Social activities of the Detsky Mir Group are performed by the Detsky Mir Charity Foundation ([www.bfdetmir.ru](http://www.bfdetmir.ru)), established in 2004, which performs activities in accordance with the Charter and Charity Policy of PJSC Detsky Mir.

### TYPES OF CHARITY ACTIVITIES:

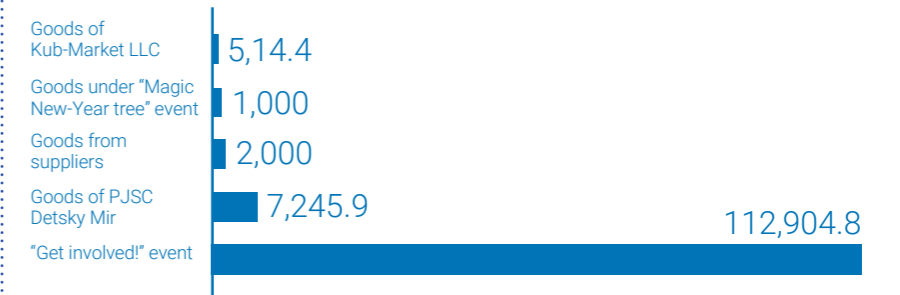
- charity events, such as: "Get Involved!", plus New Year's and other events;
- social programmes, such as: Together We Can Do More, Art Without Borders, Going in for Sports, and Step Forward;
- targeted assistance to children – our "Co-Financing" project;
- volunteering: Volunteer Puppet Theatre, charity Saturday events and fairs, plus other mass events.

Sources of financing for charity activities include funds allocated from the Company's budget, as well as voluntary donations to the Detsky Mir Charity Foundation.

### Charity Priorities

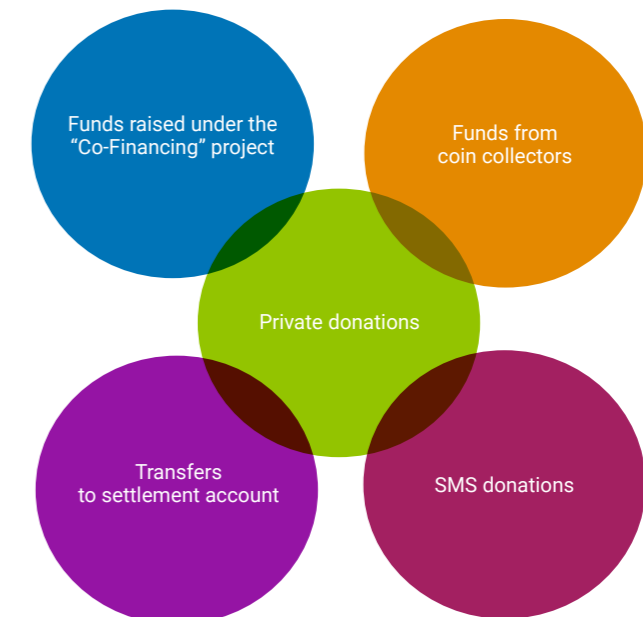


### Donations in Commodity Terms for 2016, RUB thousand

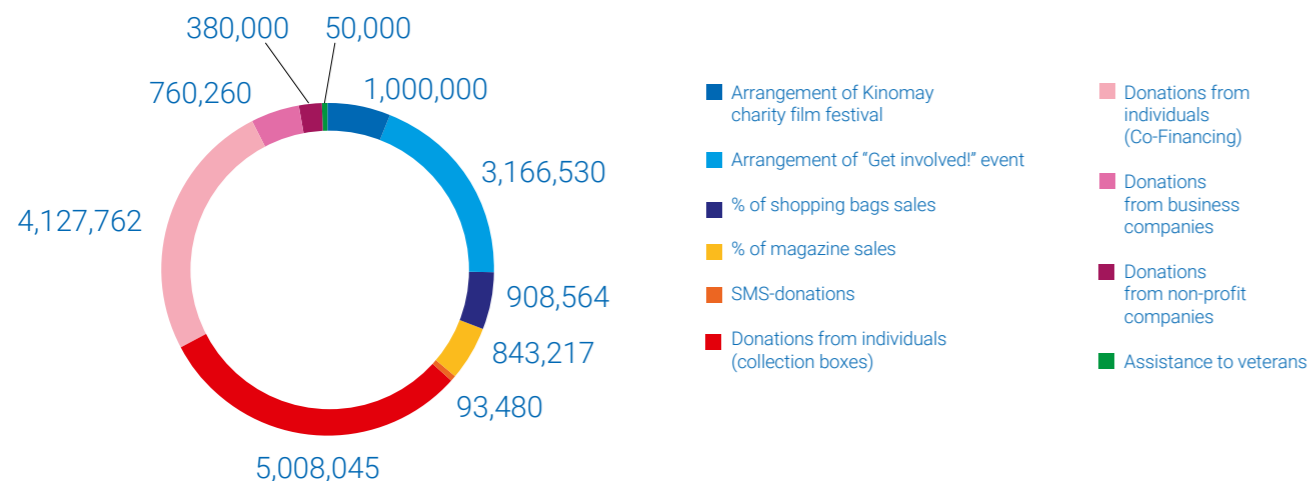


Over 200,000 children experiencing hardship from 550 social institutions in Russia and Kazakhstan are under the patronage of the Detsky Mir Group.

### Sources of Private Donations



**Donation Structure in 2016, RUB**



The total of goods donated to the Detsky Mir Charity Foundation, in terms of currency, amounted to RUB 113 million in 2015 and RUB 124 million in 2016. In 2015–2016, the Foundation spent a total of RUB 287 million on charity events and assistance. This amount includes both the Company's own and externally raised funds.

**THE "GET INVOLVED!" CHARITY EVENT**

The purpose of this event is to collect gifts for orphans and children left without parental care living in residential care facilities; children from low-income families; and children with disabilities.

For over 12 years, we have been collecting gifts for children in need. The event is held three times a year: in April-May, it is devoted to the national holiday of Children's Day; In August, it is held on the eve of Knowledge Day, September 1; in November-December, it is devoted to the upcoming New Year holidays.

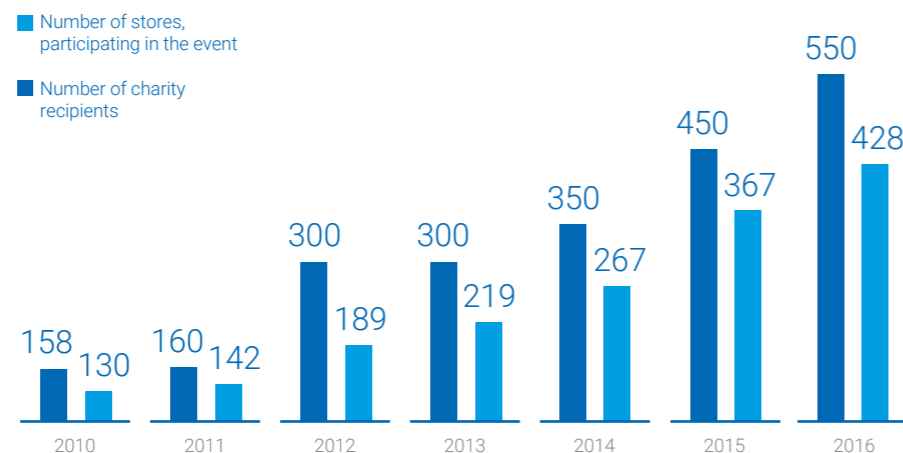
To take part in the event, you should take a gift to a specially designated area at our store locations, located next to the cash desks. The gifts can consist of toys, game sets, clothes, shoes, stationery, goods for outdoor activities, etc.

You can support children not only by leaving gifts, but also by sending a donation via SMS to the short number 7715 with the words "Uchastye" and indicating the amount you would like to donate.

**Key Results of the "Get Involved!" Event**

	2015	2016
Number of stores participating in the event	367	428
Number of charity recipients	450	550
Cost of collected gifts, RUB million.	85	112

**Dynamics of Joining the "Get Involved!" Event by its Participants**



**THE "CHARITY INSTEAD OF GIFTS" EVENT**

Since 2013, Detsky Mir employees have been offering its partners on New Year's Eve to transfer assistance to the Foundation charity for children in need instead of giving traditional corporate gifts. 20 partners took part in this event in 2016. Funds, toys, clothes, footwear, hygiene products, and kits for creativity were transferred to the Foundation.

In 2015, this charity event was held in 140 cities of Russia and Kazakhstan. The gifts collected amount to a total amount of RUB 85 million, and were handed over to 450 social institutions.

In 2016, the same charity event was held in 160 cities of Russia and Kazakhstan. 3 million gifts to the total amount of RUB 112 million were collected and handed over to the social relevant institutions.

In 2017, the Detsky Mir Charity Foundation plans to hold the "Get Involved!" event over the course of the year.

**TOGETHER WE CAN DO MORE PROGRAMME**

This programme is aimed at the financial and organizational support of low-income families with children, as well as for children from residential care facilities.

Types of assistance:

- targeted assistance to families with children;
- the arrangement of activity rooms at medical and social institutions.

**TARGETED ASSISTANCE TO FAMILIES WITH CHILDREN PROGRAMME**

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

The Company has a "Co-Financing" project that invites each employee to donate a part of their salary to the Company's Charity Foundation aimed at rendering medical assistance to severely ill children.

In 2013–2015, 306 people took part in the project. At the end of 2016, the number of participants amounted to 710 people, 250 of whom joined the project in the reporting period. In 2015–2016, RUB 7.2 million was received from Detsky Mir Group employees under the "Co-Financing" programme.

Under the programme, we cooperate with the Rusfond Russian Charity Fund and render financial assistance under the applications that are submitted directly to us.

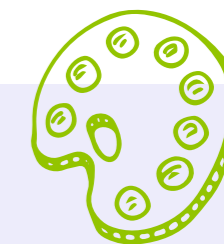
**NEW LEASE ON A TOYS' LIFE**

For the first time in Russia, the ELC chain and the social institutions of Moscow held a joint event entitled the Toy Trade-In. The event was held twice a year, in July and October 2016. The buyers could bring toys their children are no longer playing with to the store, and receive a discount of up to 30% for ELC goods. The collected toys were then sent to children from social institutions, to large families and to children with health disabilities.

Under the Agreement on the Strategic Cooperation between the Ministry of Economic Development of the Perm Territory and the Detsky Mir Group signed in February 2015, we cooperate with the regional authorities to implement childhood and maternity support programmes.

We provide additional social and financial support to children and adolescents left without parental care, and to children in difficult life situations: those with severe illnesses, disabled children, children from large families, and from residential care facilities and orphanages in the Perm Territory.

The largest projects implemented within the reporting period include:



**2015**

Support for cinema forums organized by the Children's Cinema May charity fund in the cities of Rostov-on-Don, Moscow, Saint-Petersburg, and Smolensk

Support for the Constellation of Children's Talents festival (Moscow)

Celebrating the birthday of the SOS Children's Village, Non-state Educational Establishment (Vologda)

Support for the International Festival of Family Dynasties, "Faith. Hope. Charity." (Suzdal)

Support for the 6<sup>th</sup> city exhibition of creative works, A Formula for Kindness 2015 (Moscow)

In 2015–2016, assistance in the amount of RUB 5,662 thousand was rendered to 45 children.

#### THE TOY CAMPAIGN PROJECT

Since 2013, the Detsky Mir Charity Foundation has been implementing the Toy Campaign Project, which arranges children's activity rooms at medical institutions. The project is aimed at giving children a feeling of comfort in hospitals and thus ensuring a speedy recovery.

For very young patients, the activity rooms have dolls, strollers, construction kits, toy cars, educational games, sets for role-playing games and much more. For older children, they offer sports games: foosball, air hockey and bowling. They also have various manuals on musical instruments, the development of speech skills, memory, thinking, attention span and vocabulary on various lexical topics.

In 2015–2016, Detsky Mir opened 138 activity rooms in 49 medical and social institutions of 30 cities under the Toy Campaign Project. In 2015–2016, RUB 11 million was spent on equipping and upgrading these activity rooms.

Beside donating toys and decorating the rooms, the Detsky Mir Charity Foundation also carries out repairs and acquires furniture and medical equipment, if needed.

In 2017, the project of opening children's rooms at medical institutions will be continued.

#### ART WITHOUT BORDERS PROGRAMME

This programme is aimed at developing of the creativity, morality and aesthetic taste of the younger generation.

Target groups for the programme's implementation include: gifted children, children involved in creative work, and youth creativity centres.

Types of assistance offered include:

- support of creative festivals;
- support of unique methods in the artistic sphere;
- arrangement and support of exhibitions and contests;
- arrangement and support of concerts and entertainment shows;
- arrangement and support of New Year's shows.

# 2016



Support for cinema forums organized by the Children's Cinema May charity fund in the cities of Smolensk, Kazan, Saint-Petersburg, Rostov-on-Don, Narva, Berlin, and Luxemburg

Assistance to 200 disabled children with the opening of the exhibition the Greek Heroes of Hellas

The provision of gifts to seriously ill children participating in a creative exhibitions at hospitals (Yaroslavl)

Support for the Constellation of Children's Talents festival (Moscow)

Arranging trips for 300 children from 10 orphanages in the Smolensk, Kostroma, Ryazan and Moscow regions to see the Akvamarin circus's The Dream Show

Support for children participating in the Soulful Creative Festival

Support for the Orange Festival (arrangement of a "shop")

Arranging trips for 200 children from 10 orphanages in the Smolensk, Kostroma, Ryazan and Moscow regions to see the Nikulin circus on Tsvetnoy boulevard in Moscow

Arranging a festive New Year's charity event entitled "The New Year Among Friends" for 450 children from different orphanages (in cooperation with the Children's Cinema May charity fund )

Within the Art Without Borders programme, RUB 3 million were transferred for the implementation of all projects in 2015–2016.

#### TOWARDS SPORT PROGRAMME

This programme is aimed at the development of children's and youth sport, and the promotion of a healthy lifestyle among the younger generation.

Target group: children involved and interested in sport.

Types of assistance offered:

- equipment of children's establishments by sports facilities;
- arrangement and support of children's sporting events.

RUB 72 thousand were transferred for the implementation of the

programme Towards Sport in 2015, with RUB 86 thousand being transferred in 2016.

#### STEP FORWARD PROGRAMME

This project was aimed at the socialization of orphans in residential facilities by the arrangement of various workshops.

The project goal: to help children from orphanages adjust to individual life, to teach and develop skills in certain activity spheres that can enable them to earn a living on their own.

We support campaigns aimed at career guidance and the professional orientation of teenagers, as well as projects aimed at the societal and labour adaptation of children in hardship situations.

Target groups: orphans and legally independent children; children from families with low income.

Types of assistance:

- assistance with further education for orphans and children in hardship situations;
- arrangement of excursions contributing to career guidance for teenagers;
- arrangement of career guidance master classes.

In 2016, within the implementation of this project, the Company arranged trips for 300 children from 10 establishments under patronage to the Kidzania educational park in Moscow.

#### VOLUNTEER PUPPET THEATRE

At the end of 2014, the Detsky Mir Group established a Volunteer Puppet Theatre, whose actors are the employees of the company. The theatre group performs in orphanages sponsored by the Company, as well as at charity fairs and festivals. The project allowed the Company to attract new workers to its charity projects and enhance loyalty to the brand.

The Volunteer Puppet Theatre gives about 20 performances per year (whose plays include Leshy and Sofa, Morozko, and Marviks) at social establishments, family centres, libraries and community centres, as well as at charity fairs and festivals.

In the reporting period within the Towards Sport programme ,seven projects were implemented:

# 2015



A "fun run" by Rusfond (Sochi)

Provision of awards for winners of a rock-climbing competition at the "Lizard" club (Moscow)

Support for the charity soccer match of the Regional Society for Disabled People, "Perspektiva" (Moscow)



# 2016

Provision of awards for winners of a rock-climbing competition at the "Lizard" club (Moscow)

Support for the festive sporting event "Mother, Father and Me – A Sports Family," with the participation of children with Down syndrome (Novokuznetsk)

Support for a "fun run" in aid of "butterfly children" (Moscow)

Support of a "fun run" in aid of children with scoliosis "Mother, Father and Me – A Healthy Spine!" (Moscow)

In November 2016, the My Equator charity fund, with assistance from the Detsky Mir Group, offered the citizens of Moscow and guests to the capital, for their viewing pleasure, an exclusive collection of the best photographs from The Golden Turtle festival for the last 10 years, which were displayed on Tverskoy boulevard.

The My Equator charity fund collects donations and brings to light the problems of childhood diseases through the beauty of wild nature. The Fund's largest project was an International Ecological and Educational Festival called The Golden Turtle, all proceeds of which are transferred for the payments needed for children's surgeries.

Educational fairy tales remind children about the value of friendship, the distinction between good and evil, the importance of love and to take care of nature.

Expenses for the Volunteer Puppet Theatre (the acquisition of stage props and theatrical scenery, transportation expenses, the lease of lighting and musical equipment, food for actors during guest performances, etc.) amount to RUB 100 thousand per month.

**CHARITY EVENTS AND VOLUNTEER CLEAN-UPS**

The Detsky Mir charity fund regularly organizes charity events such as New Year's festivals and fairs, special events such as the Wishing Tree, and arranges other festive New Year's events.

The programme for festive charity events includes: creative master-classes, performances of variety and circus artists, shows with live animal performances, face painting, soap-bubbles, games with entertainers and gift giving.

Our offers to participate in charity events are often accepted by the representatives of the artistic intelligentsia. In 2015, at a New Year's festive event at the Research Institute of Emergency Paediatric Surgery and Traumatology, the following guests participated: composer Dmitriy Dunaev, actress Elena Zakharova, television hosts from the Reloading television programme on the TNT channel, Yulia Baranovskaya, Yuriy Stolyarov and Evgeniy Sedoy.

Children from 10 social establishments in Moscow and the Moscow, Smolensk, Ryazan, Kostroma regions participated in charity fairs arranged by the Detsky Mir charity fund in 2015–2016.

Proceeds from charity fairs exceeded RUB 500 thousand for the reporting period. All funds raised were transferred by their recipients for the purchase of materials for new creative works.

The charity fund of the Detsky Mir Group also arranges traditional spring volunteer clean-ups of regions after the winter season. Within the period from April to May of 2016, the fund arranged 22 clean-ups at 21 children's establishments with participation of 510 volunteers.

# 6.2. ECOLOGICAL RESPONSIBILITY



The Detsky Mir Group pays special attention to protecting the environment, saving natural resources and recycling waste. We would like to draw your attention once again to the fact that our friendliness towards the environment determines the quality of the environment that we, and the next generation – our children, will live in tomorrow.

similarly modernise all existing sales premises of the Company.

This project focuses not only on the reduction of current operating expenses (the cost of the LED based solution doesn't exceed the cost of projects based on traditional lighting sources), but also to decrease these expenses in future. As the result of the project's implementation, monthly energy saving totalled 561.6 thousand kWh in 2016. An additional positive effect is that there is no further need to dispose of mercury lamps, which fall under the 1st class of hazardous waste.

**Reduction of Paper Consumption**  
The automation of business processes at the Company, carried out within our strategy, led not only to an increase of the efficiency of operations, but allowed the Company to reduce its consumption of paper resources, i.e. office paper. For example, the development and introduction of an electronic invoice format eliminated the need to use its paper version. For more details, please see the Information Technologies section.

**REDUCTION OF RESOURCE CONSUMPTION**

The introduction of modern technologies and solutions aimed at reducing the consumption of resources is important for us not only in terms of reducing our operating expenses, but also in terms of minimising our hazardous impact on the environment.

**Energy Saving**

The updated merchandising concept of Detsky Mir's stores offers the use of modern energy saving solutions that make it possible not only to improve our

sales and make it more comfortable for our customers and personnel, but also to considerably reduce our energy consumption. The total volume of saved energy in 2016 amounted to 4,377,148 kWh.

Since 2014, we have started equipping our stores with LED-based lighting systems. In 2015, the company equipped 83 stores by such systems, and in 2016 100 stores were equipped. A new warehouse in Bekasovo, opened in 2015, (please see the Procurement Activities section) was equipped with energy-saving devices and a lighting system with motion sensors. In the coming years, we plan to



Well-known TV presenters Victor Vasiliev and Dmitry Khrustalev supported "Participate!" charity event



Corporate Volunteer Puppet Theatre





### Consumption of Energy Resources by the Detsky Mir Group

Type of energy resource	2015		2016	
	RUB thousand	unit	RUB thousand	unit
Electricity (kWh)	445,001.3	92,800,151	590,048.9	114,998,368
including offices	12,075.4	2,518,196	31,708.3	6,179,833
including Detsky Mir stores (kWh)	432,925.9	90,281,955	558,340.7	108,818,534.3
Heat, water and gas supply (Gcal)	79,635.2	46,288 <sup>1</sup>	110,279.9	59,906.4

<sup>1</sup> Data on heat energy. The average share of heat energy at the Company in the cost of heat, water and gas supply, totalled 92.7%.

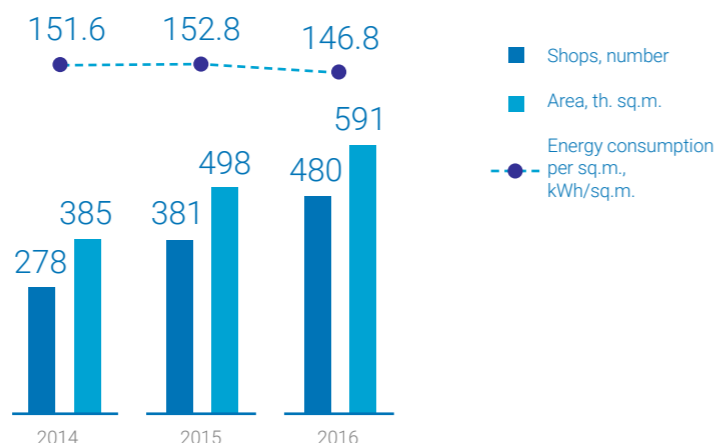
### ENVIRONMENTALLY FRIENDLY PACKAGING FOR CONSUMERS

At Detsky Mir store locations, customers are offered bags made of paper – eco-friendly material that does not harm the environment during decomposition and is easily disposed of. Launching the sale of Kraft paper bags was one more step among the chain's environmental initiatives. The Detsky Mir Group became the first retailer in Russia in the segment of children's that offered environmentally friendly packaging to its customers.

The Segezha Group (included in Sistema JSFC), who produces environmentally friendly packaging for large retail chains and manufacturing companies, became the partner of the project. The retail price of one bag is 15 RUB, with a weight capacity of 7 kg. The bags are embellished with the company's logo. Part of the proceeds from the sales of bags is transferred for support of programmes of the Detsky Mir charity fund.

In December 2015, we launched sales of paper bags at store locations in Moscow and in the Moscow region. In July 2016, the project was expanded across the entire chain, after which the amount of paper bags sold increased 5 times – from 5.8 thousand in July to 30.6 thousand in August. As of the end of 2016, the sale volumes of paper bags amounted to 52%. Eco-friendly bags are mostly popular in the Moscow and Northwestern regions.

### Specific Energy Consumption at Detsky Mir stores

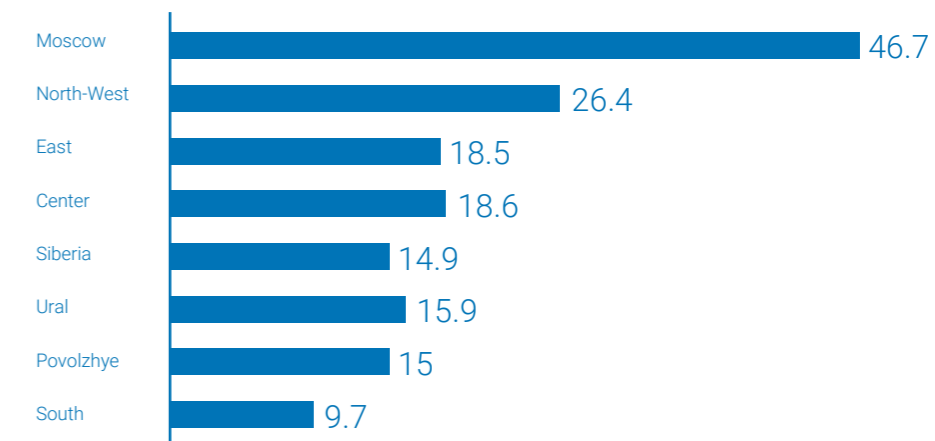


### Paper Consumption of the Head Office of PJSC Detsky Mir

Indicator	2014	2015	2016
Paper consumption (A3 size, kg)	480	250	150
Paper consumption (A4 size, kg)	8,325	9,250	6,975
Paper consumption per employee (kg/person)	16.7	18.5	14.3



### Sales of Paper Bags in July-December of 2016, thousand pieces.



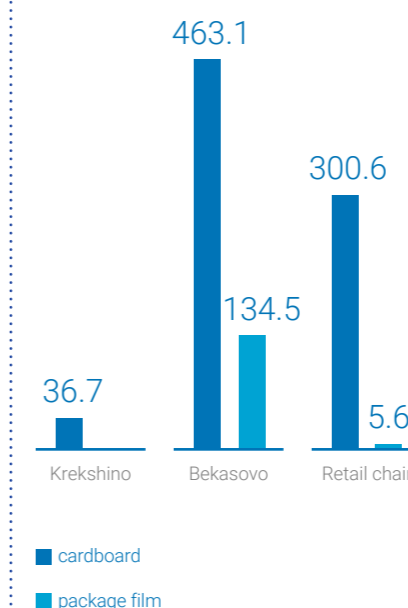
This new environmentally friendly packaging will gradually replace the usual plastic bags. Given the Company's scope of activities, this new project will help to significantly decrease any hazardous impact on the environment and increase the eco-friendly culture of the citizens of our country.

### MODERNISATION OF THE WASTE MANAGEMENT SYSTEM

The majority of waste generated in our warehouses and stores consists of cardboard and polyethylene film. Of this waste, cardboard is easily recycled; it is used for production of white lined chipboard, which at the moment is considered to be the most promising secondary package material for the future worldwide. Polyethylene, by contrast, is a potentially dangerous source of environmental pollution. It is estimated that the process of its decomposition takes up to 300 years, undergoing thermal ageing and gradually decomposing when exposed to sunlight, heat, and oxygen, thus as a result, emitting hazardous pollutants into the soil and water.

We've made it our mission to decrease our impact on the environment, which is why implementing projects related to package disposal were a natural and necessary step in this direction.

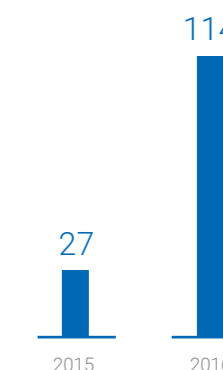
### Collection of Recyclable Materials in 2016, tonnes



Since 2014, the Company's warehouses have arranged the collection of waste paper and polyethylene film, which are sorted separately and handed over to a specialized company for further recycling. In 2016, distribution centres in Krekshino and Bekasovo collected about 500 tonnes of cardboard and 134.5 tonnes of film.

In 2015, we launched pilot projects related to the separate collection of

### Number of Stores Participating in the Project for the Collection of Recyclable Materials, by the end of the year, pieces



recyclable materials in sales areas. As of the end of 2016, the project involved the participation of 114 of the chain's store locations. We plan to increase this amount in future. By the end of 2016, our retail chain stores disposed of 300.6 tonnes of cardboard and 5.6 tonnes of film. This allowed us to decrease volumes of waste passed on to the subcontractor, which in turn, reduced our expenditures for this purpose by 25%.

# GLOSSARY

**The Group of Companies, the Company** – the Detsky Mir Group.

**Stakeholders** – the physical or legal entities that have an influence on the activities and/or are influenced by the Detsky Mir Group (clients, employees, shareholders, state authorities, non-profit organizations, etc.)

**Corporate Social Responsibility (CSR)** – the body of principles and obligations, by which the Detsky Mir Group is governed in its activities related to the management of relations with its stakeholders and its own influence on national, economic, social and ecological spheres.

**Merchandising** – a set of measures taken in the sales room and aimed at the promotion of this or that good, brand, type or packaging, resulting in the encouragement of customers to choose and buy the goods promoted.

**Impact** – a positive or negative effect on society, economics or the environment, fully or partially caused by the activities of the Detsky Mir Group.

**Report** – the report of the Detsky Mir Group, which is related to its sustainable development in 2015–2016.

**Own brand (OB)** – a brand, the owner of which is the Detsky Mir Group, under which goods are produced by the request of the Detsky Mir Group and for the purpose of sale in its stores

**Like-for-like sales** – a comparison of sales performance year by year, excluding data related to new stores that were not yet opened in the referenced year.

**Sustainable development (UN wording)** – the development of society that allows the current generation to satisfy its needs without damaging the opportunities left as a legacy for future generations for the satisfaction of their own needs.

**Omnichannel** – integrated trade via all available sales channels (including the offline store, the Internet shop, sales via mobile devices, sales via social networks, by telephone or other means).

# LIST OF ABBREVIATIONS

**VMI** – Voluntary Medical Insurance

**IT** – Information Technologies

**KPI** – Key Performance Indicators

**CSR** – Corporate Social Responsibility

**VAT** – Value Added Tax

**IT** – Income Tax

**PFR** – Pension Fund of Russia

**RB** – Regional Budget

**RD** – Regional Division

**DC** – Distribution Centre

**MM** – Mass Media

**CIS** – Commonwealth of Independent States

**OB** – Own Brands

**FB** – Federal Budget

**FCMIF** – Federal Compulsory Medical Insurance Fund

**PB** – Payroll Budget

**SIF** – Social Insurance Fund

**ELC** – Early Learning Centre

**GRI** – Global Reporting Initiative

**LFL** – Like-for-like

**MBA** – Master of business administration

**POS** – Point of sales

# INFORMATION ABOUT THE REPORT

This report is the Company's second report about the sustainable development of the Detsky Mir Group. The previous report was published in December 2015.

## Report Boundaries

This report reflects information on activities related to the sustainable development of the Detsky Mir Group, including Detsky Mir's stores in Russia and Kazakhstan and the ELC chain (Kub-Market LLC). Sustainability Reports are issued once in two years.

Several quantitative indicators demonstrate only the results of PJSC Detsky Mir due to the reporting system features. In case of narrowing of the coverage scope, the text of the Report includes the respective commentaries.

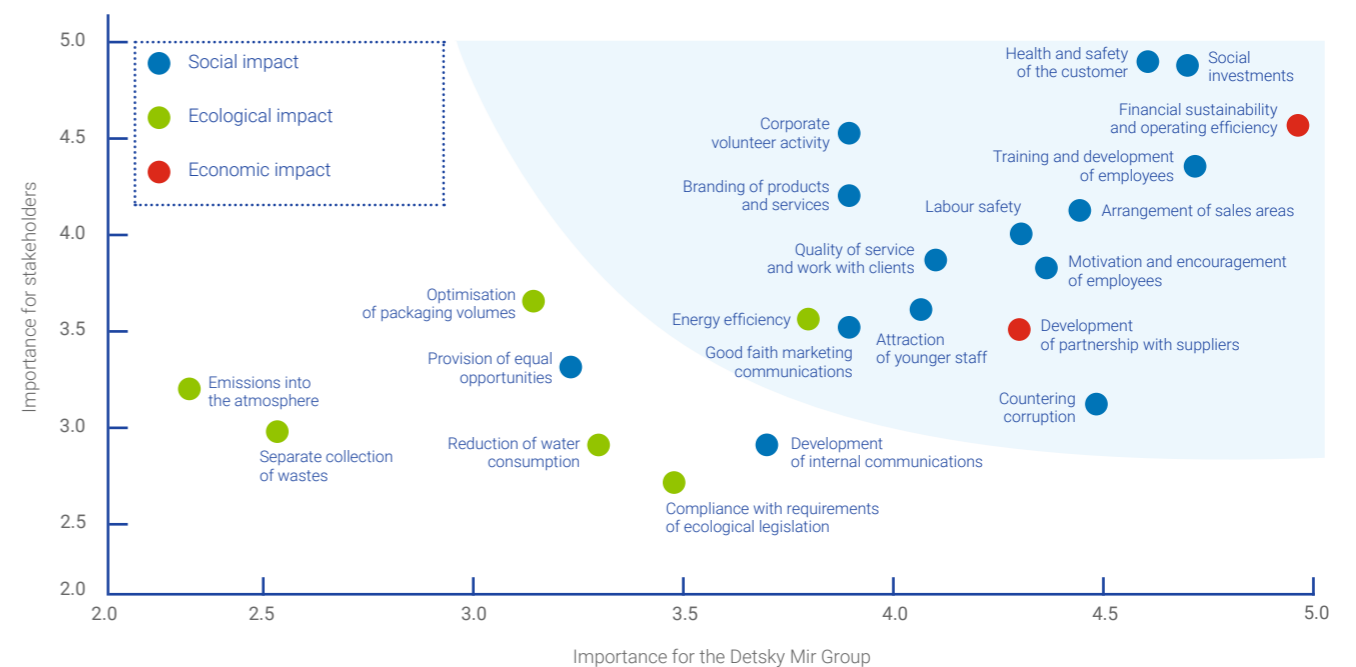
## Process of Deterring of the Level of Materiality

The Report is compiled with an account of requirements of the G4 version of GRI guidelines (the "main" variant). These Guidelines make particularly focus on the description of approaches of the organization in determining material areas of activity related to sustainable development and interaction with stakeholders within this process. For the purpose of fulfilling of the recommendations of the GRI Guidelines, the material areas determined in 2015 were brought up

to date by a questionnaire survey of the internal stakeholders. Upon the results of the questionnaire survey, the priority of two aspects was raised: "The grades of products and services» and "Counteracting corruption."

The areas viewed as material (highlighted by light blue background in the chart below) were reflected in this Report: in relation to each of them, a description of approaches to management, the results achieved for the reporting period, and an analysis of performance indicators are given.

Materiality matrix



# GRI CONTENT INDEX

## FOR THE BASIC VERSION OF THE REPORT, ISSUED IN ACCORDANCE

General standard elements of reporting		Reference
<b>Strategy and Analysis</b>		
G4-1	Statement of the most senior manager, who makes decisions in the company	2–3
<b>Organizational Profile</b>		
G4-3	Name of the organization	6
G4-4	Primary brands, products, and services	6
G4-5	Location of the organization's headquarters	3 <sup>rd</sup> Nizhnelihoborskiy passage, 3, Block 6, Moscow 127238
G4-6	Number of countries of the company's operations	8–9
G4-7	Nature of ownership and legal form	6
G4-8	Markets served	8–9, 12–15
G4-9	Company scale	17, 57
G4-10	Headcount, broken down by type of employment contract and gender	>99% of the employees are on the payroll
G4-11	Coverage of employees by collective bargaining agreements	As of December 31, 2016 no such agreements were signed
G4-12	Organization's supply chain	44–49
G4-13	Significant changes in the scope, structure or property or supply chain that occurred during the reporting period	
G4-14	Application of a precautionary principle	The Detsky Mir Group doesn't apply a precautionary principle due to a low probability of serious or irreparable harm to the environment caused by the Group's activities.
G4-15	Economic, environmental and social charters, principles and other initiatives, developed by external parties and shared or supported by the company	51

General standard elements of reporting		Reference
G4-16	Membership in associations and/or national and international organisations involved in the protection of interests	Children's Goods Industry Association Association of Internet Trade Companies Association of Russian Managers
<b>Identified Material Aspects and Boundaries</b>		
G4-17	Legal entities whose financial statements have been included into the consolidated statements	<a href="http://corp.detmir.ru/u/section_file/3266/dm_ifrs_cons_fs_16-r.pdf">http://corp.detmir.ru/u/section_file/3266/dm_ifrs_cons_fs_16-r.pdf</a>
G4-18	Method for determining the content of the report and the boundaries of aspects, application of the principles of financial statements for determining the content of the report	81
G4-19	List of material aspects revealed when determining the content of the report	81
G4-20	Description of the boundaries of each material aspect inside the company	81
G4-21	Description of the boundaries of each material aspect outside the company	81
G4-22	Restatement of the indicators, shown in the previous reports, with substantiation	no
G4-23	Material changes in the scope and boundaries of aspects compared to the previous reporting periods	no
<b>Stakeholder Relations</b>		
G4-24	List of the stakeholders	26
G4-25	Stakeholder identification and selection procedure	26
G4-26	Approach to stakeholder communication	26
G4-27	Key topics and concerns raised by stakeholders in the process of communication	26
<b>Report Profile</b>		
G4-28	Reporting period	81
G4-29	Issue date of the previous sustainability report	81
G4-30	Reporting cycle	81
G4-31	Contact person to address questions regarding this report or its contents	88
G4-32	GRI content indicator	82–84
G4-33	External approval of sustainability report	86–87
<b>Corporate Governance</b>		
G4-34	Corporate governance structure, including the committees of the supreme corporate governance body	see Annual report 2016
<b>Ethics and Integrity</b>		
G4-56	Values, principles, standards and norms of behaviour, such as codes of conduct and ethics codes	25, 50

Material aspects	MTA and Indicators	Excluded information	Reference
Economic performance	Data on management approaches		16–19
	<b>G4-EC4</b> Financial assistance received from the company		In 2016, PJSC Detsky Mir did not receive any financial assistance from the state
Energy	Data on management approaches		77
	<b>G4-EN3</b> Energy consumption inside the company		78
Health and safety at work	Data on management approaches		66–67
	<b>G4-LA6</b> Types and rate of occupational injuries, rate of occupational diseases, lost day rate and absentee rate and the total number of work-related fatalities, broken down by region and gender		Occupational injuries frequency rate <sup>1</sup> among PJSC Detsky Mir's employees  2014 0.81 2015 0.49 2016 0.92
Education and training	Data on management approaches		64–65
	<b>G4-LA9</b> Average annual number of training hours per one employee, broken down by gender and employee groups		65
	<b>G4-LA11</b> Share of employees undergoing scheduled assessments of performance and career development, broken down by gender and employee groups		65
Counteracting corruption	Data on management approaches		50–51
	<b>G4-S04</b> Information on policies and methods of counteracting corruption and the relevant trainings		50–51
	<b>G4-S05</b> Confirmed cases of corruption and actions taken		51
Consumer health and safety	Data on management approaches		32–34
	<b>G4-PR2</b> The total number of non-compliances to the regulations and voluntary codes in terms of the impact of products and services on health and safety, broken down by the types of impact		No cases of non-compliance have been observed within the reporting period
Grades of products and services	Data on management approaches		34
	<b>G4-PR4</b> The total number of non-compliances to the regulations and voluntary codes in terms of information on grades and properties of products and services, broken down by the types of impact		34
	<b>G4-PR5</b> The results of assessment of the degree of customer satisfaction		37–38
Marketing communications	Data on management approaches		39
	<b>G4-PR7</b> The total number of non-compliances to the regulations and voluntary codes in terms of marketing communications, including advertising, product promotion and sponsoring, broken down by the types of impact		39

<sup>1</sup> Occupational injuries rate is equal to the number of injuries in the reporting period\*1,000/average staff employed.



# OPINION ON THE INDEPENDENT NON-FINANCIAL APPROVAL OF THE REPORT



Nexia Pacioli Consulting  
Limiting Liability Company (Nexia Pacioli Consulting LLC)  
TIN 7729517976 KPP 770601001; OGRN 1047796989679

Phone: +7 (495) 640-6452  
Fax: +7 (495) 640-6453  
E-mail: pacioli@pacioli.ru, <http://www.pacioli.ru>  
2 Malaya Polyanka st., Moscow 119180, Russia

## STATEMENT on Results of Independent Assurance of Detsky Mir Group Sustainability Report for 2015–2016

### Addressees of the Statements

The Statement is addressed to the executives of Detsky Mir PJSC.

### Subject Matter of the Assurance

1. Information included in the Detsky Mir Group Sustainability Report for 2015–2016.

2. The process of stakeholder engagement during preparation of the Sustainability Report for 2015–2016.

### Criteria

1. Compliance of the information, included in the Detsky Mir Group Sustainability Report for 2015–2016:

- with requirements of the Sustainability Reporting Guidelines of GRI G4 (Core Option);
- with recommendations of standard AA1000APS (2008) regards to observance by Detsky Mir Group the principles of inclusiveness, materiality and responsiveness.

2. Compliance of the process of stakeholder engagement during preparation of the Sustainability Report for 2015–2016:

- With recommendations of standard AA1000SES (2015).

### Responsibility of the Parties

Detsky Mir PJSC management shall be responsible for preparation and presentation of the Sustainability Report, and for conduct of the process of stakeholder engagement, including fulfillment of all related procedures and requirements, among other, to the internal control system.

Nexia Pacioli Consulting LLC shall be responsible for results of assurance of the Sustainability Report only towards Detsky Mir as part of the terms of reference agreed with it and shall not undertake any third party liability.

### Standards and Assurance Level

The assurance was conducted in

accordance with the standard AA1000AS (2008). The assurance corresponds to the level “moderate” as per AA1000AS (2008). The assurance corresponds to Type 2 as per AA1000AS (2008).

### Boundaries

The assurance was conducted exclusively in respect of the 2015–2016 data. The assurance was not conducted in respect of forward-looking statements and statements expressing opinions, convictions and intentions.

The in-field audit procedures were limited to visits to Detsky Mir PJSC Headquarters.

The assurance was carried out exclusively based on the Sustainability Report revision provided in the Russian language in MS Word format.

We were unable to verify the fact of the Sustainability Report publication in its final revision available to the public, because the date of signing this statement came earlier.

### Methodology

During the work we implemented the following actions:

- holding interviews with representatives of the top management of Detsky Mir PJSC, as well as management representatives engaged in the Sustainability Report preparation process;
- studying and sampling checking the systems and processes of collection of information for the preparation of the Sustainability Report;
- sampling checking of the data used for the preparation of the Sustainability Report;
- studying information on activities of Detsky Mir Group posted on the website <http://corp.detmir.ru/> including in the sustainability context;

- studying information about Detsky Mir Group in the mass media;
- assessment of observance by Detsky Mir Group the principles of AA1000APS (2008);
- compliance assessment of the Sustainability Report with the principles of GRI G4 of defining the content and assuring quality;
- compliance assessment of information disclosure with requirements of GRI G4 for standard disclosures.

### Conclusions and Observations

Based on the work done, we have not found circumstances which would indicate that the assurance subject matter (1) does not comply with criteria of its audit in all material aspects:

- we have not found material deviations from the requirements to the Core Option “in compliance” with GRI G4 Guidelines;
- we have not found material inconsistencies with criteria of standard AA1000AS (2008) as to observance by Detsky Mir Group of the principles of inclusiveness, materiality and responsiveness.

Regarding the subject matter of the audit (2), we conclude that the process has been implemented with the application of recommendations of AA1000SES (2015) to the principles of inclusiveness and mutual linkage of goals, format and audience of engagement.

Without changing our opinion, we draw attention to the presence of inseparable limitations inherent in the assurance due to a random nature of the check. As a result, there is a probability that unscrupulous practices, errors or violations may remain unfound.

### Recommendations

The disclosure of indicators is reasonable to exercise with a link to the target values as well as future plans

It would be beneficial to engage an extended spectrum of key stakeholder representatives in the process of the Report preparation, in particular by conducting dialogues, public consultations, getting Public Assurance Statement.

On the whole, we take a favorable view towards Detsky Mir Group strive to comply with advanced Russian and international practices of disclosure of public non-financial information and recommend considering a possibility of

drafting the report in compliance with GRI Standards.

### Statement of Independence and Competence

Nexia Pacioli Consulting LLC is an independent audit and consultancy company that observes requirements of the Code of Ethics for Professional Accountants IFAC and has a corporate quality control system which includes control of the abovementioned guidelines. The team of specialists that audited the Sustainability Report of Detsky Mir included competent employees of Nexia Pacioli Consulting LLC who had done a special training in the GRI Guidelines, standards of the series AA1000, standard ISO 26000:2010, and who have many years of experience in consultancy on public non-financial reporting.

The Head of the Audit has a Uniform Qualification Certificate of the Auditor; there is a specialist in the team who has the existing certificate CSAP of AccountAbility.

*Executive Director*  
*Nexia Pacioli Consulting LLC*

*March 01, 2017*  
*Moscow*

*Parfenova T.V.*



## Contacts

Nadezhda Kiseleva,  
Head of PR of the Detsky Mir Group  
Phone: +7 (495) 781-08-08, ext. 2041  
E-mail : [nkiseleva@detmir.ru](mailto:nkiseleva@detmir.ru)

Valery Prokopiev  
Press Secretary of the Detsky Mir Group  
Phone: +7 (495) 781-08-09  
E-mail: [vprokopiev@detmir.ru](mailto:vprokopiev@detmir.ru), [pressa@detmir.ru](mailto:pressa@detmir.ru)

