

Preliminary approved by the decision of the Board of Directors of PJSC "Magnit" on April «18», 2018, minutes w/o No. as of April «18», 2018

Ratified by the resolution of the annual shareholders meeting of PJSC "Magnit" of June 21, 2018, minutes w/o No. of June 21, 2018

ANNUAL REPORT

PUBLIC JOINT STOCK COMPANY

«MAGNIT»

for the year 2017

15/5 Solnechnaya street, Krasnodar, Russian Federation

Chief Executive Officer

Pombukhchan K.E.

seal

KRASNODAR 2018

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1. PERFORMANCE HIGHLIGHTS

2017 Key Operational Results¹:

<i>Number of opened stores, NET</i>	2,291
<i>Convenience stores</i>	1,604
<i>Hypermarkets</i>	6
<i>Magnit Family</i>	14
<i>Drogerie stores</i>	667
Total number of stores,	16,350
<i>Convenience stores</i>	12,125
<i>Hypermarkets</i>	243
<i>Magnit Family</i>	208
<i>Drogerie stores</i>	3,774
Selling space, thousand sq. m.	5,754.94
<i>Convenience Stores</i>	3,958.06
<i>Hypermarkets</i>	701.62
<i>Magnit Family</i>	229.01
<i>Drogerie stores</i>	866.25
Number of customers, million	4,040.50
<i>Convenience stores</i>	3,403.63
<i>Hypermarkets</i>	249.29
<i>Magnit Family</i>	133.99
<i>Drogerie stores</i>	253.59

¹ "Magnit" group of companies

LFL Results:

Formats	12M 2017 – 12M 2016²			
	# of Stores	Average Ticket	Traffic	Sales
Convenience Stores	7,848	1.23%	(2.63%)	(1.42%)
Hypermarkets	221	(2.53%)	(7.91%)	(10.24%)
Magnit Family	165	(1.21%)	(6.70%)	(7.82%)
Drogerie	2,711	1.17%	(1.14%)	0.02%
Total	10,945	(0.21%)	(3.17%)	(3.37%)

² LFL calculation base includes stores (all formats), which have been opened 12 months prior to the last month of the reporting period. i.e. by December 1, 2016.

2017 Key Financial Results:

Net sales, mn RUR	1,143,314.41
Convenience stores	846,112.98
Hypermarkets	146,435.21
Magnit Family	59,779.10
Drogerie stores	78,785.81
Wholesale	12,201.30
Net sales, mn US\$³	19,593.10
Convenience stores	14,499.93
Hypermarkets	2,509.48
Magnit Family	1,024.44
Drogerie stores	1,350.16
Wholesale	209.10
Gross profit, mn RUR	304,642.89
Gross profit, mn US\$	5,220.70
Gross margin, %	26.65%
EBITDAR, mn RUR	137,100.66
EBITDAR, mn US\$	2,349.51
EBITDAR margin, %	11.99%
EBITDA, mn RUR	91,777.64
EBITDA, mn US\$	1,572.80
EBITDA margin, %	8.03%
EBIT, mn RUR	58,061.94
EBIT, mn US\$	995.01
EBIT margin, %	5.08%
Net profit, mn RUR	35,538.97
Net profit, mn US\$	609.04
Net profit margin, %	3.11%
Market capitalization, mn RUR⁴	598,289.69
Market capitalization, mn USD⁵	10,381.73

³ Based on the average exchange rate for 2017 of 58.3529 RUR per 1 USD

⁴ PJSC "Moscow Stock Exchange" (previously CJSC "MICEX Stock Exchange") as of December 29, 2017

⁵ Based on the exchange rate for December 32, 2017 of 57.6291 RUR per USD

2. MISSION

“We work hard to increase the prosperity of our customers by minimizing their expenditure on quality consumer goods through:

- Efficient use of the Company's resources;**
- On-going improvements in technology;**
- Adequate compensation for our employees”**

3. INFORMATION ON THE PERSON IN THE POSITION OF THE CHIEF EXECUTIVE OFFICER

as of December 31, 2017

On April 13, 2006 **Sergey Galitskiy** was elected as a Chief Executive Officer of PJSC "Magnit" (hereinafter – the "Company") by the resolution of the Board of Directors of April 12, 2006.

On April 6, 2015 the Board of Directors (Minutes w/o № of 06.04.2015) decided to reappoint the Chief Executive Officer.

Biographical information on the person in the position of a sole executive body:

Surname and first name: *Sergey Galitskiy*

Date of birth: *14.08.1967*

Education: *higher - in 1992 graduated from Kuban State University with a degree in Economics.*

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: 01.04.2004 – present day

Organization: PJSC "Magnit"

Position: member of the Board of Directors;

2) Period: 13.04.2006 – present day

Organization: PJSC "Magnit"

Position: CEO;

3) Period: 05.08.2009 – 03.10.2014

Organization: NP "FC "Krasnodar"

Position: President (secondary employment);

4) Period: 15.07.2010 – present day

Organization: PJSC "Magnit"

Position: Chairman of the Management Board;

5) Period: 09.10.2014 – present day

Organization: LLC "Football Club "Krasnodar"

Position: President (secondary employment);

6) Period: 25.06.2015 – present day

Organization: VTB Bank PJSC

Position: member of the Supervisory Board.

Stockholding of CEO in the Company's charter capital: *34.264352% (as of 31.12.2017).*

Ordinary shares, owned by CEO: *34.264352% (as of 31.12.2017).*

Information on the transactions of acquisition/disposal of the Company's shares, made by the person in the position of the sole executive body within the reporting period:

<i>№</i>	<i>Date of transaction</i>	<i>Type of transaction</i>	<i>Quantity of securities</i>	<i>Description of securities</i>
1.	15.11.2017	Disposal of securities	2 800 000	Ordinary registered uncertified shares
2.	15.11.2017	Disposal of securities	2 100 000	Ordinary registered uncertified shares

3.	15.11.2017	Disposal of securities	700 000	Ordinary registered uncertified shares
4.	15.11.2017	Disposal of securities	1 500 000	Ordinary registered uncertified shares
5.	27.12.2017	Acquisition of securities	2,800,000	Ordinary registered uncertified shares
6.	27.12.2017	Acquisition of securities	2,100,000	Ordinary registered uncertified shares
7.	27.12.2017	Disposal of securities	99,164	Ordinary registered uncertified shares
8.	27.12.2017	Acquisition of securities	1,500,000	Ordinary registered uncertified shares

PRINCIPAL PROVISIONS OF COMPENSATION POLICY OF THE COMPANY AND (OR) REIMBURSEMENT OF EXPENSES OF A PERSON IN THE POSITION OF THE SOLE EXECUTIVE BODY OF THE COMPANY

Under the Clause 6 of the Regulations “On the Sole Executive Body of PJSC “Magnit”, ratified by the resolution of the annual General Shareholders Meeting of 24.06.2010 (minutes of 28.06.2010 and in previous editions), the wage rate and other payments charged to the CEO shall be determined by the labor contract executed with the CEO.

4. INFORMATION ON THE COLLEGIAL EXECUTIVE BODY MEMBERS (MANAGEMENT BOARD)

as of December 31, 2017

Sergey Galitskiy - Chairman of the Management Board

Date of birth: 14.08.1967

Education: *higher - in 1992 graduated from Kuban State University with a degree in Economics.*

Positions held in the Company and other companies over the last five years, including secondary employment:

1) *Period: 01.04.2004 – present day*

Organization: PJSC “Magnit”

Position: member of the Board of Directors;

2) *Period: 13.04.2006 – present day*

Organization: PJSC “Magnit”

Position: CEO;

3) *Period: 05.08.2009 – 03.10.2014*

Organization: NP “FC “Krasnodar”

Position: President (secondary employment);

4) *Period: 15.07.2010 – present day*

Organization: PJSC “Magnit”

Position: Chairman of the Management Board;

5) *Period: 09.10.2014 – present day*

Organization: LLC “Football Club “Krasnodar”

Position: President (secondary employment);

6) *Period: 25.06.2015 – present day*

Organization: VTB Bank PJSC

Position: member of the Supervisory Board.

Stockholding of the person in the Company’s charter capital: 34.264352% (as of 31.12.2017).

Ordinary shares, owned by the person: 34.264352% (as of 31.12.2017).

Information on the transactions of acquisition/disposal of the Company’s shares, made by the person in the position of the member of the Management Board within the reporting period:

<i>No</i>	<i>Date of transaction</i>	<i>Type of transaction</i>	<i>Quantity of securities</i>	<i>Description of securities</i>
1.	15.11.2017	Disposal of securities	2 800 000	Ordinary registered uncertified shares
2.	15.11.2017	Disposal of securities	2 100 000	Ordinary registered uncertified shares
3.	15.11.2017	Disposal of securities	700 000	Ordinary registered uncertified shares
4.	15.11.2017	Disposal of securities	1 500 000	Ordinary registered uncertified shares
5.	27.12.2017	Acquisition of securities	2,800,000	Ordinary registered uncertified shares
6.	27.12.2017	Acquisition of securities	2,100,000	Ordinary registered uncertified shares

7.	27.12.2017	Disposal of securities	99,164	Ordinary registered uncertified shares
8.	27.12.2017	Acquisition of securities	1,500,000	Ordinary registered uncertified shares

Andrey Arutyunyan

Date of birth: **12.01.1969**.

Education: higher – in 1993 graduated from Kuban State University with a degree in Economics.

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: **01.12.2003 – present day.**

Organization: **PJSC “Magnit”.**

Position: **First Deputy CEO;**

2) Period: **25.06.2008 – June 2016.**

Organization: **PJSC “Magnit”.**

Position: **Member of the Board of Directors;**

3) Period: **01.07.2009 – 31.05.2015**

Organization: **JSC “Tander”.**

Position: **Deputy CEO for Development.**

4) Period: **01.06.2015- 30.06.2016;**

Organization: **JSC “Tander”.**

Position: **Deputy CEO for Development and Operations.**

5) Period: **01.07.2016- 15.10.2017;**

Organization: **JSC “Tander”.**

Position: **Deputy CEO for Development, Constructions and Operations;**

6) Period: **29.03.2017 – present day;**

Organization: **PJSC “Magnit”.**

Position: **member of the Management Board;**

7) Period: **16.10.2017– present day;**

Organization: **JSC “Tander”.**

Position: **Deputy CEO for Development of In-house production and Soft Technologies.**

Stockholding of the person in the Company’s charter capital: **0.215686% (as of 31.12.2017).**

Ordinary shares, owned by the person: **0.215686% (as of 31.12.2017).**

Information on the transactions of acquisition/disposal of the Company’s shares, made by the person in the position of the member of the Management Board within the reporting period: **the person did not execute transactions of acquisition/disposal of the Company’s shares within the reporting period.**

Marina Ivanova

Date of birth: **02.01.1964**

Education: higher - in 1990 graduated from Tajik State University n.a. Lenin with a degree in Chemistry and Biology Teaching.

Positions held in the Company and other companies over the last five years, including secondary employment:

1) **Period: 12.08.2008 – present day**

Organization: JSC "Tander"
Position: Business Director (Head Office);
2) **Period:** 12.10.2012 – present day
Organization: PJSC "Magnit"
Position: Member of the Management Board;

Stockholding of the person in the issuer's charter capital: *no share (as of 31.12.2017)*.
Ordinary shares owned by the person: *no share (as of 31.12.2017)*.

Information on the transactions of acquisition/disposal of the Company's shares, made by the person in the position of the member of the Management Board within the reporting period: *the person did not execute transactions of acquisition/disposal of the Company's shares within the reporting period.*

Ilya Sattarov

Date of birth: 13.07.1976
Education: *higher - in 1998 graduated from Kuban State University with a degree in Economics.*
Positions held in the Company and other companies over the last five years, including secondary employment:
1) **Period:** 01.08.2011 – 14.06.2015
Organization: JSC "Tander"
Position: Deputy CEO for Logistics (Head Office);
2) **Period:** 12.10.2012 – 22.06.2016
Organization: PJSC "Magnit"
Position: Member of the Management Board;
3) **Period:** 15.06.2015 – 30.06.2016
Organization: JSC "Tander"
Position: Deputy CEO for Logistics and HR (Head Office);
4) **Period:** 01.07.2016 – 31.08.2017
Organization: JSC "Tander"
Position: Deputy CEO for Sales and HR;
5) **Period:** 18.10.2016 – present day
Organization: PJSC "Magnit"
Position: Member of the Management Board.
6) **Period:** 01.09.2017 – present day
Organization: JSC "Tander"
Position: Deputy CEO for retail development, sales and personnel/Main office.

Stockholding of the person in the Company's charter capital: *0.000214% (as of 31.12.2017)*.
Ordinary shares, owned by the person: *0.000214% (as of 31.12.2017)*.

Information on the transactions of acquisition/disposal of the Company's shares, made by the person in the position of the member of the Management Board within the reporting period: *the person did not execute transactions of acquisition/disposal of the Company's shares within the reporting period*

PRINCIPAL PROVISIONS OF COMPENSATION POLICY OF THE COMPANY AND (OR) REIMBURSEMENT OF EXPENSES OF THE MEMBERS OF THE MANAGEMENT BOARD

OF THE COMPANY AND THE AMOUNT OF REMUNERATION (REINBERSEMENT OF EXPENSES) PAID DURING THE REPORTING YEAR

According to the Regulations "On the Collegial Executive Body (the Management Board) of PJSC "Magnit" the remuneration of the Management Board's member consists of the remuneration under a labor contract or an additional agreement to it. The remuneration from the net profit of the Company according to the data of the annual accounting report can be annually paid to the members of the Management Board. The terms and procedure of payment of remuneration to the Management Board's members shall be determined by the Board of Directors.

According to a labor contract the wage rate for the participation in the operation of the Management Board constitutes 50,000 rubles per month.

On June 8, 2017 the General Shareholders Meeting adopted a decision not to pay the remuneration following the results of the year (Minutes w/o № of 08.06.2017).

The amount of the remuneration for the participation in the operation of the Management Board paid in 2017 constitutes 113,320,146.79 rubles (including remuneration of S. Galitskiy as the sole executive body).

The compensation policy of the Company shall not provide the reimbursement of the expenses of the Management Board's members related to the exercise of their functions.

Within the 2017 year the expenses to the Management Board's members related to the participation in the operation of the Management Board have not been reimbursed.

5. INFORMATION ON THE BOARD OF DIRECTORS MEMBERS

as of December 31, 2017

Khachatur Pombukhchan – the Chairman of the Board of Directors

Date of birth: 16.03.1974.

Education: higher - in 1996 graduated from Kuban State University with a degree in Applied Mathematics; in 2000 from All-Russian Distance Institute of Finance and Economics with a degree in Economics.

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: 01.07.2008 – present day

Organization: JSC “Tander”

Position: Chief Financial Officer;

2) Period: 01.07.2008 – present day

Organization: PJSC “Magnit”

Position: Chief Financial Officer;

3) Period: 24.06.2010 – present day

Organization: PJSC “Magnit”

Position: Chairman of the Board of Directors.

Stockholding of the person in the Company’s charter capital: *no share (as of 31.12.2017).*

Ordinary shares, owned by the person: *no share (as of 31.12.2017).*

Information on the transactions of acquisition/disposal of the Company’s shares, made by the member of the Board of Directors within the reporting period: *the person did not execute transactions of acquisition/disposal of the Company’s shares within the reporting period.*

Vladimir Gordeychuk

Date of birth: 15.08.1961.

Education: in 1988 graduated from Novorossiysk Higher Marine and Engineering College, specialization of navigator.

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: 28.06.2006 – 11.01.2016.

Organization: JSC “Tander”.

Position: CEO;

2) Period: 12.04.2006 – 12.01.2016.

Organization: PJSC “Magnit”.

Position: Second Deputy CEO;

3) Period: 2016 – present day

Organization: PJSC “Magnit”.

Position: Member of the Board of Directors.

Stockholding of the person in the Company’s charter capital: *0.901869% (as of 31.12.2017).*

Ordinary shares, owned by the person: *0.901869% (as of 31.12.2017).*

Information on the transactions of acquisition/disposal of the Company's shares, made by the member of the Board of Directors within the reporting period:

<i>№</i>	<i>Date of transaction</i>	<i>Type of transaction</i>	<i>Quantity of securities</i>	<i>Description of securities</i>
1	28.04.2017	Disposal of securities	8	Ordinary registered uncertified shares
2	02.05.2017	Acquisition of securities	8	Ordinary registered uncertified shares
3	02.05.2017	Disposal of securities	23	Ordinary registered uncertified shares
4	03.05.2017	Disposal of securities	28,000	Ordinary registered uncertified shares
5	03.05.2017	Disposal of securities	15	Ordinary registered uncertified shares
6	03.05.2017	Acquisition of securities	23	Ordinary registered uncertified shares
7	04.05.2017	Acquisition of securities	15	Ordinary registered uncertified shares
8	04.05.2017	Disposal of securities	52,000	Ordinary registered uncertified shares
9	04.05.2017	Disposal of securities	6	Ordinary registered uncertified shares
10	05.05.2017	Acquisition of securities	6	Ordinary registered uncertified shares
11	05.05.2017	Disposal of securities	50,826	Ordinary registered uncertified shares
12	10.05.2017	Disposal of securities	19,174	Ordinary registered uncertified shares

Alexey Pshenichniy

Date of birth: **23.02.1967**

Education: **higher – in 1990 graduated from Krasnodar State Institute of Physical Culture with a degree in Teaching and Organization of health and fitness activities and tourism; additional (to higher) education – in 2004 graduated from Academy of National Economy under the Government of the Russian Federation, Master of Business Administration (MBA) degree.**

Positions held in the Company and other companies over the last five years, including secondary employment:

- 1) Period: **01.02.2010 - present day**
Organization: Limited Liability Company “Bazis”
Position: **Director (secondary employment);**
- 2) Period: **01.02.2010 – 31.03.2012**
Organization: Limited Liability Company “Yunior”
Position: **Director (secondary employment);**
- 3) Period: **01.01.2004 - present day**
Organization: Limited Liability Company “Sports goods retail chain “Visshaya LIGA””
Position: **Director (secondary employment);**
- 4) Period: **13.12.2012 – present day**
Organization: Limited Liability Company “Sport Plyus”

Position: *Director (secondary employment);*

5) Period: *29.05.2014 - present day*

Organization: *PJSC "Magnit"*

Position: *Member of the Board of Directors;*

6) Period: *2014 - present day;*

Organization: *PJSC "Magnit";*

Position: *member of the BOD Audit Committee;*

7) Period: *2014 - present day;*

Organization: *PJSC "Magnit";*

Position: *Chairman of the BOD HR and Remuneration Committee.*

Shareholding of the person in the Company's charter capital: no share (as of 31.12.2017).

Ordinary shares owned by the person: no share (as of 31.12.2017).

Information on the transactions of acquisition/disposal of the Company's shares made by the Board of Directors' member within the reporting period: *the person did not execute transactions of acquisition/disposal of the Company's shares within the reporting period.*

Sergey Galitskiy

Date of birth: *14.08.1967*

Education: *higher - in 1992 graduated from Kuban State University with a degree in Economics.*

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: *01.04.2004 – present day*

Organization: *PJSC "Magnit"*

Position: *member of the Board of Directors;*

2) Period: *13.04.2006 – present day*

Organization: *PJSC "Magnit"*

Position: *CEO;*

3) Period: *05.08.2009 – 03.10.2014*

Organization: *NP "FC "Krasnodar"*

Position: *President (secondary employment);*

4) Period: *15.07.2010 – present day*

Organization: *PJSC "Magnit"*

Position: *Chairman of the Management Board;*

5) Period: *09.10.2014 – present day*

Organization: *LLC "Football Club "Krasnodar"*

Position: *President (secondary employment);*

6) Period: *25.06.2015 – present day*

Organization: *VTB Bank PJSC*

Position: *member of the Supervisory Board.*

Stockholding of the person in the Company's charter capital: *34.264352% (as of 31.12.2017).*

Ordinary shares, owned by the person: *34.264352% (as of 31.12.2017).*

Information on the transactions of acquisition/disposal of the Company's shares made by the Board of Directors' member within the reporting period:

№	Date of transaction	Type of transaction	Quantity of securities	Description of securities
1.	15.11.2017	Disposal of securities	2 800 000	Ordinary registered uncertified shares
2.	15.11.2017	Disposal of securities	2 100 000	Ordinary registered uncertified shares
3.	15.11.2017	Disposal of securities	700 000	Ordinary registered uncertified shares
4.	15.11.2017	Disposal of securities	1 500 000	Ordinary registered uncertified shares
5.	27.12.2017	Acquisition of securities	2,800,000	Ordinary registered uncertified shares
6.	27.12.2017	Acquisition of securities	2,100,000	Ordinary registered uncertified shares
7.	27.12.2017	Disposal of securities	99,164	Ordinary registered uncertified shares
8.	27.12.2017	Acquisition of securities	1,500,000	Ordinary registered uncertified shares

Dmitriy Chenikov

Date of birth: **08.09.1965**

Education: **a graduate of Krasnodar Polytechnic Institute, engineer/constructor/technologist, candidate of technical sciences.**

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: **08.06.2017 – present day**

Organization: **PJSC “Magnit”**

Position: **member of the Board of Directors;**

2) Period: **29.06.2017 - present day;**

Organization: **PJSC “Magnit”;**

Position: **member of the BOD Audit Committee;**

3) Period: **29.06.2017 - present day;**

Organization: **PJSC “Magnit”;**

Position: **Member of the BOD HR and Remuneration Committee.**

Shareholding of the person in the Company’s charter capital: **no share (as of 31.12.2017).**

Ordinary shares owned by the person: **no share (as of 31.12.2017).**

Information on the transactions of acquisition/disposal of the Company’s shares made by the Board of Directors’ member within the reporting period: **the person did not execute transactions of acquisition/disposal of the Company’s shares within the reporting period.**

Aleksandr Aleksandrov

Date of birth: **22.11.1975**

Education: **higher - graduated from Institute of International Law, Economics, Liberal Arts and Management n.a. K.V. Rossinskigo with a degree in Law.**

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: **09.04.2004– present day**

Organization: **Limited Liability Company “Yuzhnaya Torgovaya Companiya”**

Position: **General Director (secondary employment);**

2) Period: **05.01.2005 – December 2016**

Organization: **Limited Liability Company “YUTKO-REGION”**

Position: **Director (secondary employment);**

3) Period: **04.06.2015 – present day**

Organization: **PJSC “Magnit”**

Position: **Member of the Board of Directors;**

4) Period: **January 2017 – present day**

Organization: **Limited Liability Company “YUTKO-REGION”**

Position: **Head of liquidation commission.**

5) Period: **2015 – 29.06.2017;**

Organization: **PJSC “Magnit”**

Position: **member of the BOD Audit Committee;**

6) Period: **2015 – present day;**

Organization: **PJSC “Magnit”**

Position: **Member of the BOD HR and Remuneration Committee.**

7) Period: **29.06.2017 - present day;**

Organization: **PJSC “Magnit”**

Должность: **Chairman of the BOD Audit Committee;**

Shareholding of the person in the issuer’s charter capital: **no share (as of 31.12.2017).**

Ordinary shares owned by the person: **no share (as of 31.12.2017).**

Information on transactions of acquisition/disposal of the Company’s shares made by the Board of Directors’ member within the reporting period: **the person did not execute transactions of acquisition/disposal of the Company’s shares within the reporting period.**

Aslan Shkhachemukov

Date of birth: **22.08.1962**

Education: higher – in 1987 graduated from Krasnodar Polytechnic Institute of the Order of the Red Banner of Labor with a degree in Industrial Engineering.

Positions held in the Company and other companies over the last five years, including secondary employment:

1) Period: **01.10.2007 – 29.02.2012**

Organization: **JSC “Tander”**

Position: **Deputy CEO;**

2) Period: **23.06.2011 – present day**

Organization: **PJSC “Magnit”**

Position: **Member of the Board of Directors;**

3) Period: **01.03.2012 – 31.05.2015**

Organization: **JSC “Tander”**

Position: **Deputy CEO of Economic Security and Organizational Issues.**

4) Period: **01.06.2015– 10.01.2016**

Organization: **JSC “Tander”**

Position: Deputy General Director of Economic Security and Organizational Issues, GR and PR.

5) Period: 11.01.2016 – 18.12.2016

Organization: JSC “Tander”

Position: Deputy General Director of Security, Legal Assistance, GR and PR;

6) Period: 19.12.2016 – present day

Organization: JSC “Tander”

Position: Deputy General Director of Security, Legal Assistance, Audit Activities, GR and PR.

Shareholding of the person in the issuer’s charter capital: 0.009401 % (as of 31.12.2017).

Ordinary shares owned by the person: 0.009401 % (as of 31.12.2017).

Information on transactions of acquisition/disposal of the Company’s shares made by the Board of Directors’ member within the reporting period: *the person did not execute transactions of acquisition/disposal of the Company’s shares within the reporting period.*

PRINCIPAL PROVISIONS OF COMPENSATION POLICY OF THE COMPANY AND (OR) REIMBURSEMENT OF EXPENSES OF THE BOARD OF DIRECTORS’ MEMBERS OF THE COMPANY AND THE AMOUNT OF REMUNERATION (REINBERSEMENT OF EXPENSES) PAID DURING THE REPORTING YEAR

According to the Regulations “On the Board of Directors of PJSC “Magnit”, ratified by the resolution of the annual General Shareholders Meeting of 04.06.2015 (minutes of 05.06.2015), remuneration of the Board of Directors’ members shall be paid upon the resolution of the General Shareholders Meeting in the form of remuneration for participation in the operation of the Board of Directors and remuneration for the achieved results.

The remuneration for the participation in the Board of Directors’ operation amounts to 120,000 (one hundred and twenty thousand) rubles per month.

The remuneration to the independent director for participation in the Board of Directors’ operation amounts to 30,000 (thirty thousand) US dollars per year, additionally

- 2,000 (two thousand) US dollars for participation by means of personal presence in each meeting of the Board of Directors, held in the form of physical presence,

- 500 (five hundred) US dollars for participation, by means of directing the written opinion, in each meeting of the Board of Directors held in the form of physical presence, or for participation in each meeting of the Board of Directors held in absentia form.

Year-end bonus may be additionally paid to the remuneration of the Board of Directors’ members. The fixed amount of year-end bonus shall be paid to the members of the Board of Directors after the approval of corresponding annual financial statements by the decision of the General Shareholders Meeting of the Company.

In case of absence of net profit (profit for the distribution) in the Company the remuneration to the members of the Board of Directors (remuneration for the participation in the operation of the Board of Directors, year-end bonus) shall not be paid.

The members of the Board of Directors shall not be entitled to receive remuneration and (or) reimbursement of expenses for the performance of their duties in any way and form, for the adoption of decisions by the Board of Directors or by other authorities of the Company, as well as for the exercise of their rights and duties as a member of the Board of Directors, for the except of remuneration and (or) reimbursement of expenses, received upon the decision of the General Shareholders Meeting.

On June 8, 2017 the General Shareholders Meeting made a decision not to pay year-end bonus (minutes of 08.06.2017)

In 2017 the remuneration for the participation in the operation of the Board of Directors within 2016 year in the amount of 12,052,605.75 (upon the resolution of the General Shareholders Meeting of 08.06.2017 (minutes w/o № of 08.06.2017) was paid to the members of the Board of Directors and salary to the members of the Board of Directors, who are employed in the Company, as well as who work in secondary employment, in the amount of 46,000.00 rubles (the amount doesn't include the remuneration to Sergey Galitskiy as the CEO and the Chairman of the Management Board of the Company).

According to the Regulations "On the Board of Directors of PJSC "Magnit", ratified by the resolution of the annual General Shareholders Meeting of 04.06.2015 (minutes w/o № of 05.06.2015), the Company shall reimburse the expenses of the members of the Board of Directors which are directly related to the exercise of their duties, including:

- Expenses related to traveling to the place of the meeting of the Board of Directors;
- Expenses related to accommodation during the period of holding of the meeting of the Board of Directors;
- Representational expenses;
- Expenses related to the expert consultation on the issues considered at the Board of Directors' meetings, as well as on translation of the documents/materials presented to the members of the Board of Directors.

The amount of such expenses should be preliminarily agreed with the Chairman of the Board of Directors, Chairman of the Revision Committee. The reimbursement of expenses shall be made via cash register of the Company based on the application on reimbursement of expenses made by the member of the Board of Directors. The original documents confirming actual incurred expenses (tickets, bills, receipts, etc.) shall be necessarily attached to the application. The Board of Directors may adopt a decision on refusal of reimbursement of expenses incurred by the Board of Directors' member at its meeting by majority of votes of elected members, if it is established that this member of the Board of Directors acted against the interests of the Company.

During 2017 year the expenses related to the exercise of duties of the members of the Board of Directors of PJSC "Magnit" have not been reimbursed.

6. REPORT OF THE BOARD OF DIRECTORS ON 2017 OPERATIONS

The structure of the Board of Directors, elected by the annual General Shareholders Meeting on June 2, 2016 (minutes of 03.06.2016):

<i>No</i>	<i>Full name of a member of the Board of Directors</i>	<i>Date of birth</i>
1	Vladimir Gordeychuk	15.08.1961
2	Alexey Pshenichniy	23.02.1967
3	Sergey Galitskiy	14.08.1967
4	Alexander Zayonts	10.01.1967
5	Aleksandr Aleksandrov	22.11.1975
6	Khachatur Pombukhchan	16.03.1974
7	Aslan Shkhachemukov	22.08.1962

The structure of the Board of Directors, elected by the annual General Shareholders Meeting on June 8, 2017 (minutes of 08.06.2017):

<i>No</i>	<i>Full name of a member of the Board of Directors</i>	<i>Date of birth</i>
1	Aleksandr Aleksandrov	22.11.1975
2	Alexey Pshenichniy	23.02.1967
3	Dmitry Chenikov	08.09.1965
4	Khachatur Pombukhchan	16.03.1974
5	Sergey Galitskiy	14.08.1967
6	Aslan Shkhachemukov	22.08.1962
7	Vladimir Gordeychuk	15.08.1961

The current structure of the Board of Directors includes three independent directors - Alexey Pshenichniy, Dmitry Chenikov, Aleksandr Aleksandrov.

Khachatur Pombukhchan was elected as a Chairman of the Board of Directors by the unanimous resolution at the first Board of Directors' meeting as of June 29, 2017, Aslan Shkhachemukov as a Deputy Chairman and Vladimir Gordeychuk as a Secretary of the Board of Directors.

The Board of Directors of the Company operated under the Federal Law "On Joint-Stock Companies", the Charter of the Company, the Regulations on the Board of Directors of PJSC "Magnit" and the Regulations on the Committees of the Board of Directors of PJSC "Magnit".

According to the provisions of the corporate documents the committees of the Board of Directors were formed to provide its operating efficiency and to prepare the most important issues.

According to the resolution of the Board of Directors as of June 29, 2017 the membership of the committees are formed as follows:

HR and Remuneration Committee of the Board of Directors:

<i>N^o</i>	<i>Full name of a member of the Board of Directors</i>	<i>Position in the committee</i>
1	Aleksandr Aleksandrov	member of the committee
2	Alexey Pshenichniy	chairman of the committee
3	Dmitry Chenikov	member of the committee

Audit Committee of the Board of Directors:

<i>N^o</i>	<i>Full name of a member of the Board of Directors</i>	<i>Position in the committee</i>
1	Dmitry Chenikov	member of the committee
2	Aleksandr Aleksandrov	chairman of the committee
3	Alexey Pshenichniy	member of the committee

The meetings of the committees are held as and when required, but not less than 1 (One) time per year.

All the members of the correspondent committees participated in all the meetings of the Board of Directors' committees, which had been held within the reporting period.

Within 2017 year the Board of Directors held 12 meetings and considered 74 issues. All the meetings of the Board of Directors were held in the form of joint presence.

Information on the presence of directors in the meetings of the Board of Directors in 2017:

<i>Full name of a member of the Board of Directors</i>	<i>Status</i>		<i>Participation in the meeting</i>		
	<i>Independent</i>	<i>Executive</i>	<i>Total number*</i>	<i>Physical presence</i>	<i>In absentia</i>
Alexey Pshenichniy	+	-	12 of 12	12	-
Sergey Galitskiy	-	+	12 of 12	12	-
Alexander Zayonts	+	-	12 of 12	12	-
Vladimir Gordeychuk	-	-	4 of 4	4	-
Khachatur Pombukhchan	-	+	12 of 12	12	-
Aslan Shkhachemukov	-	-	12 of 12	12	-
Aleksandr Aleksandrov	+	-	12 of 12	12	-
Dmitry Chenikov	+	-	8 из 8	8	-

*in this context the indication (4 of 5) will signify that the director may participate (may adopt decisions on the issues raised for voting) in 5 meetings and participated in 4 of them.

Main issues considered by the Board of Directors in 2017:

Date of the meeting	Considered issues
03.02.2017	The nominees to the Board of Directors were considered and enrolled on a voter list for election at the annual General Shareholders Meeting.
28.03.2017	The amount of remuneration for the auditor's services was determined.
28.03.2017	Business priorities of PJSC "Magnit" for the year 2017 were determined.
28.03.2017	The report on assessment of efficiency of internal control and risk management for the year 2016 was considered.
28.03.2017	The decisions to provide consent for execution of major transactions were made.
28.03.2017	The powers of PJSC "Magnit" Management Board member were early terminated and a new Management Board member was elected.
28.04.2017	The results of assessment of BOD operations were considered.
28.04.2017	The annual report of PJSC "Magnit" for 2016 financial year was preliminarily approved and submitted for consideration of the General Shareholders Meeting.
28.04.2017	The recommendations to the General Shareholders Meeting on the profit distribution, including the dividend amount on PJSC "Magnit" shares and procedure of its payment, and loss of the Company following the results of 2016 financial year were approved.
28.04.2017	The report on related party transactions executed by PJSC "Magnit" in 2016 was approved.
28.04.2017	The decision on calling of the annual General Shareholders Meeting of PJSC "Magnit" was made.
28.04.2017	The list of candidates to be elected to the PJSC "Magnit" Board of Directors at the annual General Shareholders Meeting of the Company was approved.
28.04.2017	The amount of remuneration for the auditor's services was determined.
28.04.2017	The list of candidates to be elected to the PJSC "Magnit" Revision commission at the annual General Shareholders Meeting of the Company was approved.
29.05.2017	The decisions to provide consent for execution of major transactions were made.
29.06.2017	The Chairman of the Board of Directors of PJSC "Magnit", the Deputy Chairman of the Board of Directors and the Secretary of the Board of Directors of PJSC "Magnit" were elected.
29.06.2017	The members of the Audit committee of the Board of Directors of PJSC "Magnit" and its Chairman were elected.
29.06.2017	The members of the HR and Remuneration Committee of the Board of Directors of PJSC "Magnit" and its Chairman were elected.
29.06.2017	The members of the Management Board of PJSC "Magnit" were elected.
29.06.2017	The amount of remuneration for the auditor's services was determined.
27.07.2017	The decision on calling of the extraordinary General Shareholders Meeting of PJSC "Magnit" was made.
27.07.2017	The recommendations to the General Shareholders Meeting on the dividend amount on PJSC "Magnit" shares following the results of the 1H 2017, the

	procedure of its payment and the dividend record date were approved.
27.07.2017	The decisions to provide consent for execution of major transactions were made
03.11.2017	The amount of remuneration for the auditor's services was determined.
14.11.2017	The decisions on determination of the price of the related party transaction and on provision of consent to execute the related party transactions were made.
15.11.2017	The decision to increase the charter capital of PJSC "Magnit" by means of placement of additional shares was made.
15.11.2017	The price of securities placement was determined.
15.11.2017	The Decision on securities issue and the Prospectus were approved.
22.11.2017	The Additional agreement with a person in a position of the sole executive body of PJSC "Magnit" was approved.
20.12.2017	The business plan of the Internal Audit Department of PJSC "Magnit" for 2018 was approved.
20.12.2017	The decisions to provide consent for execution of major transactions were made.
20.12.2017	The Program of PJSC "Magnit" exchange-traded bonds was approved.
20.12.2017	The Prospectus of PJSC "Magnit" exchange-traded bonds was approved.

Besides, within the reporting period the issues related to determination of the position of PJSC "Magnit" representative on realization of the voting rights on the Company's stocks and shares in other companies were considered by the Board of Directors of PJSC "Magnit" in accordance with the Clause 14.2 of the Charter. Thus, the meetings on the issues concerning determination of the position of PJSC "Magnit" representative on realization of the voting rights on the Company's shares of JSC "Tander", stock in Retail import LLC, LLC "Tandem", LLC "Alcotrading" were held in April, May, August, September, October, and December of 2017 year.

The performance evaluation of the Board of Directors

Within the reporting period the HR and Remuneration Committee of the Board of Directors in accordance with its competence evaluated the performance of the current membership of the Board of Directors.

The Committee evaluated the following:

1. The Board of Directors performance: compliance of the Board of Directors structure with the functions performed; qualitative composition of the Board of Directors; internal dynamics (process) of the Board of Directors performance; performance of the Company's Secretary; performance of its main functions by the Board of Directors.

2. Performance of the Chairman of the Board of Directors: general management of the Board of Directors; development of the Board of Directors as a management body of the Company; management of the Board of Directors meetings; collaboration with the Company Management Board; collaboration with the Company's shareholders and investors; personal attributes; management skills; communication skills; skills of performing the functions of the Chairman of the Board of Directors; skills of performing the functions of a member of the Board of Directors; professional skills.

3. Performance of the Committees of the Board of Directors: compliance of the structure of the committees with the functions performed; qualitative composition of the committee;

internal dynamics (process) of the committee performance; performance of its functions by the committee; holding of the committee meetings.

4. Compliance of the Board of Directors members, which are considered independent, with the criteria of independence determined by the Corporate governance code and the Listing rules of PJSC “Moscow Exchange” (previously – CJSC “MICEX Stock Exchange”).

The analysis of the current incentive program for the members of the Board of Directors.

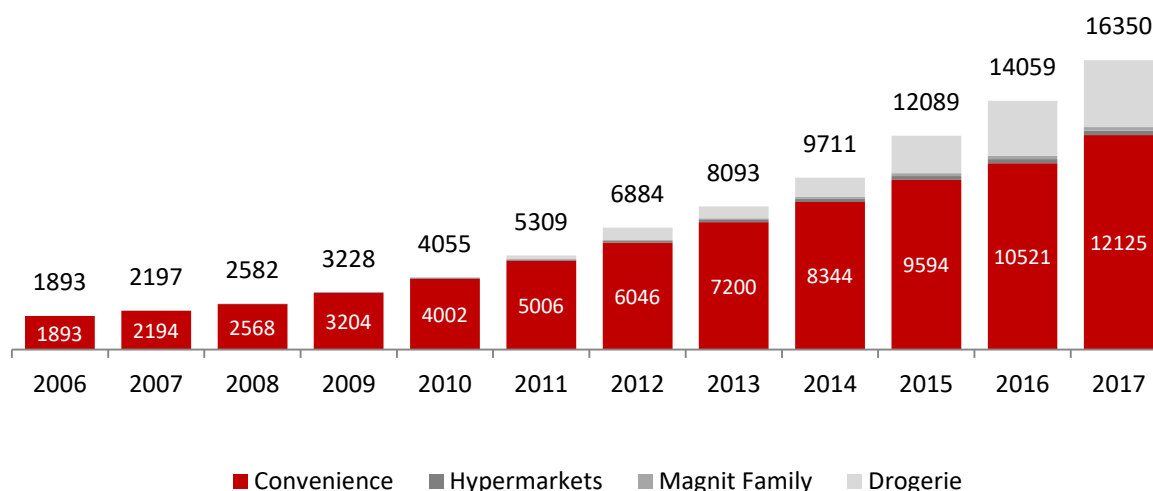
The committee determined that operating efficiency of the current membership of the Board of Directors corresponds to the nature and range of activity of the Company, needs of the Company and interests of the shareholders.

The management of the Company achieved the following results in 2016:

1. Revenue of the Company⁶ increased by 6.37% from 1,075 billion rubles in 2016 to 1,143 billion rubles in 2017.

In 2016 "Magnit" remained the leader of the Russian FMCG retail sector in terms of number of stores, selling space and geographical coverage.

2. During 2017 the Company added 2,291 stores (1,604 convenience stores, 6 hypermarkets, 14 “Magnit Family” stores and 667 drogerie stores). The total store base as of December 31, 2017 reached 16,350 stores (12,125 convenience stores, 243 hypermarkets, 208 “Magnit Family” stores and 3,774 drogerie stores). Total selling space of the stores increased by 13.56% from 5,067.67 thousand sq. m. to 5,754.94 thousand sq. m.



3. Number of customers increased by 5.85% from 3,817.13 million in 2016 to 4,040.50 million in 2017.

4. Sales of private label products as a % of sales in 2017 amounted to 9.35%, the number of private label SKUs in 2017 amounted to 594. Magnit plans to increase the sales of private label products through their expansion in all formats.

5. In 2017 the Company opened two distribution centers: Kirov and Murmansk. The launch of the new distribution centers improved the quality of service in the Volga and North-

⁶ “Magnit” Group of Companies

West regions. Total space of 37 distribution centers as of December 31, 2017 stood at about 1,640 thousand sq. m.

6. Magnit continued to make efficiency improvements to its logistics network. The share of products processed via the Company's distribution centers (centralization ratio) stood at 88%. During the reporting year the fleet of the Company's vehicles increased by 376 trucks, total number of vehicles was 6,089.

7. The Company was actively working with its employees increasing their loyalty and developing corporate culture. As of December 31, 2017 the total number of the Company's employees exceeded 276 thousand, out of which 202,497 are in-store personnel; 36,461 people engaged in distribution; 22,162 people in regional branches, 11,992 are employees of the head office and 3,178 – other personnel. Average monthly salary in the Company in 2017 amounted to 33 695 rubles.

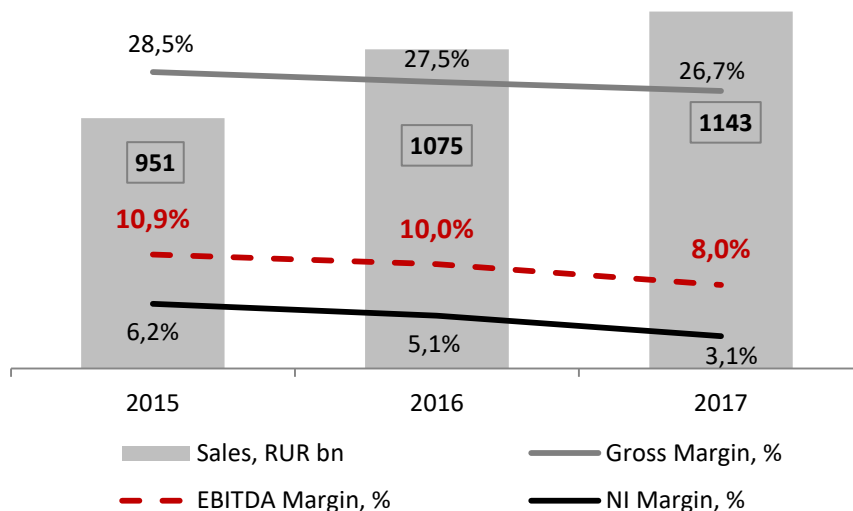
In 2017 the average number of employees of the "Magnit" group of companies amounted to 247,469 people. Based on the publicly available information the management of the Company assumes that PJSC "Magnit" is the largest private employer in Russia.

8. LFL figures in 2017 vs. 2016 in ruble terms were the following: LFL revenue was (3.37)%, LFL average ticket was (0.21)% and LFL traffic was (3.17%). The decrease of LFL figures year on year was mainly driven by weak macroeconomic conditions and internal cannibalization.

9. Gross margin decreased from 27.52% in 2016 to 26.65% in 2017 due to price investments on the back of zero wage inflation and food deflation as well as store refurbishment program. Gross profit increased by 3% from 295.76 billion RUR in 2016 to 304.64 billion RUR in 2017.

10. EBITDA decreased from 107.79 billion RUR in 2016 to 91.78 billion RUR in 2017. EBITDA margin in 2017 amounted to 8.03%. Net debt/EBITDA ratio (in ruble terms) at the end of 2017 amounted to 1.2.

11. Net income in 2017 stood at 35.54 billion RUR. Net income margin in 2017 was 3.11%.



12. In 2017 PJSC “Magnit” made three dividend payments: following the results of 9 months of the 2016 reporting year in the amount of 11,926,063,462.68 rubles, following the results of 2016 reporting year in the amount of 6,374,348,381.52 rubles, following the results of the first half of the 2017 reporting year in the amount of 10,922,766,716.89 rubles.

Overall, Magnit’s Board of Directors considers the achieved financial and economic results satisfactory and in line with 2017 internal targets.

Following the results of the conducted work the Board of Directors of Magnit recommends the annual general shareholders meeting to approve the performance of the Company’s management bodies during 2017 and to approve 2017 annual report submitted for consideration of the general shareholders meeting.

7. MAIN 2017 CORPORATE EVENTS

April	"Magnit" retail chained integrated BIM-modelling technology for the store construction.
	"Magnit" retail chain was ranked 5 th most valuable Russian brand by Brand Finance, the world's leading independent branded business valuation and strategy consultancy, which is the highest position in the Russian retail sector.
	S&P Global Ratings affirmed the rating of PJSC "Magnit" at "BB+" level; Stable outlook.
June	The annual General Shareholders Meeting was held.
	The membership of the Management Board of PJSC "Magnit" was formed by the Board of Directors.
	The Board of Directors formed the committees of the Board of Directors, appointed the chairman, the deputy chairman and the secretary of the Board of Directors.
July	"Magnit" retail chain launched first pharmacies.
	All stores of "Magnit" retail chain started to use online cash desks.
August	"Magnit" opens 15,000th store.
	PJSC "Magnit" opens first "Magnit Family" store under the new concept.
	PJSC "Magnit" launched 3 test stores to study the new "Wholesale Hypermarket" format.
	"Magnit" retail chain was ranked in the 100 World's Most Innovative Companies List by the American edition of the Forbes business magazine.
	The extraordinary General Shareholders Meeting of PJSC "Magnit" was held.
October	"Magnit" retail chain topped the list of the largest Russia's employers among the companies included in the Annual Ranking of the 200 Biggest Russia Nongovernmental Companies by the Forbes business magazine included in the ratings of the best in the industry.
	"Magnit" CEO Sergey Galitskiy has been included in the list of top business leaders of the 18th "TOP-1000 Russian Managers" ratings for 2017 prepared by the Russian Managers Association and Kommersant. "Magnit" top-managers have been
	"Magnit" retail chain launched the largest mushroom production plant in Russia.
November	PJSC "Magnit" Board of Directors made a decision to increase the charter capital by means of placement of the additional shares and approved the Decision on Placement of Securities.
	The Decision on securities issue and the Prospectus were approved by the board of directors.

December	Bank of Russia registered additional issue of PJSC “Magnit” securities.
	S&P Global Ratings downgraded the long-term credit rating of PJSC “Magnit” to “BB” from “BB+”; the outlook of rating change – “Stable”.
	PJSC “Magnit” BOD approved the program of exchange-traded bonds of 003P series and the Prospectus of exchange-traded bonds.

2 (two) General Shareholders Meetings of PJSC “Magnit” were held in 2017.

At the annual General Shareholders Meeting, held on June 8, 2017 in the form of joint presence, the positive decisions on all the agenda items were made, including:

- the annual report of PJSC “Magnit” following the 2016 year results; annual accounting (financial) reports of PJSC “Magnit”, including statements on financial results; the procedure of distribution of profit (including payment (declaration) of dividends) and loss of PJSC “Magnit” following the 2016 reporting year results; the auditor of PJSC “Magnit” according to the Russian Accounting Standards and the International Financial Reporting Standards were approved.

- the members of the Board of Directors of PJSC “Magnit” and the Revision Commission of PJSC “Magnit” were elected.

At the extraordinary General Shareholders Meeting of PJSC “Magnit” held on August 31, 2017 in the form of the joint presence the positive decision on the payment of dividends on the shares of PJSC “Magnit” following 6 months of 2017.

8. POSITION OF THE COMPANY IN INDUSTRY

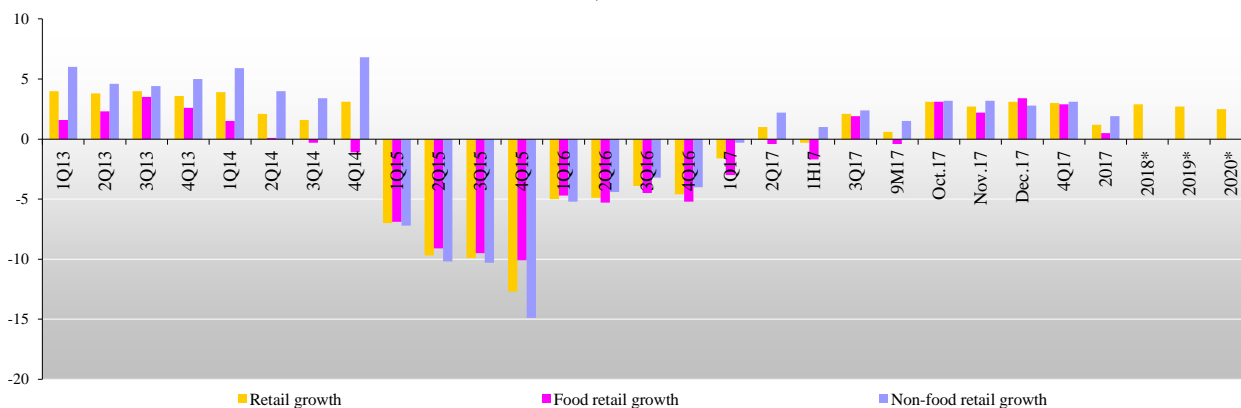
RUSSIAN MARKET

This section was prepared with the use of the following materials: IA Infoline, public sources of companies.

In 2017 retail turnover amounted to 29,804 bn rubles and increased by 1.2% compared to 2016 in commodity weight (in 2016 there was a decline by 4.6%). Food retail turnover increased by 0.5% in 2017 (in 2016 there was a decline by 5%). Non-food retail turnover increased by 1.9% (in 2016 there was a decline by 4.2%). In 2017 retail turnover in Russia started to grow after two years of recession (minus 4.6% in 2016 and minus 10% in 2015). In 4Q 2017 retail turnover amounted to 8,230 bn rubles and increased by 3% compared to 4Q 2016 in commodity weight (in 4Q 2016 there was a decline by 4.6%). Food retail turnover increased by 2.9% compared to 4Q 2016 (in 4Q 2016 there was a decline by 5.2%). Non-food retail turnover increased by 3.1% (in 4Q 2016 there was a decline by 4%). In December 2017 food retail turnover amounted to 3,081.5 bn rubles and increased by 3.1% compared to December 2016 (in December 2016 there was a decline by 5.2%). Food retail turnover in December 2017 in constant prices continue to grow for the sixth month in a row after 37 months of recession having increased by 3.4% compared to December 2016 (in December 2016 there was a decline by 6%). Non-food retail turnover increased by 2.8% (in December 2016 there was a decline by 4.5%).

The dynamics of the Russian retail turnover in 2013-2017 as well as the forecast of the Ministry of Economic Development and Trade for 2018-2020 (basic) is provided in the table below.

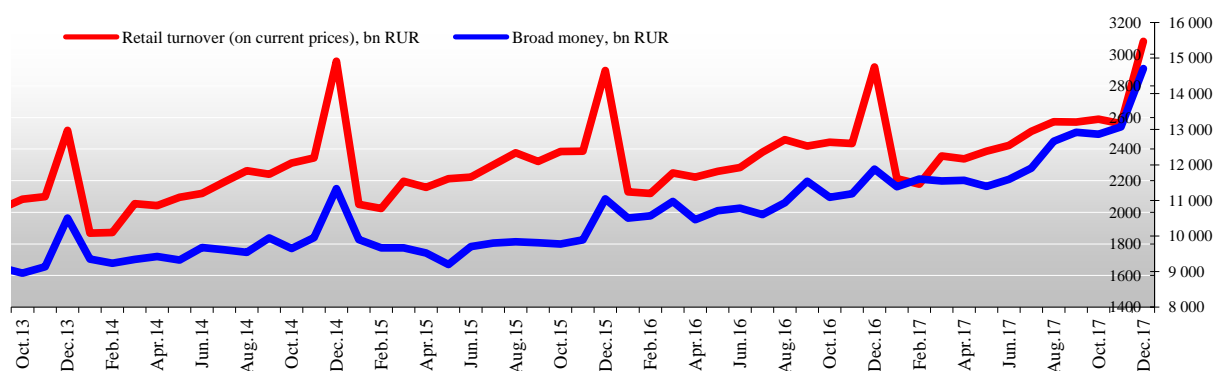
Dynamics of the consumer market key metrics in 2013-2017 and the forecast for 2018-2020, % Y-o-Y



Source: IA Infoline

Broad money representing money supply by monetary authorities increased by 1,631.6 bn rubles in December 2017 compared to November 2017 (in December 2016 it increased by 698.3 bn rubles).

Dynamics of retail turnover and broad money in 2013-2017, bn RUR



Source: IA Infoline, Federal State Statistics Service

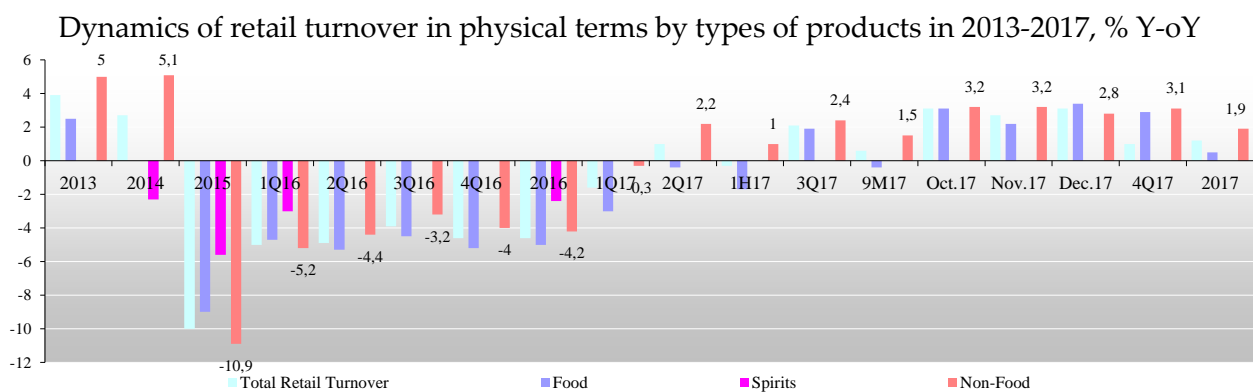
Dynamics of Russian retail turnover in 2013-2017 and basic forecast for 2018-2020

Period	Turnover, bn RUR	Y-o-Y Dynamics	
		In constant prices, %	In current prices, %
2013	23685,9	103,9	110,7
2014	26356,2	102,7	111,3
2015	27526,8	90,0	104,4
1Q 2016	6496,3	95,0	103,6
2Q 2016	6764,1	95,1	102,6
1H 2016	13260,4	95,1	103,1
3Q 2016	7258,0	96,1	103,7
9M 2016	20518,4	95,5	103,3
4Q 2016	7798,9	95,4	101,7
2016	28317,3	95,4	102,9
January 2017	2211,3	97,9	103,8
February 2017	2178,9	97,4	102,8
March 2017	2356,7	99,8	104,8
1Q 2017	6746,9	98,4	103,9
April 2017	2338,7	100,4	105,2
May 2017	2386,8	101,0	105,7
June 2017	2423,8	101,5	106,2
2Q 2017	7149,3	101,0	105,7
1H 2017	13896,2	99,7	104,8
July 2017	2512,0	101,3	105,5
August 2017	2593,7	101,9	105,5
September 2017	2572,1	103,2	106,4
3Q 2017	7677,8	102,1	105,8
9M 2017	21574,0	100,6	105,1
October 2017	2588,2	103,1	105,2
November 2017	2560,3	102,7	105,1
December 2017	3081,5	103,1	105,5
4Q 2017	8230,0	103,0	105,5
2017	29804,0	101,2	105,3
2018 (forecast)	31762	102,9	106,6
2019 (forecast)	33873	102,7	106,6
2020 (forecast)	36079	102,5	106,5

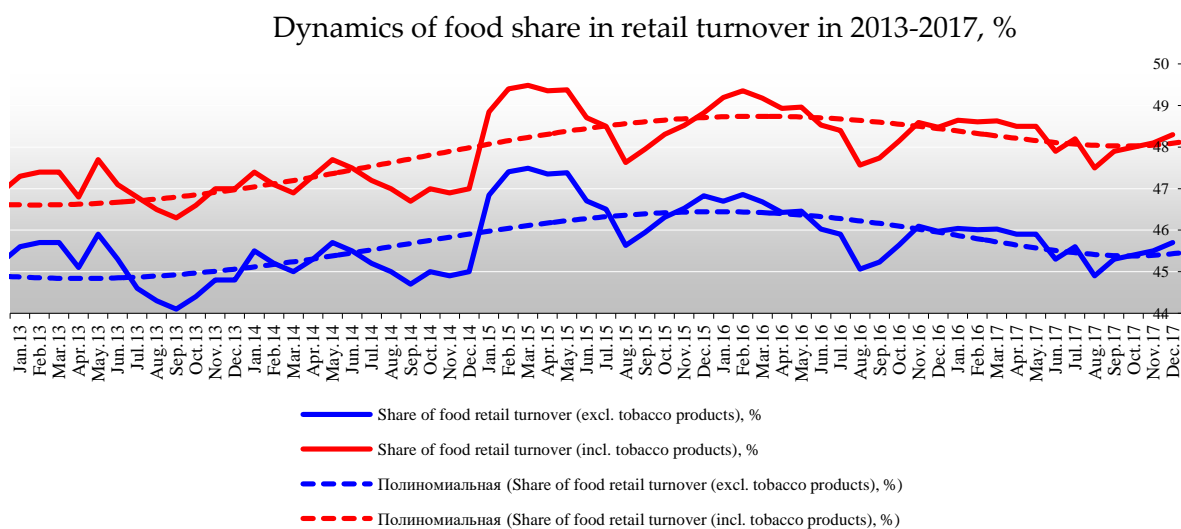
Source: Federal State Statistics Service; Forecast of the Ministry of Economic Development and Trade as of December 2017

STRUCTURE OF RETAIL TURNOVER BY TYPES OF PRODUCTS

In December 2017 dynamics of retail turnover in physical terms increased by 19.7% compared to November 2017 (in December 2016 it increased by 19.3%), including food retail turnover – up to 20.2% (in December 2016 – 18.8%) and non-food retail turnover – up to 18.3% (in December 2016 – 19.7%). In 4Q 2017 retail turnover increased by 6.7% compared to 3Q 2016 (in 4Q 2016 it increased by 5.8%), including food retail by 7.9% (in 4Q 2016 by 6.8%) and non-food by 5.6% (in 4Q 2016 – by 4.9%).

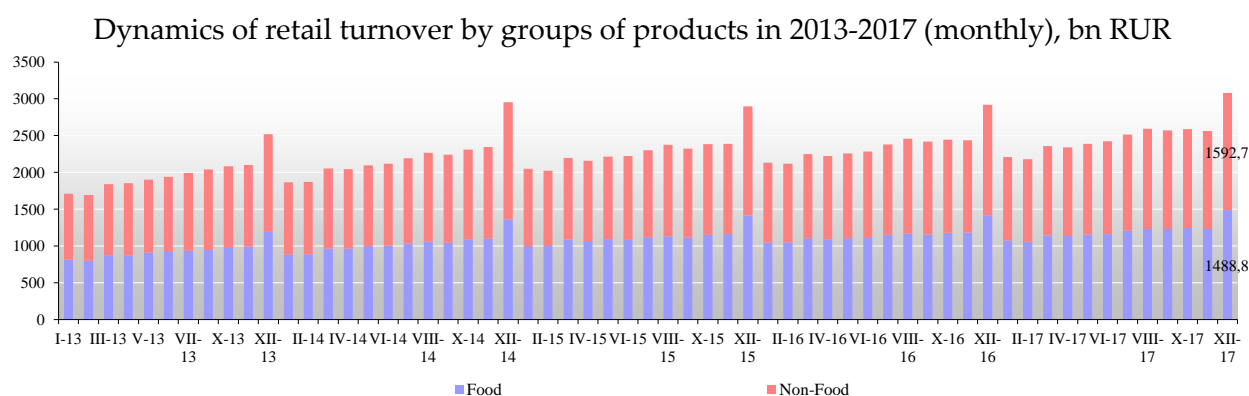


Source: IA Infoline; Federal State Statistics Service



Source: IA Infoline; Federal State Statistics Service

In December 2017 the share of food products in retail turnover reduced by 0.2 p.p. compared to December 2016.



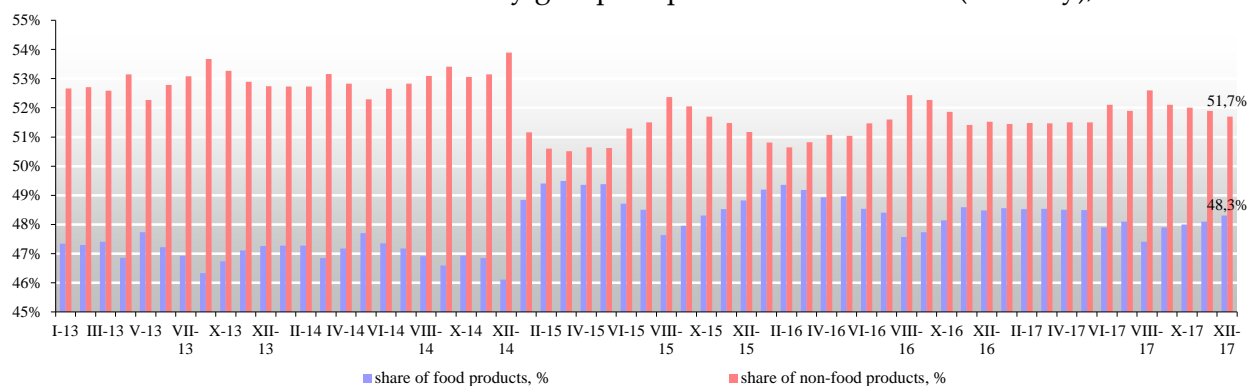
Source: IA Infoline; Federal State Statistics Service

Structure of retail turnover by groups of products in 2013-2017

Metrics	2013	2014	2015	2016	2017	4Q 16	4Q 17	Dec.16	Dec.17
Retail turnover	23685,9	26356,2	27526,8	28317,3	29804,0	7798,9	8230,0	2919,6	3081,5
Food	11143,0	12380,8	13412,3	13751,8	14359,3	3775,3	3962,3	1415,3	1488,8
Non-Food	12542,9	13975,4	14114,5	14565,5	15444,7	4023,6	4267,7	1504,3	1592,7
Share of food, %	47,0	47,0	48,7	48,6	48,2	48,4	48,1	48,5	48,3
Share of non-food, %	53,0	53,0	51,3	51,4	51,8	51,6	51,9	51,5	51,7

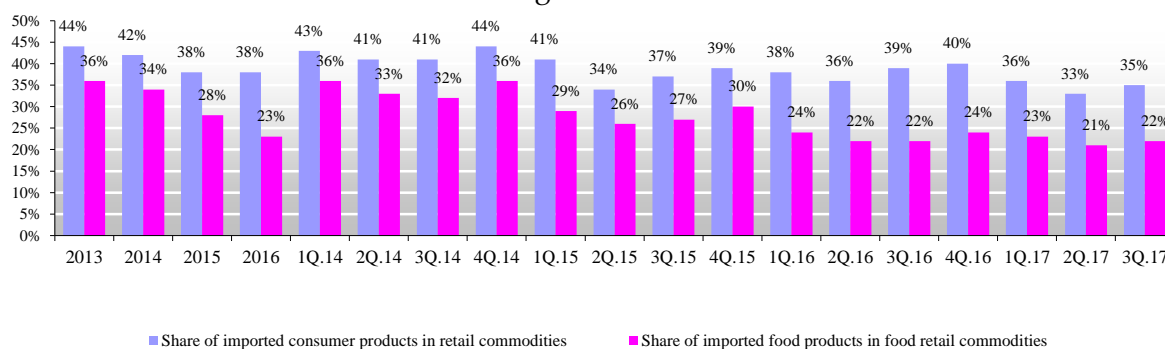
Source: IA Infoline; Federal State Statistics Service

Structure of retail turnover by groups of products in 2013-2017 (monthly), %



Source: IA Infoline; Federal State Statistics Service

Dynamics of Import share in retail commodities in Russia in 2010-2017 is shown in the diagram below.

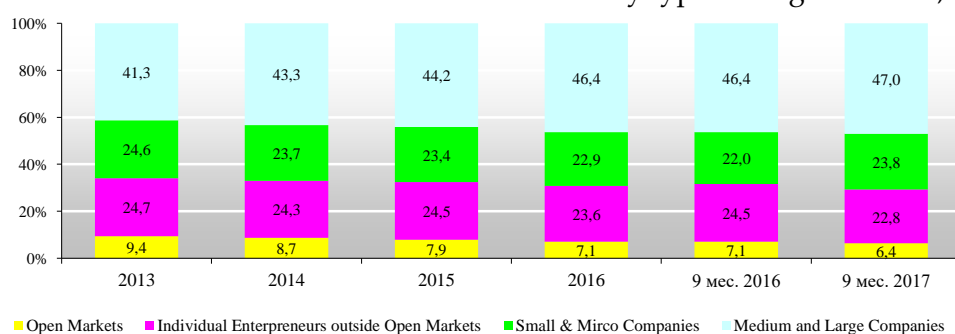


Source: IA Infoline; Federal State Statistics Service

STRUCTURE OF RETAIL TURNOVER BY TYPES OF ORGANIZATIONS

The share of open markets in retail structure by types of organizations continued to decrease in 9M 2017 (at the end 9M 2017 it decreased by 0.7 p.p. compared to 9M 2016). The share of medium companies decreased by 0.3 p.p. and the share of individual entrepreneurs – by 1.7 p.p. The share of large companies (mainly retail chains) increased by 0.9 p.p. compared to 9M2016, small companies – by 1.5 p.p. and micro companies – by 0.3 p.p.

Structure of Retail Turnover in 2013-2017 by types of organizations, %



Source: IA Infoline; Federal State Statistics Service

In 2017 93% of retail turnover was generated by trading organizations and individual entrepreneurs operating outside open markets. The share of open markets and trade fairs stood at 6.5% (in 2016 – 92.9% and 7.1% correspondingly), in December 2017 – 93.6% and 6.4% (in December 2016 – 93.0% and 7.0% correspondingly).

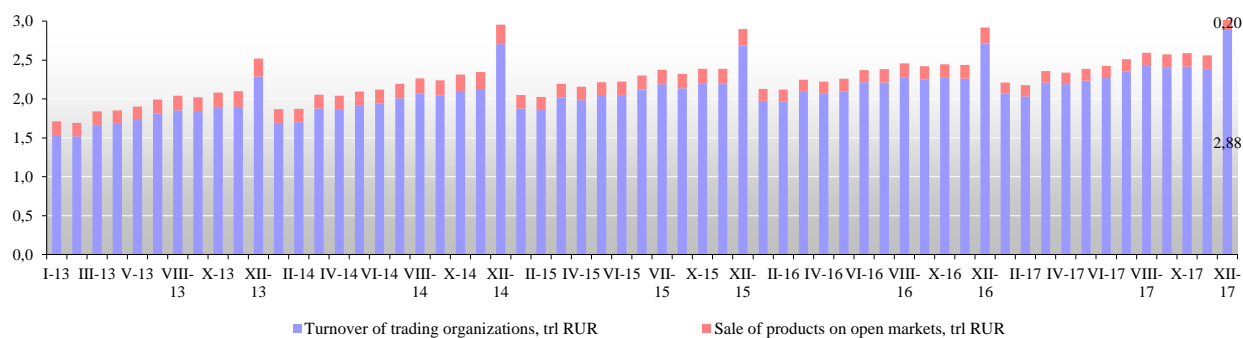
Turnover of trading organizations and open markets in 2013-2017, bn RUR

Metrics	2013	2014	2015	2016	2017	4Q 16	4Q 17	Dec.16	Dec.17
Retail Turnover	23685,9	26356,2	27526,8	28317,3	29804,0	7798,9	8230,0	2919,6	3081,5
Trading Organizations	21453,8	24057,2	25359,1	26290,6	27868,6	7242,8	7686,8	2712,3	2883,6
Open Markets	2232,1	2299,0	2167,7	2026,8	1935,4	556,2	543,2	207,3	197,9
Share of Trading Organizations, %	90,6	91,3	92,1	92,9	93,5	92,9	93,4	93,0	93,6
Share of Open Markets, %	9,4	8,7	7,9	7,1	6,5	7,1	6,6	7,0	6,4

Source: Federal State Statistics Service

Compared to December 2016 the turnover of trading organizations increased by 3.7% while sales of the open markets decreased by 5.4%. In 2017 turnover of retail organizations increased by 1.9% compared to 2016 while sales of the open markets decreased by 7.3%.

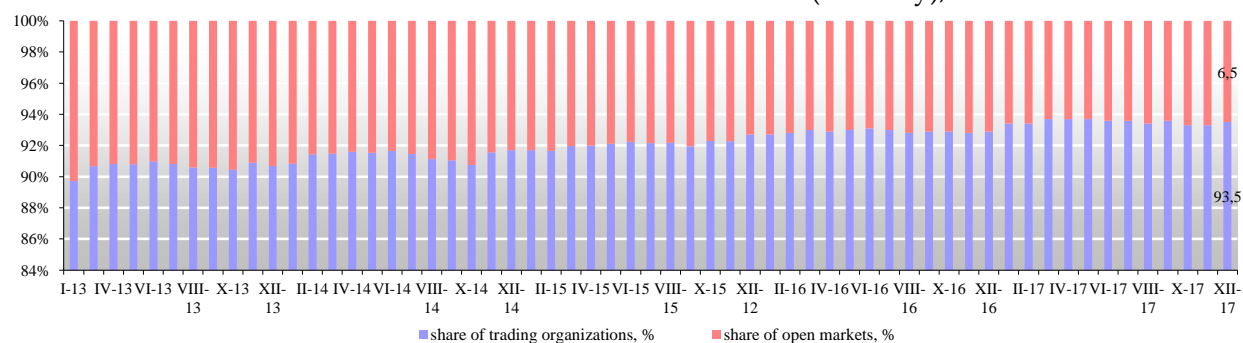
Dynamics of turnover of trading organizations and open markets in 2013-2017 (monthly), trn RUR



Source: IA Infoline; Federal State Statistics Service

In December 2017 compared to November 2017 the turnover of trading organizations increased by 20.1% and sales of the open markets increased by 14.6% while in November 2017 there was a decline of turnover of both trading organizations and open markets (in December 2016 compared to November 2016 – 19.6% and 15.5% correspondingly).

Structure of retail turnover in 2013-2017 (monthly), %

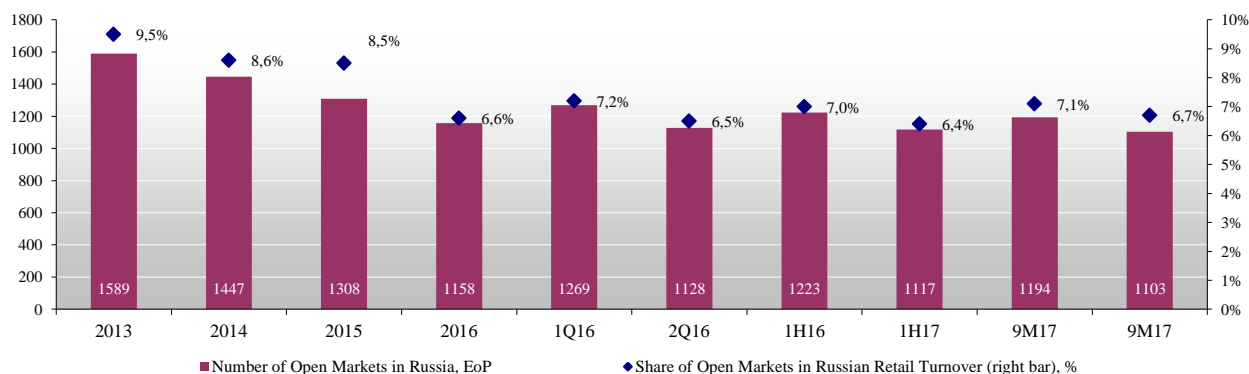


Source: IA Infoline; Federal State Statistics Service

During 9M 2017 Russian population purchased over 6% of food products and tobacco products and over 7% of non-food products on open markets and fairs. Open markets play the biggest role in supply of meat, potato, fruits and vegetables, clothes, shoes and hosiery.

As of October 2017 there were 1,103 open markets in Russia. The allocation of stalls on the open markets in 3Q 2017 compared to 3Q 2016 changed so that the number of stalls on ultimate markets, DIY markets, agricultural and other speciality open markets increased on the back of decline of the number of stalls on speciality food open markets and speciality clothes markets. As of October 1, 2017 there were 271 agricultural and agricultural cooperative markets, out of them 169 or 62.3% were located in buildings and constructions (as of October 2016 it was 60.6%). The level of actual use of the market stalls as of October 1, 2017 amounted to 69.5% on average in Russia, which is higher than July 1, 2017 but lower than as of the same date in 2016. Individual entrepreneurs remain the principal economic entities on the open market. As of October 1, 2017 119.8 thousand individual entrepreneurs operated on open markets (as of July 1, 2017 – 121.4 thousand). In 3Q 2017 10 thousand fairs were held. Self-governing authorities were the main organizers of fairs (50.6% of all fairs) and legal entities (32.1%). Individual entrepreneurs were the principal economic entities on fairs with 66.4% of total stalls.

Dynamics of the number of open markets in Russia and their share in retail turnover in 2013-2017

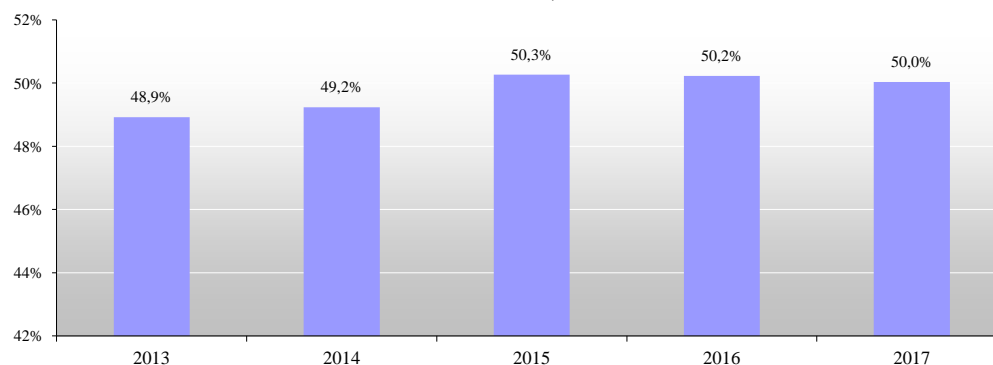


Source: IA Infoline; Federal State Statistics Service

REGIONAL STRUCTURE OF RETAIL TURNOVER

Regional structure of retail turnover in Russia is uneven: 11 constituent entities generated 49.96% of retail turnover in 2017 (Moscow, Moscow region, Saint-Petersburg, Sverdlovsk region, Krasnodar region, Samara region, Republics of Tatarstan and Bashkortostan, Tyumen region, Chelyabinsk region and Rostov region). Compared to 2016, the share of retail turnover attributable to these 11 constituent entities of the Russian Federation increased by 0.18 pp.

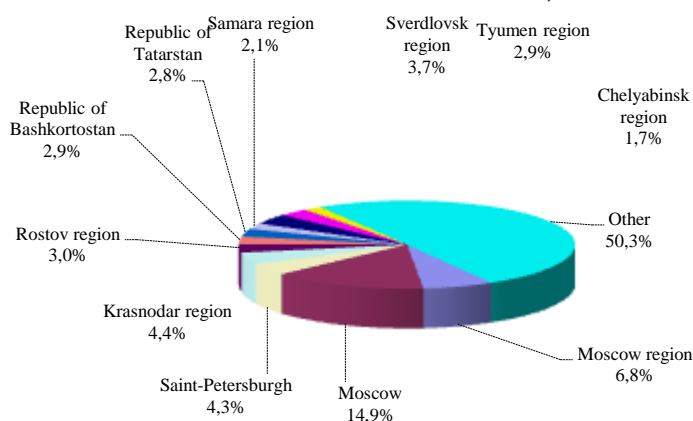
Dynamics of share of 74 regions of Russia (apart from 11 largest) in retail turnover in 2013-2017, %



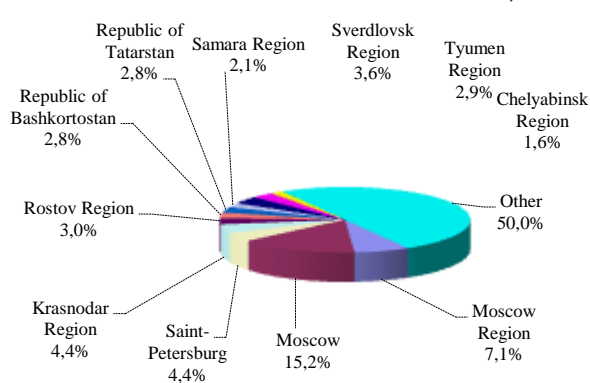
Source: IA Infoline; Federal State Statistics Service

The following federal districts increased their share in retail turnover in 2017 compared to 2016: Central Federal Region – by 0.41 p.p. (including Moscow by 0.05 p.p. and Moscow region by 0.4 p.p.), North-West Federal Region – by 0.04 p.p. (including Saint-Petersburg by 0.07 p.p.), North-Caucasian Federal Region – by 0.03 p.p. The share of Urals Federal Region in turnover decreased by 0.17 p.p., Siberian Federal Region – by 0.13 p.p., Volga Federal Region – by 0.1 p.p., Southern Federal Region – by 0.07 p.p. The share of the Far-Eastern Federal Region did not change.

Structure of retail turnover by constituent entities of the Russian Federation in 2016, %



Structure of retail turnover by constituent entities of the Russian Federation in 2017, %



Source: IA Infoline; Federal State Statistics Service

The highest decrease of retail turnover in 2017 (more than 5%) compared to 2016 among largest constituent entities of Russia (share of retail turnover of over 1%) did not happen in any region.

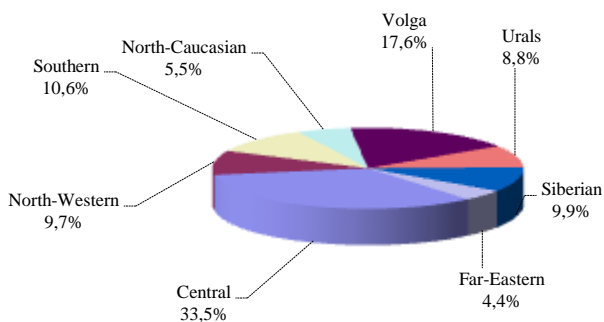
Regional structure of Russian retail turnover in 2013-2017, %

Federal District (FD) or Region	2013	2014	2015	2016	2017
Central FD	33,93	34,21	33,71	33,66	34,07
Moscow Region	5,74	6,00	6,27	6,71	7,11
Moscow	16,96	16,83	15,66	15,12	15,17
North-Western FD	9,07	9,04	9,44	9,68	9,72
Saint-Petersburg	3,89	3,86	4,16	4,36	4,43
Southern FD	9,01	9,13	9,44		
Crimean FD	0	0,70	0,92	10,57 ⁷	10,50
North-Caucasian FD	5,11	5,09	5,46	5,43	5,46
Volga FD	18,48	18,41	17,73	17,62	17,52
Urals FD	9,72	9,24	9,02	8,74	8,57
Siberian FD	10,79	10,23	9,96	9,88	9,75
Far-Eastern FD	3,90	3,96	4,32	4,41	4,41

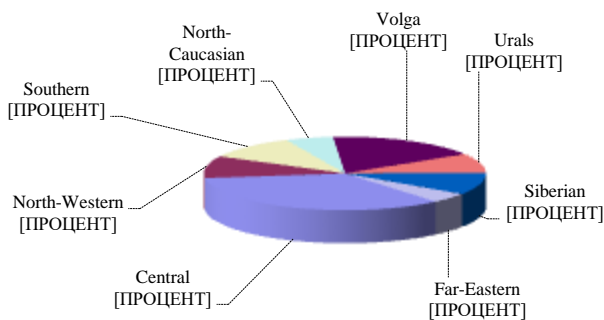
Source: IA Infoline; Federal State Statistics Service

⁷ Starting from July 2016 Russian Statistics Service includes Crimea and Sevastopol into the Southern Federal District

Structure of retail turnover by federal districts of Russia in 2016, %



Structure of retail turnover by federal districts of Russia in 2017, %

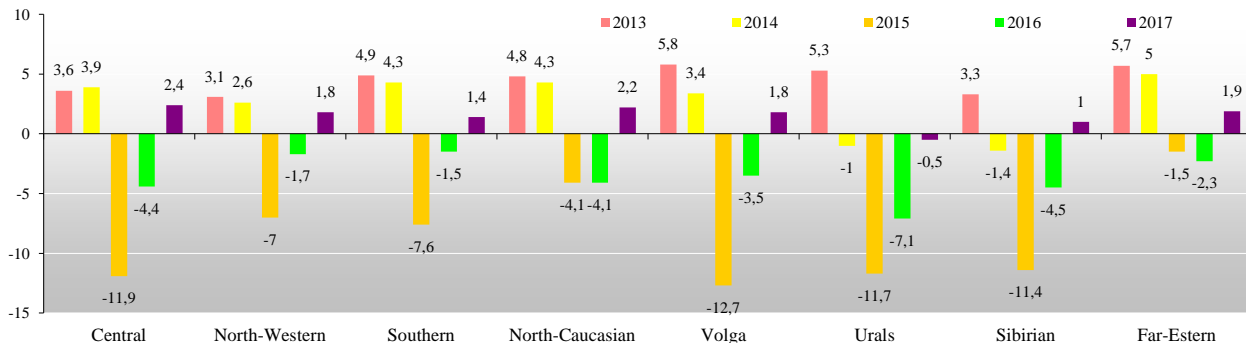


Source: IA Infoline; Federal State Statistics Service

In 2017 the reduction of retail turnover in the range of 5% in comparable prices vs 2016 among largest constituent entities of Russia (i.e. with the share in the Russian retail turnover of over 1%) was demonstrated by Chelyabinsk region (-2.7%), Sverdlovsk region (-1.5%), Leningrad region (-0.9%), Samara region (-0.5%) and Краснодар region (-0.3%).

The most dynamic growth (over 3%) among largest regions in 2017 was generated by Omsk region (6.9%), Moscow region (6.6%), Primorskiy krai (3.8%) and Stavropol region (3.4%).

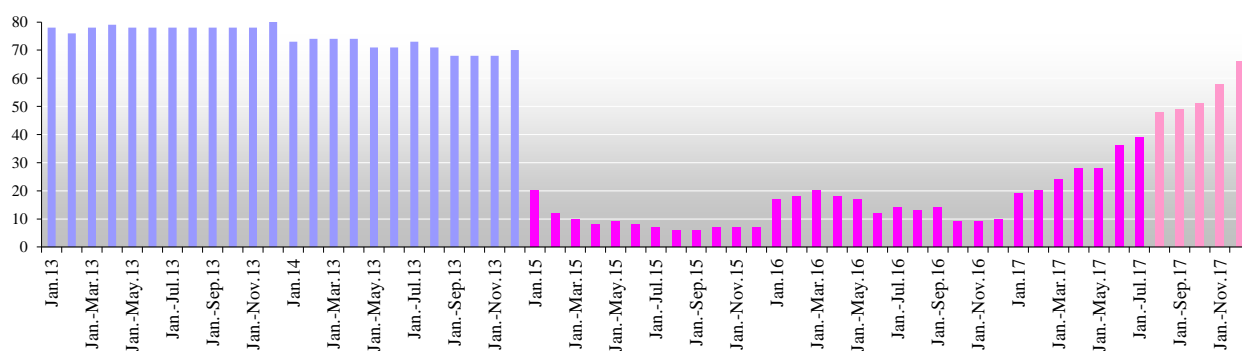
Dynamics of retail turnover by regions in 2013-2017, % Y-o-Y in comparable prices



Source: IA Infoline; Federal State Statistics Service

In December 2017 the number of regions which demonstrated the growth of turnover in physical terms increased to 69 (in December 2016 there were 7 such regions). In 2017 the number of regions which demonstrated turnover growth in physical terms increased to 66 (in 2016 there were 10 such regions).

Number of regions with positive dynamics of retail turnover in physical terms, Y-o-Y



Source: IA Infoline; Federal State Statistics Service

MAIN COMPETITORS⁸

The concentration level of the Russian food retail market is quite low – the share of top seven players is about 30%, which is significantly below the level of the Western and Eastern Europe.

Low capital concentration leads to the competition growth among retail chains in the nearest future. Currently the competition is on the “land grab” stage due to the growth of retail chains themselves including the use of franchising schemes as well as M&A deals. As a result, retail chains operating on the Russian market actively increase their presence in Moscow and regions which leads to the record rates of business growth.

X5 Retail Group

X5 Retail Group N.V. is a leading Russian food retailer. X5 Retail Group N.V. operates several retail formats: the chain of proximity stores under the Pyaterochka brand, the supermarket chain under the Perekrestok brand, the hypermarket chain under the Karusel brand and Express convenience stores under various brands.

As of 31 December 2017, X5 had 12,121 company-operated stores. It has the leading market position in both Moscow and St Petersburg and a significant presence in the European part of Russia. Its store base includes 11,225 Pyaterochka proximity stores, 638 Perekrestok supermarkets, 93 Karusel hypermarkets and 165 convenience stores. X5 Retail Group N.V. operates 39 DCs and 3,144 Company-owned trucks across the Russian Federation.

For the full year 2017, revenue totaled RUB 1,295,008 mn (USD 22,193 mn), Adjusted EBITDA reached RUB 99,131 mn (USD 1,699 mn), and adjusted net profit for the period amounted to RUB 33,768 mn (USD 579 mn).

⁸ Source: IA Infoline, public sources of companies.

METRO Cash & Carry

Metro Cash and Carry is the largest operating company of cash & carry international business format (individual wholesale) of Metro Group.

As of December 31, 2017 "Metro Cash & Carry" LLC operates 90 trading centers in 47 regions of Russia (excluding the Republic of Crimea) with the total selling space of 671.8 thousand sq. m. Metro Cash and Carry also operates "Metro Punct" supermarket with the total selling space of 1.587 thousand sq. m. which was opened in May 2012, a real hypermarket with the total space of 8.39 thousand sq. m. managed by "Metro Cash & Carry" as a result of the transaction with "Real-Hypermarket" LLC (Metro Group), as well as 2 METRO trading centers in the Republic of Crimea with the total space of 12.6 thousand sq. m. In 2017 Metro Cash and Carry opened a store in Vladikavkaz (Republic of North Ossetia).

Sales of METRO Cash & Carry, Russia for 2016/2017 financial year ended September 30, 2017, amounted to 3.411 bn. euros, which represents 12% growth y-o-y. LFL sales declined by 3.4%. At the average exchange rate for the corresponding period, sales of METRO in Russia amounted to 224.16 bn. Rubles having decreased by 0.6% compared to 2015/2016.

Auchan

Auchan is a large hypermarket chain operating on the Russian market since 2002. As of December 31, 2017 Auchan Group in Russia operates 313 trading stores with the total selling space of 1,141 thousand sq. m.

According to Infoline estimates, sales of Auchan in Russia in 2017 decreased by 4% - from 405.5 bn rubles in 2016 to 389 bn. rubles excl. VAT.

Dixy

PJSC DIXY Group is one of Russia's leading retailers of foods and everyday products. As of December 31, 2017 Dixy operated 2,703 stores, including 2,534 DIXY convenience stores, 128 Victoria stores and 41 compact hypermarkets MegaMart and MiniMart, all located in 753 Russian towns and settlements.

Dixy operates in Central, Northwestern and Urals federal districts of Russia, and in Kaliningrad and Kaliningrad region.

In 2017, the Company's total revenue amounted to RUR 283 billion.

Lenta

Lenta is the largest hypermarket chain in Russia, and the country's third largest retail chain. The Company was founded in 1993 in St. Petersburg. Lenta operates 232 hypermarkets in 84 cities across Russia and 106 supermarkets in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg and the Central region with a total of approximately 1,392,973 sq.m of selling space. The average Lenta hypermarket store has selling space of approximately 5,600 sq.m. The average Lenta supermarket store has selling space of approximately 900 sq.m. Lenta operates seven owned distribution centres.

Lenta's price-led hypermarket formats are differentiated in terms of their promotion and pricing strategies as well as their local product assortment. Lenta employed approximately 53,100 people as of 31 December 2017.

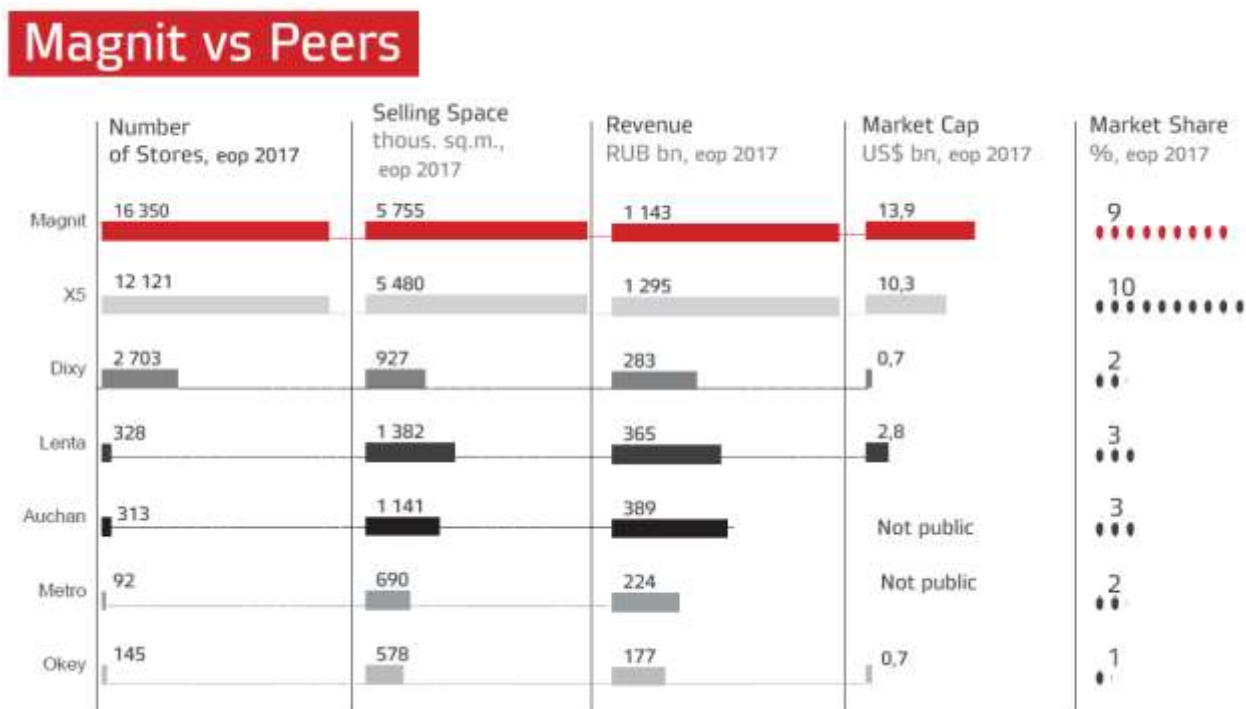
Total sales in 2017 grew 19.2% to Rub 365.2 bn.

O'KEY

O'KEY Group S.A. is one of the largest retail chains in Russia. O'KEY operates under two main formats: hypermarkets under the 'O'KEY' brand and discounters under the 'DA'

brand. As at April 3, 2018, the Group operates 145 stores across Russia. The Group opened its first hypermarket in St. Petersburg in 2002 and has since demonstrated continuous growth. O`KEY is the first among Russian food retailers to launch and actively develop e-commerce operations in St. Petersburg and Moscow, offering a full range of hypermarket products for home delivery. O`KEY operates four distribution centres across the Russian Federation.

For the full year 2017, revenue totalled RUB 177,454,848 thousand, EBITDA reached RUB 9,334,993 thousand, and the net income for the period amounted to RUB 3,166,913 thousand.



Source: Company's data, IA Infoline; Thomson Reuters, Magnit's estimates

COMPETITIVE ADVANTAGES OF "MAGNIT"

Multi-format business

Implementation of the strategic decision to develop the formats of hypermarket, "Magnit Family" supermarket and drogerie store allows the Group to conduct more profound segmentation of existing markets and consider population with the different level of income as potential customers. Moreover, pricing policy of the Group allows it to compete with open-air markets targeting customers with the level of income below average.

Strong regional coverage

"Magnit" group of companies has considerable experience of operation in regions: in 2002 – 2017 the growth of the Group turnover was a result of its expansion into the cities with a population of less than 500 thousand people. In the nearest future the regions are expected to face the highest growth of consumer demand, which creates favorable conditions for medium-term dynamics of the Group business.

Russia's largest retailer in terms of the number of stores

In terms of the number of stores "Magnit" is the largest food retail chain in Russia, which has a positive impact on cooperation with the largest food and beverage producers promoting their products on the regional markets. First of all, it is reflected in favorable purchasing terms and corresponding efficiency improvement.

Recognized brand

According to the independent expert research, IGD in particular, Russian customers pay significant attention to the brand when purchasing non-food and food items. Wide chain of stores under “Magnit” brand allows the Group to strengthen its positions in the market niche.

Efficient logistics system

Advanced logistics system, distribution centers and in-house fleet of vehicles enable the Group to keep tight cost control. The use of distribution centers results in lower purchasing prices and less pressure on the store at goods acceptance which ultimately contributes to more efficient business organization.

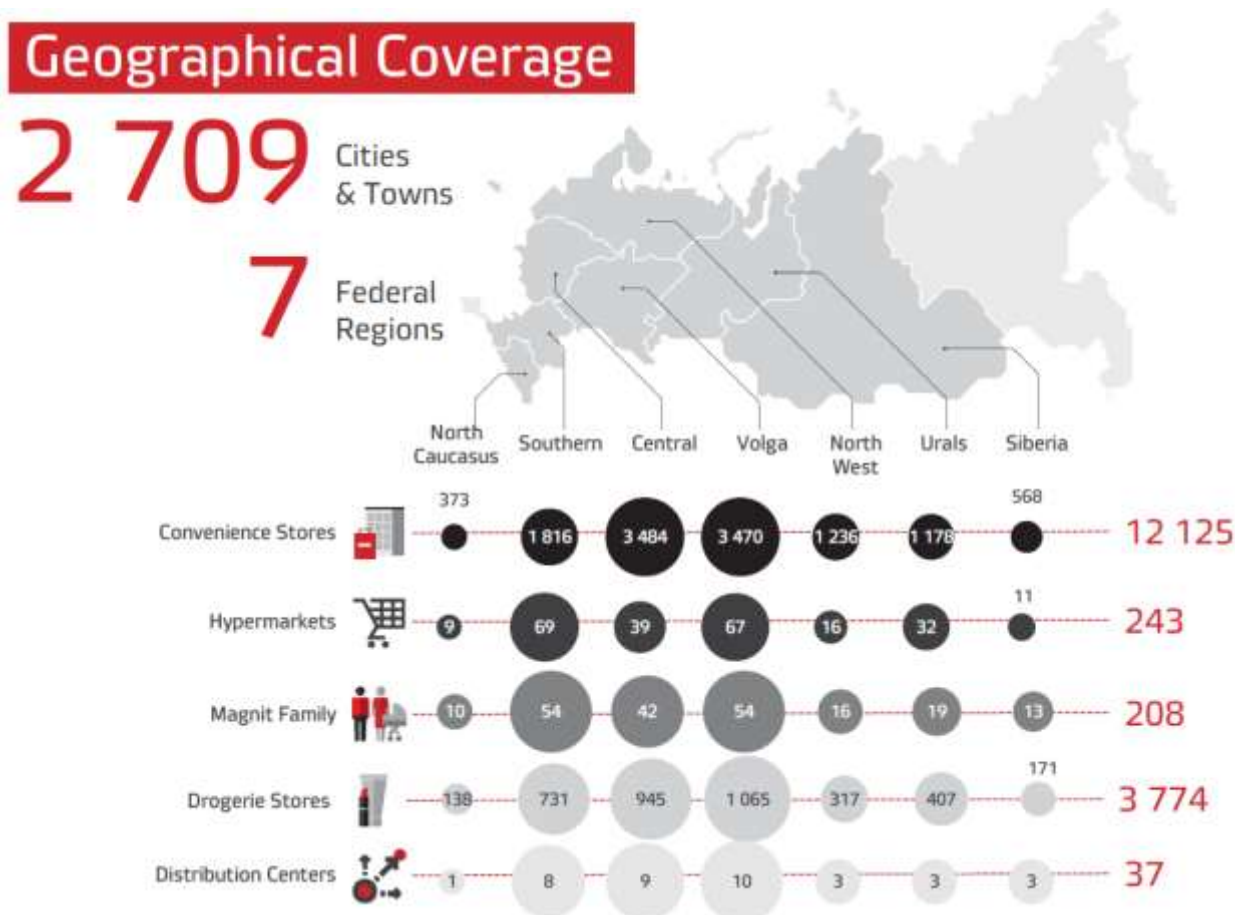
The Group employs highly efficient automated stock replenishment system, which gives opportunity to achieve high turnover level as well as to reduce costs.

9. COMPANY'S BUSINESS PRIORITIES

Headquartered in the southern Russia city of Krasnodar, public joint-stock company "Magnit" is the holding company for a group of entities that operate in the retail trade under the "Magnit" brand. "Magnit" is one of Russia's largest FMCG retailers. As of December 31, 2017 the chain⁹ consisted of 16,350 stores: 12,125 convenience stores, 243 hypermarkets, 208 "Magnit Family" stores and 3,774 drogerie stores in 2,709 cities and towns throughout the Russian Federation.

Approximately two-thirds of the Magnit's stores are located in cities with the population of less than 500,000 inhabitants. Most of its stores are located in the Southern, Central and Volga regions. The Company's stores also operate in the North-West, North-Caucasian, Urals and Siberian regions.

As of the end of 2017 the number of stores located in the Southern Federal region accounted for 2,670, in the Volga region – 4,656, North-Caucasian – 530, Central – 4,510, North-Western – 1,585, the number of stores in the Urals and Siberian regions amounted to 1,636 and 763 correspondingly.



As of December 31, 2017 the Company operates an in-house logistics system consisting of 37 modern distribution centers (DCs): ten of them are located in the Volga Federal region (Dzerzhinsk, Engels, Izhevsk, Orenburg, Penza, Perm, Sterlitamak, Togliatti, Zelenodolsk, Kirov), nine are located in the Central Federal region (Dmitrov, Ivanovo, Kolomna, Oryol,

⁹ Information in this section is provided for PJSC "Magnit" and its subsidiaries

Smolensk, Tambov, Tula, Voronezh, Yaroslavl), another eight are based in the Southern Federal region (Astrakhan, Bataysk, Erzovka, Krasnodar, Kropotkin, Novorossiysk, Shakhty and Slavyansk-On-Kuban), three in the Urals (Chelyabinsk, Tyumen and Yekaterinburg), in the Siberian (Kemerovo, Novosibirsk and Omsk) and in the North-West Federal region (Kolpino, Veliky Novgorod and Murmansk) Federal regions and one in the North-Caucasian Federal region (Lermontov).

Federal Region	Warehousing space, sq. m.	Number of serviced stores	Number of DCs
Central	476,885	4,674	9
Volga	470,197	5,133	10
Southern	308,154	2,661	8
Urals	141,497	1,540	3
Siberian	83,596	755	3
North-West	119,050	1,062	3
North-Caucasian	40,225	525	1
Total	1,639,604	16,350	37

The Company operates automated stock replenishment system and a fleet of 6,089 vehicles.

PJSC “Magnit” had the following business priorities in 2017:

- Active expansion of the store network – the Company opened a record number of convenience stores (1,825 gross), 6 hypermarkets, 14 “Magnit Family” supermarkets and 667 drogerie stores.
 - Further strengthening of logistics system and improvement of its efficiency. The Company launched two new distribution centers (Kirov and Murmansk). Total warehousing space of 37 distribution centers as of December 31, 2017 stood at 1,640 thousand sq. m. The fleet of vehicles increased by 376 trucks. The total number of trucks reached 6,089. The centralization level hit 88%.
 - Improvement of the Customer Value Proposition in convenience store format.
 - Acceleration of the refurbishment program for convenience stores.
 - Distinguishing CVP for hypermarkets and Magnit Family stores. In 2017 the Company opened first “Magnit Family” stores under the new concept.
 - Development of the new Geographical Information System (GIS) for evaluating opening criteria for new stores.
 - Strengthening of the sales team in HQ and in the regions.
 - Testing new formats – wholesale hypermarkets and pharmacies, including pharmacies integrated into drogerie stores.
- Further cost optimization and profitability improvement

10. COMPANY'S DEVELOPMENT PRIORITIES

The Company's management¹⁰ outlines the following development priorities:

- Further expansion of the store network by increasing the number of stores in the key regions of presence as well as organic development in the less penetrated regions of Russia;
- To keep efficiency in the focus of the Company;
- To retain current customers and attract the new ones, to improve the overall brand perception through store redesign and other measures;
- To create unique customer value proposition in each format;
- To organize and develop new sales channels;
- To build efficient marketing that will meet customer expectations;
- To organize digital communication channels with customers.

Chain expansion

In the medium term the Company plans to keep high pace of business growth with a purpose to open 1,500 convenience stores, 700 drogerie stores, 20 hypermarkets and "Magnit Family" stores combined in 2018. The Company's accumulated experience and technologies enable it to open profitable small format stores in locations with the population of as little as 5,000 people and 25,000 people for hypermarkets and "Magnit Family" stores.

The Company's stores are present in 7 out of 8 federal regions: Southern, Central, Volga, North-Caucasian, North-West, Urals and Siberian. The Company plans to increase the density of its stores in these regions and continue to expand in the markets of Moscow, Saint-Petersburg and Western Siberia.

Development of the multi-format model

Currently, the Company is actively expanding its four formats: convenience store, hypermarket, "Magnit Family" and drogerie store.

The format of a convenience store is a neighborhood store oriented at all customers living within 500 meters radius. The assortment of a convenience store consists of more than 4,000 food and non-food FMCG offered at reasonable prices. Average total space of a store is 468 sq. m., average selling space is 326 sq. m.

As of December 31, 2017 "Magnit" retail chain operates 12,125 convenience stores, out of which 1,604 were opened in 2017.

Since 2007 the Company has been opening hypermarkets. As of December 31, 2017 "Magnit" retail chain operates 243 stores of this format, out of which 18 were opened in 2016.

The Company opens its hypermarkets mainly in the cities with population of 50,000 - 500,000 people; the stores are located in the city (within the city boundaries). Catchment area of this store format is 7 km radius.

Depending on the location (size of the city/district in a large city) there are 3 sub-formats of the hypermarket:

"small" with the selling space of up to 3,000 sq. m. (excluding rental space);

¹⁰ Information in this section is provided for PJSC "Magnit" and its subsidiaries

“medium” with the selling space of 3,000 – 6,000 sq. m. (excluding rental space);

“large” with the selling space of over 6,000 sq. m.; (excluding rental space).

Assortment of the hypermarket includes over 18,000 food and non-food items at affordable prices.

Strategic development of the hypermarket format enables to conduct deeper segmentation of the existing markets and consider population with different income as potential customers while achieving high turnover per store and average ticket size as well as fast pace of business growth.

In 2010 the Group started to examine a new segment of the retail market and launched 2 test stores of a new format – “a drogerie store”. Unlike convenience stores, stores under “Magnit Kosmetik” brand offer a mix of non-food group of products: personal care, household cleaning products, cosmetics and perfumery goods. As of December 31, 2017 the total number of drogeries was 3,774, out of which 667 were opened in 2017.

In May 2012 a new format – “Magnit Family” was launched. One of the reasons to expand into this format was to meet the needs of customers in wider assortment and aggressive pricing in the premises not suitable for a standard hypermarket due to space limitations.

Key features of the format are:

- Selling space of up to 1,500 sq. m.;
- Expanded fresh zone;
- Limited non-food assortment;
- Own production facilities (ready meals);

The number of the new format stores is growing through the opening of the new outlets as well as through the reformatting of certain convenience stores with excessive selling space for this format (about 1,500 sq. m.) and the upside sales potential.

In 2017 the Group opened 14 “Magnit Family” stores. As of December 31, 2017 “Magnit” retail chain operated 208 “Magnit Family” stores.

In 2017 the Group distinguished its customer value proposition for hypermarkets and “Magnit Family” stores. The first store under the new concept was opened in the end of August in Krasnodar. The following changes have been introduced to the format: name, exterior and interior design, equipment, assortment, principles of lay-out and adjacencies of categories. The logo and the format identity have been entirely changed. The assortment consists of about 9 thousand SKUs. Today “Magnit Family” is a convenient supermarket with favorable prices, comfortable customer service and the best offer of fresh products. At the end of 2017 eight “Magnit Family” stores operate under the new concept.

Pricing policy of the Company allows it to compete with open markets considering customers with income below average as the target audience.

Brand recognition and customer loyalty

The Company continues to expand its footprint into areas with the low penetration and continues to adjust its assortment to meet the needs of consumers.

Within the complex of measures taken to increase the loyalty to the “Magnit” brand, the Company analyses customers’ preferences in order to build its marketing program customized for different formats.

Other means of improving the Company's brand perception is to improve the level of service and ambiance in the stores through corresponding work with its employees.

In 2017 in order to increase efficiency of the stores and improve Magnit brand perception, the Company launched convenience stores redesign program. The changes within

the program included internal and external design of the stores, their planograms and assortment balance in favor of fresh categories.

At the end of 2017 37% of convenience stores operate after refurbishment. The Company plans to renovate 1,200 stores in 2018.

In 2017 “Magnit” revisited the concept of “Magnit Family” stores and opened 8 redesigned stores.

The renovation program helps to improve the look and atmosphere of the stores and offer better customer shopping experience.

Minimization of expenses

The main drivers of successful development in the above direction are further improvements of the logistics processes and investments in the IT system which provides the Company with maximum efficient stock and transport flow management systems, and contributes to its leadership in terms of cost control.

Active introduction of private label products to the assortment is in place to increase the Company’s profitability.

The status of Russia’s largest FMCG retail chain in terms of number of stores and customers supports the Company’s efficient cooperation with suppliers and achievement of most favorable purchasing terms.

Development of direct import, first of all direct import of fresh fruit and vegetables, also contributes to the minimization of logistics costs.

11. INFORMATION ON THE PAID DIVIDENDS

The dividend policy of the Company oriented to the social welfare of the shareholders and securing of growth of capitalization of the Company.

The Company considers the growth of capitalization as the primary way of serving of financial interests of the shareholders on the deriving revenue from the shares of the Company. The dividend policy consists in the optimization of ratios between the expendable and capitalized parts of realized profit of the Company in order to increase the market value of the shares.

The dividend policy of the Company is based on the following principles:

- the principle of transparency implies the identification and disclosure of information about the obligations and responsibilities of the parties, participating in the implementation of dividend policy, including the procedure and terms and conditions of making decisions on the dividends payment;
- the principle of timeliness implies the establishment of time limits during the payment of dividends;
- the principle of reasonableness implies that the decisions on the payment and on the amount of dividends can be adopted only in case of achievement of positive financial result by the Company, taking into consideration the development plan and its investment programs;
- the principle of justice implies the guarantee of equal rights of the shareholders for reception of information about made decisions on dividends payment, their amount and the procedure of their payment;
- the principle of sequence implies the strict performance of procedures and principles of the dividend policy;
- the principle of development implies continual amendment of dividend policy within the framework of improvement of the procedures of corporative governance and revision of its provisions due to the change of strategic aims of the Company;
- the principle of stability implies the intention of the Company to the stable dividends payment.

On June 8, 2017 (minutes of 08.06.2017) the annual General Shareholders Meeting made a decision to pay dividends on ordinary registered shares of PJSC "Magnit" following the results of 2016 reporting year.

On August 31, 2017 (minutes of 01.09.2017) the extraordinary General Shareholders Meeting made a decision to pay dividends on ordinary registered shares of PJSC "Magnit" following the results of the 6 months of 2017 reporting year.

Information on the paid dividends

Dividend period: *the 9 months of 2016.*

The amount of declared (accrued) dividends on shares of this category (type) per one share, RUB:

-the amount of dividends accrued per one ordinary registered uncertified share following the results of the 9 months of 2016 financial year – 126.12 rubles.

The total amount of the declared (accrued) dividends on all shares of this category (type), RUB:

-the total amount of dividends accrued on the ordinary registered uncertified shares following the 9 months of 2016 financial year – 11,926,078,092.60 rubles.

The date of decision on the payment (declaration) of dividends: *December 8, 2016*.

The record date: *December 23, 2016*.

The total amount of dividends paid on all shares of the issuer of one category (type), RUB: **11,926,063,462.68**.

Dividend period: *year 2016*.

The amount of declared (accrued) dividends on shares of this category (type) per one share, RUB:

- *the amount of dividend accrued per one ordinary registered uncertified share following the results of the 2016 reporting year – 67.41 rubles.*

The total amount of the declared (accrued) dividends on all shares of this category (type), RUB:

the total amount of dividends accrued on the ordinary registered uncertified shares following the results of the 2016 reporting year – 6,374,380,940.54 rubles.

The date of decision on the payment (declaration) of dividends: *June 8, 2017*.

The record date: *June 23, 2017*.

The total amount of dividends paid on all shares of the issuer of one category (type), RUB: **6,374,348,381.52 rubles**.

Dividend period: *6 months of 2017*.

The amount of declared (accrued) dividends on shares of this category (type) per one share, RUB:

- *the amount of dividend accrued per one ordinary registered uncertified share following the results of 6 months of 2017 reporting year – 115.51 rubles.*

The total amount of the declared (accrued) dividends on all shares of this category (type), RUB:

- the total amount of dividends accrued on the ordinary registered uncertified shares following the results of 6 months 2017 – 10,922,782,116.05 rubles.

The date of decision on the payment (declaration) of dividends: *August 31, 2017*.

The record date: *September 15, 2017*.

The total amount of dividends paid on all shares of the issuer of one category (type), RUB: **10,922,768,716.89 rubles**.

12. SECURITIES

CHARTER CAPITAL

The charter capital of the Company determines the minimum amount of assets that guarantees its creditors' interests.

As of December 31, 2017 authorized capital stock of the public joint-stock company "Magnit" amounted to 945,613.55 rubles. It consists of 94,561,355 ordinary registered uncertified shares with a nominal value per share of 0.01 rubles.

The Company was entitled to offer additional ordinary registered shares in the amount of 106,288,645 with the nominal value per share of 0.01 rubles (authorized shares).

Information on the listed shares of PJSC "Magnit" as of 31.12.2017:

<i>Description of security</i>	<i>Number of state registration</i>	<i>Date of state registration</i>	<i>Nominal, RUR</i>	<i>Total number of securities</i>
Ordinary registered uncertified shares	1-01-60525-P	04.03.2004	0.01	94,561,355
Total:				94,561,355

Structure of PJSC "Magnit" share capital as of 31.12.2017:

<i>Name</i>	<i>Number of registered entities</i>	<i>Share in the charter capital, %</i>
Legal entities	4	66.93
including nominal holders	2	66.93
Individuals	23	33.07
Total:	27	100

INFORMATION ON PLACEMENT OF ADDITIONAL SECURITIES

On November 15, 2017 the Board of directors of PJSC "Magnit" made a decision to increase the charter capital of the Company by means of placement of 7,350,000 (seven million three hundred fifty thousand) additional registered shares by means of public subscription. The Decision on the issue of additional shares and the Prospectus were approved.

On December 4, 2017 the Bank of Russia registered the additional issue of shares of the Company (state registration number of additional issue of shares No. 1-01-60525-P as of December 4, 2017).

As on December 31, 2017 the Company was in the process of securities placing.

CHANGES IN PERSONS ENTITLED TO DISPOSE, DIRECTLY OR INDIRECTLY, NOT LESS THAN FIVE PER CENT OF VOTES ATTACHED TO VOTING SHARES OF THE COMPANY

On November 15, 2017 the company LAVRENO LIMITED (domiciled at Spyrou Kyprianou 20, Chapo Central, 3' floor, 1075, Nicosia, Cyprus) acquired the right to dispose directly of 7,310,850 votes attached to voting shares of PJSC "Magnit" (7.731330%). The number of shares and votes attached to voting shares of the Company before the event amounted to 210,850 shares (0.222977).

On November 16, 2017 the number of shares and votes attached to voting shares of the Company that LAVRENO LIMITED had the right to dispose of decreased to 210,850 shares (0.222977).

On December 5, 2017 the Company received the information that the company Dodge & Cox (555 California Street, 40th floor, San Francisco, California, 94104, USA) on the basis of a trust management agreement acquired the right to dispose indirectly of 6,610,285 votes attached to voting shares of PJSC "Magnit" (6,99%); before the event the company Dodge & Cox had the right to dispose of 4,329,385 votes attached to voting shares of PJSC "Magnit" (4,58%).

NUMBER OF SHARES OWNED BY THE COMPANY

PJSC "Magnit" does not have its own ordinary shares on the balance sheet of the Company.

NUMBER OF SHARES OWNED BY THE ENTITIES CONTROLLED BY THE COMPANY

As of December 31, 2017 the entities controlled by the company owned 730,000 voting shares of the Company that amounts to 0.771986% of the total number of ordinary registered shares.

Information on PJSC "Magnit" outstanding shares listed outside the Russian Federation in accordance with the foreign law of securities of foreign issuers certifying rights in respect of the above shares of the Company:

Category (type) of shares outstanding outside the Russian Federation: ordinary registered shares;

Percentage of shares outstanding outside the Russian Federation as a % of the total number of shares of the corresponding category (type): 29.94% (as of 31.12.2017);

name, address of the foreign issuer which securities certify the rights in respect of the shares of the Company of the corresponding category (type): JP Morgan Chase Bank, N. A., 4 New York Plaza, 12th Floor, New York, 10004 New York United States of America);

short description of the program (type of the program) of the securities issue of the foreign issuer certifying the rights in respect of the shares of the corresponding category (type): in accordance with foreign law JPMorgan Chase Bank, N. A. issued securities (global depository receipts, "GDRs") certifying the rights in respect of the ordinary registered shares of PJSC "Magnit";

information on obtaining a permit of the federal executive body for the securities market to list the issuer's shares of the corresponding category (type) outside the Russian Federation:

- in accordance with the order of FFMS of Russia of March 27, 2008 № 08-661/pz-i placement and listing outside the Russian Federation of the ordinary registered uncertified shares of PJSC "Magnit", state registration number of the securities issue 1-01-60525-P of 04.03.2004, state registration number of the additional securities issue 1-01-60525-P-004D of 20.03.2008 in the amount of 11,522,000 (eleven million five hundred and twenty two thousand) ordinary registered uncertified shares is permitted;

- in accordance with the order of FFMS of Russia of October 02, 2009 № 09-3132/pz-i offering and listing outside the Russian Federation of ordinary registered uncertified shares of PJSC "Magnit", state registration number of the securities issue 1-01-60525-P of 04.03.2004, state registration number of the additional securities issue 1-01-60525-P-005D of 02.10.2009 in the amount of 16 792 946 (sixteen million seven hundred ninety two four thousand nine hundred forty six) ordinary registered uncertified shares is permitted;

name of the foreign trade organizer (trade organizers) through which securities of the foreign issuer certifying the rights in respect of the issuers' shares are listed: London Stock Exchange.

BONDS

The Company uses bond issues as one of the form of debt financing attracted primarily through issuance of exchange bonds.

In 2017 5 issues of PJSC "Magnit" exchange bonds were in circulation (series BO-11, BO-001P-01, BO-001P-02, BO-001P-03, BO-001P-04), with a total nominal volume of 50 bln. rubles (as of the end of the reporting year the volume in circulation amounted to 20 billion rubles).

Parameters of the bond issue of PJSC "Magnit" of BO-11 series:

<i>Identification number of the issue and the date of its assignment</i>	№ 4B02-11-60525-P of July 30, 2013
<i>Volume of the issue</i>	10,000,000,000 rubles
<i>Number of securities</i>	10,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Placement price</i>	100% of nominal value
<i>Date of placement</i>	20.10.2015
<i>Method of placement</i>	open subscription
<i>Redemption date</i>	546th day from the date of placement (18.04.2017)
<i>Number of coupons</i>	3
<i>Trading code</i>	RU000A0JVUZ6
<i>ISIN code</i>	RU000A0JVUZ6
<i>Interest rate on the basis of the auction results</i>	11.70 %
<i>1 coupon interest rate</i>	11.70 %
<i>2 coupon interest rate</i>	11.70 %
<i>3 coupon interest rate</i>	11.70 %

The third coupon yield of BO-11 series Exchange-traded bond issue was paid on April 18, 2017. The total amount of yield paid on the third coupon amounted to 583.4 million rubles, the amount of yield of the second coupon paid per one bond amounted to 58.34 rubles.

On April 18, 2017 PJSC "Magnit" fulfilled its obligations to bond holders on time and in full and redeemed the nominal value of bonds of the BO-11 series.

Parameters of the bond issue of PJSC "Magnit" of BO-001P-01 series:

<i>Identification number of the issue and the date of its assignment</i>	№ 4B02-01-60525-P-001P of November 5, 2015
<i>Volume of the issue</i>	10,000,000,000 rubles
<i>Number of securities</i>	10,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles

<i>Placement price</i>	100% of nominal value
<i>Date of placement</i>	11.11.2015
<i>Method of placement</i>	open subscription
<i>Redemption date</i>	546th day from the date of placement (10.05.2017)
<i>Number of coupons</i>	3
<i>Trading code</i>	RU000A0JVXM8
<i>ISIN code</i>	RU000A0JVXM8
<i>Interest rate on the basis of the auction results</i>	11.20 %
<i>1 coupon interest rate</i>	11.20 %
<i>2 coupon interest rate</i>	11.20 %
<i>3 coupon interest rate</i>	11.20 %

The third coupon yield of BO-001P-01 series Exchange-traded bond issue was paid on May 10, 2017. The total amount of yield paid on the third coupon amounted to 558.5 million rubles, the amount of yield of the second coupon paid per one bond amounted to 55.85 rubles.

On May 10, 2017 PJSC "Magnit" fulfilled its obligations to bond holders on time and in full and redeemed the nominal value of bonds of the BO-001P-01 series.

Parameters of the bond issue of PJSC "Magnit" of BO-001P-02 series:

<i>Identification number of the issue and the date of its assignment</i>	№ 4B02-02-60525-P-001P of February 24, 2016
<i>Volume of the issue</i>	10,000,000,000 rubles
<i>Number of securities</i>	10,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Placement price</i>	100% of nominal value
<i>Date of placement</i>	29.02.2016
<i>Method of placement</i>	open subscription
<i>Redemption date</i>	728th day from the date of placement (26.02.2018)
<i>Number of coupons</i>	4
<i>Trading code</i>	RU000A0JW662
<i>ISIN code</i>	RU000A0JW662
<i>Interest rate on the basis of the auction results</i>	11.20 %
<i>1 coupon interest rate</i>	11.20 %
<i>2 coupon interest rate</i>	11.20 %
<i>3 coupon interest rate</i>	11.20 %
<i>4 coupon interest rate</i>	11.20 %

The second coupon yield of BO-001P-02 series Exchange-traded bond issue was paid on February 27, 2017. The total amount of yield paid on the second coupon amounted to 558.5 million rubles, the amount of yield of the second coupon paid per one bond amounted to 55.85 rubles.

The third coupon yield of BO-001P-02 series Exchange-traded bond issue was paid on August 28, 2017. The total amount of yield paid on the third coupon amounted to 558.5 million rubles, the amount of yield of the second coupon paid per one bond amounted to 55.85 rubles.

Parameters of the bond issue of PJSC “Magnit” of BO-001P-03 series:

<i>Identification number of the issue and the date of its assignment</i>	№ 4B02-03-60525-P-001P of April 4, 2016
<i>Volume of the issue</i>	10,000,000,000 rubles
<i>Number of securities</i>	10,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Placement price</i>	100% of nominal value
<i>Date of placement</i>	12.04.2016
<i>Method of placement</i>	open subscription
<i>Redemption date</i>	728th day from the date of placement (10.04.2018)
<i>Number of coupons</i>	4
<i>Trading code</i>	RU000A0JWCF4
<i>ISIN code</i>	RU000A0JWCF4
<i>Interest rate on the basis of the auction results</i>	10.60 %
<i>1 coupon interest rate</i>	10.60 %
<i>2 coupon interest rate</i>	10.60 %
<i>3 coupon interest rate</i>	10.60 %
<i>4 coupon interest rate</i>	10.60 %

The second coupon yield of BO-001P-03 series Exchange-traded bond issue was paid on April 11, 2017. The total amount of yield paid on the second coupon amounted to 528.5 million rubles, the amount of yield of the second coupon paid per one bond amounted to 52.85 rubles.

The third coupon yield of BO-001P-03 series Exchange-traded bond issue was paid on October 10, 2017. The total amount of yield paid on the third coupon amounted to 528.5 million rubles, the amount of yield of the second coupon paid per one bond amounted to 52.85 rubles

Parameters of the bond issue of PJSC “Magnit” of BO-001P-04 series:

<i>Identification number of the issue and the date of its assignment</i>	№ 4B02-04-60525-P-001P of June 30, 2016
<i>Volume of the issue</i>	10,000,000,000 rubles
<i>Number of securities</i>	10,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Placement price</i>	100% of nominal value
<i>Date of placement</i>	05.07.2016
<i>Method of placement</i>	open subscription
<i>Redemption date</i>	541st day from the date of placement (28.12.2017)
<i>Number of coupons</i>	3

<i>Trading code</i>	RU000A0JWML1
<i>ISIN code</i>	RU000A0JWML1
<i>Interest rate on the basis of the auction results</i>	10.00 %
<i>1 coupon interest rate</i>	10.00 %
<i>2 coupon interest rate</i>	10.00 %
<i>3 coupon interest rate</i>	10.00 %

The second coupon yield of BO-001P-04 series Exchange-traded bond issue was paid on June 29, 2017. The total amount of yield paid on the second coupon amounted to 498.6 million rubles, the amount of yield of the second coupon paid per one bond amounted to 49.86 rubles.

The third coupon yield of BO-001P-04 series Exchange-traded bond issue was paid on December 28, 2017. The total amount of yield paid on the second coupon amounted to 498.6 million rubles, the amount of yield of the third coupon paid per one bond amounted to 49.86 rubles.

December 28, 2017 PJSC "Magnit" fulfilled its obligations to bond holders on time and in full and redeemed the nominal value of bonds of the BO-001P-04 series.

In order to provide long-term financing opportunities in the form of local bond issue there are three PJSC "Magnit" Programs of exchange-traded bonds with the total available limit of 110 bln. rubles. As the bond programs are not limited in time it enables prompt bond issue in line with the Company's financing needs.

SHARES TRADING

The shares of PJSC "Magnit" entered the Russian stock market in April 2006.

On April 14, 2006 the shares of PJSC "Magnit" were admitted to trading in the section of the List "Listed securities but not included into the quotation lists" of non-profit partnership "Russian Trading System" Stock Exchange".

On April 24, 2006 trading of PJSC "Magnit" shares in the List of non-listed securities of Close joint-stock company "MICEX Stock Exchange" commenced.

On April 28, 2006 the IPO of PJSC "Magnit" on the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) was completed.

The price of one share of PJSC "Magnit" in the course of offering on RTS and MICEX was determined on the level of 27 USD. Proceeds from the stock comprising 18.94% of the charter capital amounted to 368,355 million USD. Deutsche UFG functioned as an IPO coordinator; foreign investors could participate by purchasing the securities of "Magnit" according to the rule "S".

Since December 11, 2007 the shares of PJSC "Magnit" have been included into the Quotation list "B" of OJSC "Russian Trading System" Stock Exchange". OJSC "Magnit" shares have been admitted to trading in the corresponding list on December 13, 2007.

On December 21, 2007 PJSC "Magnit" shares were included in the quotation list "B" of CJSC "MICEX SE" and admitted to trading in the corresponding list.

On February 13, 2008 OJSC "Magnit" announced its intention to list global depositary receipts ("GDRs") representing its ordinary shares on the London Stock Exchange in connection with an offering by the Company of 11,300,000 newly issued ordinary shares in the form of

GDRs and shares (including as part of the exercise of statutory pre-emptive rights by the existing shareholders of the Company and by a Company's shareholder of ordinary shares in the form of shares and GDRs.

The offer price was set at 42.50 USD per share. The offer price in ruble terms was set based on the rate of 23.4450 rubles per dollar.

A total of 11,245,660 ordinary shares were offered including 9,719,638 shares allocated to international institutional investors. In connection with the offering the selling shareholder has granted the joint bookrunners an over-allotment option to purchase up to an additional 506,585 shares at the offer price which was exercised in full.

Conditional dealings in the GDRs commenced on the London Stock Exchange on April 16, 2008 (5 GDRs representing an interest in one share). Admission of the GDRs to the Official List of the UK Listing Authority occurred on April 22, 2008.

Proceeds from the offering amounted to approximately 480.25 million USD and were used to finance further expansion of the Company's chain of hypermarkets as well as to continue the expansion of its convenience store operations and further development of its logistics capabilities.

Since July 22, 2009 ordinary shares of the Company were included (transferred) into the Quotation list "A" of the second level at the "Russian Trading System" Stock Exchange".

On August 7, 2009 ordinary shares of the Company were included (transferred) into the Quotation list "A" of the second level at the Moscow Interbank Currency Exchange and admitted to trading in the corresponding list.

On September 2, 2009 PJSC "Magnit" announced its intention to offer additional 11,154,918 ordinary shares by public subscription.

The offer price amounted to 65 USD per ordinary share and 13 USD per GDR.

A total of 5,729,413 ordinary shares were offered. 5,680,000 newly issued ordinary shares in the form of GDRs have been allocated to international institutional investors, resulting in a total free float of 46.51% of the Company's issued share capital as of December 31, 2009.

Gross proceeds to the Company from the follow-on offering amounted to approximately 369.2 USD and were used to finance further expansion of its chain of hypermarkets as well as to continue the expansion of its convenience stores operations and further development of its logistic capabilities.

Since November 14, 2010 shares of PJSC "Magnit" have been included (transferred) into the Quotation list "A" of the first level at the "Russian Trading System" Stock Exchange".

According to the Instruction of CJSC "MICEX Stock Exchange " № 1387-p of 29.12.2010 PJSC "Magnit" shares are included in (transferred to) the quotation list "A" of the first level of CJSC "MICEX Stock Exchange".

On November 30, 2011 PJSC "Magnit" announced its intention to offer newly issued ordinary shares via an accelerated bookbuild placing to Russian and international institutional investors.

In connection with the placement the Company has registered with the Russian Federal Financial Market Service 10,813,516 new shares to be placed through an open subscription.

The offer price in the Placement has been set at US\$ 85 per new share. Payments for shares in rubles were made at an exchange rate of US\$1 = RUB 30.8486.

The Company placed 5,586,282 ordinary shares out of which 4,117,648 shares were allocated to investors resulting in a free float of 53.83% of the Company's issued share capital as of December 31, 2011.

Gross proceeds to the Company from the placement of additional shares amounted to approximately US\$ 475 mn and used to finance its capital expenditure program aimed at further expansion of its chain of hypermarkets as well as the expansion of its convenience store operations and the further development of its logistics capabilities.

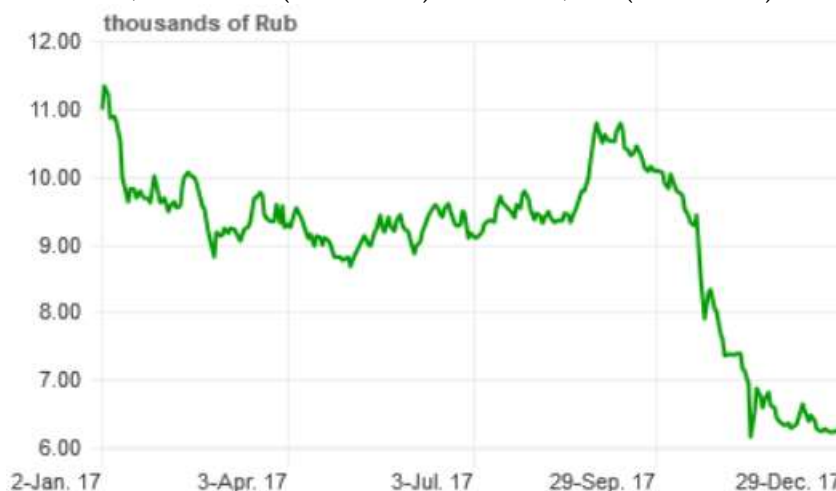
On December 19, 2011 ordinary shares of PJSC "Magnit" were excluded from the Quotation list "A" of the first level of OJSC "RTS Stock Exchange" as a result of its reorganization through merger with CJSC MICEX.

Since June 18, 2013 the shares of PJSC "Magnit" have been included into the Blue Chip Index Constituents of MICEX. Moscow Exchange Blue Chip Index is an indicator of the market of the most liquid stocks of the Russian companies. The index is calculated on the basis of the most liquid stocks of the Russian stock market. The index is based on the share prices denominated in rubles.

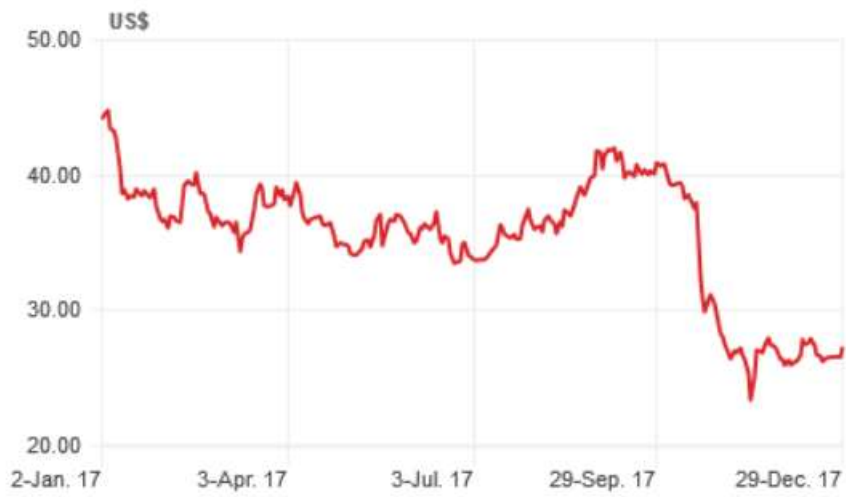
On June 6, 2014 the ordinary registered shares of PJSC "Magnit" were included in the list of securities admitted to trading on the OJSC "Saint-Petersburg Exchange".

On November 15, 2017 PJSC "Magnit" Board of Directors made a decision to increase charter capital by means of placement of additional 7,350,000 shares. The offer price was determined at 6,185 rubles per share. The shares were placed by means of open subscription. The placement of shares was completed on January 15, 2018.

According to trading held from 03.01.2017 to 29.12.2017 on PJSC Moscow Exchange (previously – CJSC "MICEX Stock Exchange") the average weighted price of transactions with shares varied from min 6,274 rubles (15.11.2017) to max 11,316 (03.01.2017).



According to the trading held from 04.01.2017 to 29.12.2017 on the London Stock Exchange the price of transactions with the global depository receipts as of closing varied from min \$23.39 (15.11.2017) to max \$44.80 (04.01.2017).



Market capitalization of PJSC "Magnit" as of December 29, 2017 amounted to 598,298,693,085.00 rubles according to PJSC "Moscow Exchange" (previously – CJSC "MICEX SE").

13. TRANSACTIONS EXECUTED WITHIN THE YEAR 2017 CONSIDERED MAJOR TRANSACTIONS ACCORDING TO THE FEDERAL LAW "ON JOINT STOCK COMPANIES"

1	
Date of Transaction	26.06.2017
Subject and other essentials of transaction	<i>loan of funds at the interest rate of 8.48% per annum</i>
Parties of transaction	<i>the Lender – Public Joint Stock Company «Magnit»; the Borrower – Joint Stock Company «Tander».</i>
Transaction amount in money terms, thousand rubles.	32,500,000
Transaction amount in percent of the company's balance sheet assets as of the termination date of the last accounting period preceding the date of transaction, %	27.93
Deadline for the fulfillment of the obligations under the transaction	23.06.2020
Information on performance of specified obligations	<i>The Lender's obligations are fulfilled. JSC "Tander" timely fulfills its obligation to the Lender.</i>
Company's authority which made a decision on approval of the transaction, date of decision (date and number of minutes)	<i>The transaction was approved by the Board of directors on March 28, 2017, minutes as of March 28, 2017</i>
Other information on transaction indicated at the Company's discretion	None
2	
Date of Transaction	29.09.2017z
Subject and other essentials of transaction	<i>The provision of the guarantee by the Public Joint Stock Company «Magnit» under the General agreement No. 0052/2017/0108 of September 29, 2017 on opening of the revolving framework credit line with tiered interest rates executed between PJSC "Sberbank" and JSC "Tander".</i>
Parties of transaction	<i>The Creditor - Public Joint Stock Company "Sberbank of Russia», the Guarantor – Public Joint Stock Company «Magnit»; the Borrower (beneficiary) – Joint-Stock company "Tander".</i>
Transaction amount in money terms, thousand rubles.	31,000,000
Transaction amount in percent of the company's balance sheet assets as of the termination date of	25.25

the last accounting period preceding the date of transaction, %	
Deadline for the fulfillment of the obligations under the transaction	28.09.2025
Information on performance of specified obligations	<i>JSC "Tander" timely and in full fulfills its obligation to the Creditor. There were no situations involving the Creditor's demands to the Guarantor to fulfill the unperformed obligations of JSC "Tander".</i>
Company's authority which made a decision on approval of the transaction, date of decision (date and number of minutes)	<i>The transaction was approved by the Board of directors on July 27, 2017, minutes as of July 27, 2017.</i>
Other information on transaction indicated at the Company's discretion	None
3	
Date of Transaction	27.12.2017
Subject and other essentials of transaction	<i>loan of funds at the interest rate of 8.1% per annum</i>
Parties of transaction	<i>the Lender – Public Joint Stock Company «Magnit»; the Borrower – Joint Stock Company «Tander».</i>
Transaction amount in money terms, thousand rubles.	38,970,670.66
Transaction amount in percent of the company's balance sheet assets as of the termination date of the last accounting period preceding the date of transaction, %	34.21
Deadline for the fulfillment of the obligations under the transaction	25.12.2020
Information on performance of specified obligations	<i>The Lender's obligations are fulfilled. JSC "Tander" timely fulfills its obligation to the Lender.</i>
Company's authority which made a decision on approval of the transaction, date of decision (date and number of minutes)	<i>The transaction was approved by the Board of directors on December 20, 2017, minutes as of December 20, 2017.</i>
Other information on transaction indicated at the Company's discretion	None

14. TRANSACTIONS EXECUTED WITHIN THE YEAR 2017 CONSIDERED RELATED PARTY TRANSACTIONS ACCORDING TO THE FEDERAL LAW "ON JOINT STOCK COMPANIES"

Information on the transactions executed in 2017 year and considered as related party transactions according to the Federal Law "On Joint Stock Companies" is represented in the annex to the Annual Report (ref. Annex №5).

15. DESCRIPTION OF MAIN RISK FACTORS RELATED TO THE COMPANY'S OPERATIONS

The Company's policy of the risk management

Since the Company and its subsidiaries operate within one group of companies (hereinafter - "the Group" or "Magnit" retail chain"), where PJSC "Magnit" serves as the holding company, the description of risks to the greater extent is provided for the entire Group.

The description of risk factors provided herein is not exhaustive; it only reflects the view and individual assessments of the management of the Group. Apart from the risks specified in this report, other risks which are not included in this report may negatively affect the return on investments in the securities of the Company. Such other risks, including those which the management of the Group is not aware of or which it considers immaterial at the present time, may also lead to a decrease of proceeds, increase of expenses or other events and (or) consequences, as a result of which the value of the Company's securities may fall.

In case one or several risks occur of those described below, the Group will take all possible measures to minimize the impact of negative changes. Today it is impossible to determine specific acts of the Group if any of the provided risks occur because the elaboration of measures adequate to the corresponding events is complicated due to uncertainty of the situation in future. Parameters of the measures to be taken will depend on the specific situation on a case-by-case basis. The Group cannot guarantee that the measures taken to overcome negative changes will remedy the situation, as the majority of the described risks are beyond the Group's control.

The Group applies a systematic approach to risk management in accordance with the Internal control and risk management policy of PJSC "Magnit". The key elements of the risk management policy in each area are:

- Risk identification,
- Risk assessment,
- Elaboration and implementation of risk management framework, and
- Ongoing monitoring of risks.

Risk management is carried out in respect of the entire Group.

In respect of the industry risks the mid and long-term assessment of the industry is made based on the macroeconomic forecasts of the Ministry of Economic Development and Trade and investment analysts. The assessment covers the future demand based on the forecasts of the population incomes and the level of consumption. The assessments include industry trends in respect of various channels, segmentation of demand by channels and competitive environment.

Based on the analysis the strategy of development is worked out to strengthen the competitive position and increase the market share of the Group.

In respect of the country and regional risks, the political and economic situation is monitored and the level of risks of disaster and of possible disruption of transportation in the regions of "Magnit" retail chain" presence is estimated. Territorial diversification of operation of the Group contributes to additional reduction of these risks.

In respect of the financial risks, the level of interest rate, currency, credit and liquidity risks is estimated.

Interest risk is managed by means of choosing the financing methods that are most optimal for the Group and by matching of timing of mobilization of resources with the timing of the projects which are financed by them. To optimize the resources the Group develops its credit history, expands the data base of potential creditors and diversifies instruments to receive the funds.

The reduction of cost of the raised resources is achieved due to the policy aiming at improvement of the information transparency. One of the tools of interest risk management is the forecasting of changes in interest rates and assessment of the appropriate leverage level of the Group adjusted for this possible change of interest rates.

In respect of the currency risk, forecasts of the analysts on a possible change in the exchange rates are estimated and decisions on the acceptable amount of assets and liabilities in the foreign currency are made.

In respect of the liquidity risks, the Group maintains well-balanced ratio of assets and liabilities in terms of timing.

In respect of the credit risks, analysis of the financial position of counteragents and the system of limits apply.

INDUSTRY RISKS

Risks related to the consumer demand and competition

Unfavorable changes in macroeconomic conditions and decrease of consumer demand in Russia may result in degradation of the growth dynamics and profitability of the industry and negatively affect sales and income of the Group

The Group operates in the food and non-food retail sector. The development of the retail sector, in which the Group operates, in many aspects depends on macroeconomic factors because the demand for the consumer goods is conditioned by the disposable income of population. In case of economic instability the decrease of the real disposable income of population may lead to weaker dynamics of growth and profitability of the industry. It should be noted that the state of the Russian economy is conditioned a lot by the oil price and other energy and mineral resources in the world market. Decrease of oil prices and prices on other mineral resources may have a material negative impact on the economy of the Russian Federation and lead to weakening of the national currency and escalation of inflation, what, in its turn, can cause a drop in real disposable income of the population and, as a consequence, a reduction in consumer spendings. Besides, introduction and further tightening of economic sanctions against the Russian Federation by the United States of America, the European Union member states and some other countries due to the developments in Ukraine has been detrimental to the state of the Russian economy.

Consumer demand in the markets where the Group operates depends on a number of factors which are beyond the Group's control, including demographic factors, consumer preferences and their purchasing power. A decline of the consumer demand or a change of the consumer preferences may significantly reduce sales and profit of the Group and have a material adverse effect on the business, financial condition and operational results of the Group.

High level of competition may lead to the decline of the Group's market share, to slowdown in the rate of growth of its proceeds and to a reduction of its profits

The Group operates in the territory of the Russian Federation with the highest concentration in the Southern, North-Caucasian, Central and Volga Federal Districts, and in the years to come it plans to continue its expansion in these federal districts, as well as in the Northwestern, Urals and Siberia Federal Districts. The retail market of the Southern federal region, where the Company is registered and where its Head Office is located, as well as the retail markets of the Central and Volga federal districts, where most of the Group's stores are located, are quite competitive regional markets in Russia and are represented by most of the major Russian companies as well as by a number of foreign companies.

The Group competes with a significant number of Russian and international companies. Retail chains compete with each other primarily on the ground of the store locations, product quality, service level, price, product mix and store conditions. Entrance of additional companies to the Russian market may further intensify competition and reduce the efficiency of the Group. Main competitors of the Group in the "convenience store" format are "Pyaterochka" and "Dixy", while in the "hypermarket" format these are "Auchan", "Perekrestok", "Karusel", "Lenta" and "O'key". The Group also competes with regional and local retail chains, individual groceries and food markets.

Russian retail is characterized by a high level of competition which has become still higher during the recent years. For example, according to estimates of the management of the Group, only during 2017 the key competitors of the Group opened over 2,500 new stores the market areas of which (within which the owners of such stores can expect a consumer demand) overlap with the market areas of the nearby stores of the Group. By the end of 2017 the market areas of almost 10,000 convenience stores (nearly 82% of all convenience stores owned by the Group) overlapped with the market areas of the key competitors of the Group. In view of ongoing growth of chain stores of major companies, the level of competition is expected to keep growing.

Some of the Group's competitors are major companies and have great opportunities to mobilize resources for further development of their trading networks. If the process of growth of trading networks of such companies remains as intensive as during the previous years, or new major companies appear in the Russian market through acquisition of existing companies or building up their own greenfield networks, then competition may substantially increase, which may negatively influence the market share of the Group and its competitive position. The ability of the "Magnit" retail chain to retain its competitive position depends on its opportunities to maintain and develop the existing stores and open new stores in good locations, as well as to offer competitive prices and services. There is no guarantee that the Group will be able to successfully compete with the existing or new competitors in future.

At the current stage of competitive activity considerable risks for the Group are also linked to the fact that the main competitors of the Group use more aggressive methods, such as winning additional target markets through expansion of franchising schemes. Such approach enables the competitors to expand their presence rapidly in many regions of Russia as well as to considerably reduce the costs of the new store openings. Non-use of the franchising schemes by the Group may lead to a serious reduction of flexibility in geographical coverage, and as a result to the loss of a considerable market share.

These factors together with the economic environment and strategy of the discount pricing may lead to further competition intensification and negatively affect business, financial position and operational results of the Group.

Risks related to the possible restriction of competition and regulation of the industry

The Russian legislation limits the activity of entities which occupy the dominant position on the market. If any of the Group's companies is declared a body occupying the dominant position, its activity (including pricing policy) may be restricted. Such situation may adversely affect the operational activity of the Group and its regional expansion strategy.

Some legislative initiatives aimed at competition protection and regulation of trade activity may have negative consequences for the Group's business. Specifically, in accordance with Federal Law № 381-FZ "On the principles of state regulation of trading activities in the Russian Federation" effective from February 1, 2010, dominant food chains (which threshold of dominance on the retail market within the boundaries of the region, municipal area or urban district exceeds 25%) are prohibited from purchasing and renting additional selling space within the boundaries of the relevant administrative-territorial entity. In addition, the amendments introduced by Federal Law № 273-FZ dated July 03, 2016 tightened regulatory controls over purchasing activities of trading networks by limiting the size of remuneration to trading networks from suppliers and manufacturers and the duration of the permitted extension of payment of accounts payable due to suppliers or manufacturers.

A change in consumption priorities in view of a possible considerable growth of the income level of the population in future can lead to a reduction in the number of customers of companies focused mainly on low-income or medium-income consumers, including those of the Group

There exists a risk of narrowing of the target audience of the companies which mainly focus on low-income or medium-income consumers, including that of the Group, in case of a possible significant growth of income of the population in future, which may lead to an outflow of customers from stores of such companies, including the stores of the "Magnit" retail chain. The Russian food retail market is subject to changing customers' preferences, needs and trends. The Group's target audience is mainly the consumers with low or medium income level. If the disposable income of the population considerably grows in future, there exists a risk that the Group may not be able to adjust the product mix in its stores according to the changed consumer needs, and thus may lose part of its target audience. As a result, the number of customers who shop at the stores of the Group may reduce (or the growth rate of the number of customers may significantly reduce as compared to the previous periods), or the size of the average ticket in the Group's stores may reduce, which could adversely affect the business of the Group, its operational results, financial position and prospects.

Seasonality of the consumer demand may lead to fluctuations of the Group's results in different periods of time

The seasonal factor does have certain influence on operational results of the Group. The Group experiences short-time pick-ups in buying activities on pre-holiday and holiday days, with further minor reduction in buying activities after the holidays. Turnover considerably grows before the New Year festivities (generally during the two last weeks of a year), with a reduction therein after the New Year festivities, sales growth is observable in the context of the International Women's Day, and decreasing sales of meat products are observable in spring as certain customers observe Lent. Sales of seasonal products influence over intermediate results.

Risks related to possible fluctuations of prices on products, raw materials and services used by the Group in its activity, and their impact on the Group's activity and fulfillment of the Company's obligations on the securities

The increase of the Group's expenses may have a material adverse effect on its profitability. The operating efficiency of the Group to a great extent depends on the prices for the products purchased for the retail sale, prices for raw materials, prices for the services used by the Group in its operations, and on the amount of rent payment for movable and real property and new stores construction, acquisition and opening costs. Changes in the agreement processes and procedures of obtaining rights for the land plots (including lease rights), fluctuations of the norms and regulations applicable to the Group activity, town-planning, tax and environmental legislations in particular, may entail the growth of the store opening costs or costs for the use of the premises for stores, as well as the increase of the payback period for the Group. The growth of the purchasing prices, the growth of the store opening costs, growth of the prices for land plots (or any other real estate) and of the amount of rent payment for the use thereof, as well as the growth of employees' wages may lead to a substantial growth of the Group's expenses, and, adversely affect the profitability of the Group if the Group is not able to adequately increase the sale prices due to a low purchasing power of the population in particular. Since the retail chain of the Group while working with one of the most economical formats mainly targets at low- and medium-income customers, the Group is substantially exposed to the above risk. Decrease of profitability may negatively affect the ability of the Company's relevant body to decide on the payment of yield on the securities and the market value of the Company's securities, as well as affect the fulfilment of obligations on the placed securities in full.

Risks related to possible fluctuations of the prices on products and/or services of the Group, and their influence on the Group's activity and its fulfillment of the Company's obligations on the securities

Changes of the product prices at the retail chain of the Group stores are largely determined by changes of purchase prices of the Group. The Group is doing their best not to increase the mark up on the products. The growth of the product prices may negatively affect the purchasing power of the population. Amidst inflation the growth of the product prices is more likely to happen, which causes the erosion of purchasing power of the population.

Deterioration of the macroeconomic environment and the subsequent erosion of purchasing power of the population may also lead to the decline of selling prices which most often is expressed in increased sending out of special (substantially lower) price quotations. And, if the purchase prices are less reduced than the selling prices, it will lead to a decline of the profitability of the Group.

As a result of the deterioration of the macroeconomic situation in Russia starting from 2014 and the related weakening of the purchasing power of the population, together with the concurrent intensification of competition among major retail companies, a situation has come about when the level of sending out of special price quotations both in the industry in general and in the Group's stores has considerably raised. During the recent years the population has accustomed to a wide use of discounts for many categories of products, especially for durable products. As a result, though the substantial majority of retail companies recognize the importance of a considerable lowering of the level of special price quotations, attempts to implement such a reduction in the industry can fail due to a firmly established conduct of purchasers who wait for discounting and postpone purchasing. Continuation of the existing

situation with a wide use of special price proposals or a further growth of discounting can lead to the profitability decline in the industry in general, including that of the Group.

Risks related to real estate investments and lease of real estate

Lack of reliable information on the real estate market and a possible drop in prices for the real estate acquired by the Group

Lack of reliable information on the real estate market in the Russian Federation makes it difficult to estimate the value of the real estate owned by the Group. The amount of reliable public information and research concerning the real estate market in Russia is limited. The volume of the available data is not that comprehensive and complete as similar data on the real estate market in other industrially developed countries. The lack of information makes it difficult to assess the market value and the rent price of the real estate in Russia. Therefore, there is no confidence that the price set to the real estate of the Group reflects its market value.

The Group makes substantial investments into the real estate for store premises. The market of any goods including commercial property is subject to fluctuations. Market value of the real estate may decline or grow due to different factors, including: a) changes in the competitive environment; b) changes of the attractiveness level of the real estate on the Russian market in general and on the regional markets where the real estate objects of the Group are located due to the changes of the country and regional risks; and c) fluctuations of the demand for commercial real estate.

As a result of negative changes on the real estate market, the value of the real estate acquired by the Group may decline and, thus, negatively affect the assets' value of the Group. Thus, in case of disposal of such property the Group won't be able to compensate its acquisition costs, what may negatively affect the financial position of the Group.

Inability to obtain rights on the suitable real estate object on commercially reasonable terms, to protect rights of the Group to the real estate or to construct new stores on the acquired land plots may have a material adverse effect on the economic operation and financial position of the Group

Ability of the Group to open new stores largely depends on identification and lease and/or acquisition of the real estate appropriate for its needs on commercially reasonable terms. The property market, especially in large cities of Russia, is highly competitive, and in conditions of favorable economic environment the competition for, and, therefore, the cost of high quality real estate objects may increase. If in the future due to any reason, including competition from the other companies, which are interested in the similar objects, the Group is not able to identify and lease and/or buy the new objects in due time, the Group's anticipated growth will be negatively affected. Even after the Group obtains rights on the suitable objects, it may experience difficulties or delays when obtaining permissions from various regional authorities, required for the exercise of the Group's rights to use, renovate or reequip the stores. Therefore, there's no guarantee that the Group will be able to successfully identify, lease and/or purchase the appropriate real estate objects on acceptable terms.

Failure to renew lease contracts for the stores or extend them on reasonable terms may have material adverse effect on the economic activity and financial position of the Group

It is impossible to guarantee that the Group will be able to prolong its lease contracts on acceptable terms, and even the possibility itself to prolong lease contracts upon their

expiration. If the Group is not able to extend the lease contracts for its stores as they expire or lease other suitable objects on reasonable terms, or if the actual lease contracts of the Group are terminated for any reason (including loss of ownership to such objects by the lessor), or if the contract terms are revised in the prejudice of the Group, it may have a negative impact on its financial position and operation results.

Deficiency of professional building contractors may negatively affect the development strategy of the Group

The ability of the Group to construct and/or equip the new specially built stores is extremely important for its strategy and commercial success. The Group operates in the markets which face the deficiency of highly-skilled contractors able to build new stores in due time and in compliance with standardized requirements of the Group. It is impossible to guarantee that the Group will be able to find sufficient number of qualified projectors which could enable the Group to construct and open new stores in due time. Failure of the Group to construct and equip new stores on the newly acquired land plots in due time may be detrimental to its ability to perform tasks which are set in its strategic development plans.

Dispute of the Group's rights to the real estate or cessation of the Group's projects for new stores' construction may have material adverse effect on the economic activity and financial position of the Group

Group's operations include obtaining of ownership rights and lease rights to land plots and buildings for the purposes of the construction and/or equipping new stores. Besides, the Group owns buildings and facilities where its offices are located. Russian land and property legislation is complex and often ambiguous, and may contain contradictory provisions at the federal and regional levels. In particular, it is not always clear which state authority is entitled to lend particular land plots, besides the procedures of construction approval are complex, the decisions made in compliance with these procedures can be contested or cancelled. Construction and environmental regulations often contain the requirements which are in practice impossible to meet in full. As a result, ownership and lease rights of the Group to land plots and premises may be challenged by governmental authorities and third parties, and, thus, its construction projects may be delayed or cancelled.

According to the Russian legislation, real estate transactions may be disputed on many grounds, including ineligibility of the property seller or right holder to dispose such property, breach of internal corporate requirements of the counterparty and failure to register the transfer of rights in the unified state register of rights to real estate and transactions therewith. As a result, breaches in the past real estate transactions may lead to invalidation of such transactions with certain real estate objects, which may have material adverse affect on the rights of the Group to this real estate.

It is also worth noting that Russian law does not require certain encumbrances over real estate (including leases for less than one year and uncompensated use agreements) to be registered with the unified state register of rights to real estate and transactions therewith to legally validate the charge. Besides, the time limits within which the charge liable for registration in the unified state register of rights to real estate and transactions therewith should be entered into this register, are not stipulated in the law. Therefore, there is always a risk that the third parties at any time may register or claim the existence of encumbrances (of which the Group had not been aware of) on the real estate owned or leased by the Group.

Prospective actions of the Group in case of industrial fluctuations

In case one or several of the risks described above arise, the Group will undertake all possible measures to reduce the effect of the existing negative fluctuations. It is impossible to determine particular actions of the Group in case any of the events listed in the risk factors and described in this paragraph occur in future, because elaboration of the adequate measures is complicated due to uncertainties of the developments in future. The character of the applied actions will depend on the specific situation on a case-by-case basis. The Group cannot guarantee that the activities taken to overcome negative fluctuations will lead to considerable changes in the situation, as most of the above risks are beyond the Group's control. In case of deterioration of the situation in the sector, the management of the Group plans:

- To continue, if possible, expanding operations of the Group in order to reduce the cost of goods and diversify some risks through the ongoing growth of scale;
- To continue monitoring the least prospective stores and, if the measures to raise profitability of these stores are not rewarding, to close such stores expeditiously;
- To extend the territory of the operation of the Group by choosing the most profitable regions of Russian Federation in terms of growth prospects;
- To carry out adequate changes in the pricing policy for maintaining the demand for goods on the necessary level;
- To take additional measures to cut the costs;
- To continue attracting highly-skilled specialists as well as entering into agreements with reliable partners, counteragents and contractors, which enables further considerable reduction of risks, and
- to conduct a detailed analysis of the planned operations of the Group in order to reduce the cost of investments, reduce the expenses and gain higher profits.

COUNTRY AND REGIONAL RISKS

The Company and JSC "Tander" (the main operating company of the Group which controls trading assets and is the Group's center of revenue consolidation) are registered as a tax-payer in the Southern federal region, the city of Krasnodar.

As the Group operates in the Russian Federation, the main country and regional risks affecting the operation of the Group are the risks within the Russian Federation. However, due to the globalization of the world economy, considerable deterioration of the economic situation in the world may lead to a serious economic recession in Russia and as a result to a decrease of demand for consumer goods.

Despite the fact that during the last few years there have been positive changes in many public spheres in Russia - the economy was growing, political stability has been achieved, Russia is still the state with the rapidly developing and changing political, economic and financial systems. Apart from economic risks, Russia is more exposed to the political and regulatory risks than the other countries with the developed market economy.

POLITICAL RISKS

Political instability in Russia may have a negative effect on the cost of investments in securities of Russian companies, as well as on the price of the Company's securities

Since 1991 Russia has been undergoing the transformation from the single-party government with the centralized planned economy to the federal republic with democratic institutions and market-oriented economy.

The progress of political and other reforms from 1991 was uneven. The composition of the Government of the Russian Federation, including the prime minister, was unstable on a periodic basis. For example, from March 1998 to May 2008 there were six prime-minister shifts. Vladimir Putin was for the first time elected the President of Russia in March 2000. Since then the composition of the Government of the Russian Federation has been highly stable. In March 2008 Dmitry Medvedev was elected the President of Russia, and during his administration Vladimir Putin was the Prime Minister. In March 2012 Vladimir Putin was again elected the President, and in March 2018 he was re-elected again for the six-year term. Currently Dmitry Medvedev is the Prime Minister. Although it ensured state stability, oppositional organizations were very active from the end of 2011 to the middle of 2013, mainly due to the results of the parliament and presidential elections. Intensification of political instability in Russia can have a negative impact on the cost of investments in securities of Russian companies, as well as on the value of the Company's securities.

Political instability intensified during the period since 2014 may lead to deterioration of the macroeconomic situation in Russia, including flight of capital, decrease of investments and business activity.

Accession of the Crimea to Russia caused a strong negative reaction of the western countries. In particular, the United States of America and the European Union countries as well as Ukraine strongly reject to acknowledge the referendum held in the Crimea and further accession of the Crimea to the Russian Federation legitimate. Beginning from March 2014 the United States of America, the European Union countries and some other countries started to introduce various sanctions against a number of the Russian administrative officials, politicians, businessmen, companies and banks.

The beginning and further escalation of the Ukrainian conflict between the army and the other armed groups of Ukraine on the one hand, and advocates of independency from Ukraine on the other hand, caused significant expansion and toughening of sanctions against Russia on the part of western countries starting from July 2014. In particular, the United States of America introduced the so-called sectoral sanctions against Russian state banks as well as a number of companies operating in the power generating and military sectors of economy. The most meaningful part of the sectoral sanctions for the Russian economy and financial system is the prohibition on purchase, sale, investment services and assistance in issuance or any other transactions with the securities and money market instruments with the circulation period of over 30 days, if the issuer is (i) one of the five Russian state banks (PJSC Sberbank, PJSC VTB Bank, Gazprombank (JSC), Vnesheconombank or Russian Agricultural Bank), one of their subsidiaries or a person, acting on behalf of or on the instructions of these Russian state banks and their subsidiaries; (ii) one of a number of the Russian companies, which operations are primarily related to and is mainly about invention, production, sales and export of military equipment or services related to the military sector, or one of its subsidiaries, or a person, acting on behalf of and on the instructions of these military companies or their subsidiaries; (iii) one of a number of the Russian companies controlled by the government or with the government stake of over 50% and the value of assets exceeding 1 trillion rubles and with the expected profit of over 50% coming from sale and transportation of crude oil and oil products (such as PJSC Gazprom Neft, PJSC Transneft and PJSC Rosneft), or one of their subsidiaries or a person, acting on behalf of and on the instructions of these companies or their subsidiaries. Similar sanctions blocking access to the western capital markets were also introduced by the European Union countries nearly against the same Russian state banks, power generating and military companies. Besides, there were sanctions introduced to prohibit export of products and technologies for military purposes, dual-use products and technologies (which may be

used for both civil and military purposes), as well as products and technologies necessary for oilfield development in deep water areas, Arctic shelf and shale stratum, to Russia.

Significant escalation of the geopolitical situation due to the developments in the Eastern Ukraine and the introduction of the above sanctions not only have restricted access to the western capital markets for banks and companies under sanctions, but also have complicated the access to the international debt and equity capital markets for the other Russian companies and banks, which may now experience difficulties with refinancing of their existing debt in foreign currencies by new debt on the international capital markets. Prohibited access to the international capital markets for the companies and banks under sanctions and deterioration of access to the international capital markets for other Russian companies and banks creates a threat that at least some of those companies and banks with significant debt in foreign currencies may be unable to settle their existing loans in the foreign currency in time, which may result in their bankruptcy and negatively impact the entire Russian economy. Besides, significant part of funds earlier raised by the state-owned Russian banks on the international capital markets was channeled for crediting of the Russian companies and population. The restriction of access to such relatively cheap source of financing may negatively cut volumes of crediting of the Russian companies and population by the state-owned Russian banks and significantly increase the credit rates, which may negatively impact the state of the Russian economy.

It is impossible to rule out further escalation of sanctions against Russian business and individuals in future, which may have even more negative impact on the Russian economy, financial and banking markets, and result in the increase of the capital outflow from Russia and significantly deteriorate the investment climate and business environment in Russia.

Reconsideration of reforms and the government policy with regard to certain individuals may negatively impact the business of the Group and the investment attractiveness of Russia

In the past, including the recent past, the Russian law enforcement agencies opened criminal cases against a number of Russian companies, their officials and shareholders on a charge of tax evasion, other tax crimes or absolutely different illegal actions. On some of such investigations the accused people were sentenced to be confined and pay the understated taxes. According to the statements in the Russian press, such companies included Yukos, TNK and VimpelCom. In Autumn 2014 by the decision of the Moscow Court of Arbitration the controlling interest in Bashneft, earlier owned by AFK "Sistema", was returned in state ownership on grounds of law violation in the course of privatization of Bashneft. AFK "Sistema" acquired Bashneft, privatized earlier, for US\$ 2 billion in 2009. In the course of judicial proceedings the chairman of the Board of Directors and the largest shareholder of AFK "Sistema" Vladimir Evtushenkov was accused of money laundering and he was temporarily placed under house arrest. Some analysts think that such actions of government agencies speak of the intention to reconsider many of the political and economic reforms of the last decades. However, other analysts are confident that these were one-off cases and do not speak of any backtracking on major political and economic reforms.

Conflicts between federal and regional authorities and other domestic political conflicts may create unfavorable economic conditions which may negatively impact the operations and financial position of the Group

Distribution of powers between federal and regional authorities, as well as between different authorities on the federal level in some cases remains unclear and disputable. In this connection, Russian political system is subject to certain internal contradictions and conflicts between federal and regional authorities regarding different issues, particularly, tax collection, property right to land, powers to regulate individual industry sectors and regional autonomy. Conflicts between different authorities may have serious adverse effect on the price of the Company's securities.

Besides, ethnical, religious and other segregations may provoke public tension and sometimes result into conflicts including the armed ones. For example, the continuous conflict in Chechnya negatively affected economic and political situation in Chechnya, the neighboring regions and Russia on the whole. Terrorist activity and counter measures aimed at the elimination of violence, particularly by imposing emergency rule in certain territorial subjects of the Russian Federation may have an adverse negative effect on the potential of Russian business on the whole and the Group's performance in particular, especially taking into consideration the significant scale of the Group's operations in the Southern and North Caucasian Federal Districts.

ECONOMIC RISKS

Economic instability in Russia may have negative impact on the consumer demand which may have material adverse effect on the business of the Group

In the past twenty five years the Russian economy has been exposed to:

- Significant decrease of its Gross Domestic Product and the growth rates of the Gross Domestic Product;
- High inflation;
- High and rapidly growing interest rates;
- Unstable crediting conditions;
- Unstable ruble rate;
- Massive flight of capital;
- High level of government debt versus gross domestic product;
- Low diversification of economy which relies heavily on global commodity prices;
- Sharp decline of oil prices, other energy materials and other commodities;
- Inability of the banking system to provide Russian companies with sufficient liquidity;
- Continuation of work of unprofitable enterprises due to lack of efficient bankruptcy procedures;
- High level of corruption and penetration of organized criminality in economics;
- Ubiquitous evasion of taxes;
- Significant growth of unemployment and subemployment;
- Introduction and further escalation of various sanctions against a number of Russian companies, banks, officials, politicians and businessmen;
- and
- Low incomes of the majority of the Russian population.

Over the past decade the Russian economy has been marked by instability of debt and equity capital markets (for example, the Russian equity market saw significant slowdown in the second half of 2008). As a result, the market regulators suspended trades on the Russian stock exchanges, MICEX and RTS (merged in 2011 into the MOEX) many times. The Russian

economy has been also marked by significant decline of foreign investments and sharp decrease of the gross domestic product during certain years. For example, in 2009 the Russian gross domestic product decreased by 7.8% in real terms, and in 2015 – by 2.5% in real terms.

As Russia produces and exports significant volumes of crude oil, natural gas, oil products and other mineral resources, the Russian economy is very vulnerable to the fluctuations of oil and gas prices and other commodities, the prices on which significantly decreased in the course of the global financial crisis, started in the second half of 2008. There was also a considerable drop of oil prices in the second half of 2014, as well as and in 2015 and 2016. Decrease of oil prices and prices on the other mineral resources may have material negative impact on the economy of the Russian Federation.

Besides, introduction and further tightening of economic sanctions against the Russian Federation by the United States of America, European Union and other countries due to the developments in Ukraine was and continues to be detrimental to the state of the Russian economy.

As a country with the developing economy, Russia is highly exposed to further external shocks. Developments in economy and in the financial market of one of the large countries of the region, sometimes lead to the situation when international investors lose their interest to the entire region or the class of investments – this is the so called “chain reaction”. In the past Russia already suffered from similar chain reaction, and it is possible that the Russian investment market, including the value of the Company’s securities, will correspondingly suffer in future due to negative economic and financial developments in other countries.

Economic instability or the future economic crisis may undermine the confidence of investors in the Russian markets and in the ability of the Russian companies to attract capital on the global markets, which, in its turn, may have a material adverse impact on the Russian economy. Deterioration of the economic situation may, in its turn, result in a significant decrease of the consumer demand in the country, which may negatively impact the operating results, financial position and development prospects of the Group.

Russian physical infrastructure is in poor condition, which may cause damage to the operations of the Group

Most of the Russian physical infrastructure was established in the soviet period and during many years it was not duly financed and maintained. In certain regions roads, manufacturing, electric power delivery, communication systems and the stock of buildings are in a very poor condition.

Roads in Russia are of the poor quality, some of them do not meet the minimal requirements in usability and safety, which complicates the in-time delivery of products to the Group’s stores, taken into account the distance of deliveries. Further deterioration of the Russian physical infrastructure may cause damage to the national economy, disrupt product deliveries, increase business costs and disrupt the operations.

SOCIAL RISKS

Risks related to social instability

Inability of the government and many private companies to pay out the wages in time, and altogether deceleration of wages and benefits vs. rapidly growing living costs, led in the past and may lead in the future to labor and social disorders. Similar actions, labor and social disorders may have negative political, social and economic consequences including the

nationalism growth, imposing limitations on the foreign involvement in Russian economy and the violence growth. If any of these results of the growth of social instability materialize, they can have a negative impact on the operations of the Group, including its profitability.

Crime and corruption may have an adverse negative effect on the operation and financial position of the Group

According to the reports of the local and international press, organized crime and corruption remain significant problems for the companies operating in Russia. Besides, diverse publications indicate that considerable number of the Russian mass media regularly publish biased articles for remuneration. The Group activity may be affected by illegal actions, corruption and accusation of the Group of illegal operation and therefore have a negative impact on the Group's operation.

ECOLOGICAL RISKS

Accidents at the environmentally hazardous industrial facilities of the Russian Federation and environmental pollution may negatively impact the Group's operations

In respect of all components of the environment (air, water resources, soil and land resources, wildlife) large industrial cities face an unfavorable ecological situation for population. The above factors, in their turn, negatively affect the health of the nation. Moreover, nuclear and other hazardous objects are located in the territory of Russia, while the system of control over ecologically dangerous objects is not sufficiently effective. Accidents at such objects and an unfavorable ecological situation in large Russian industrial cities may have an adverse effect on the Group's activity.

Prospective measures of the Group in case if changes in the situation in the country and/or certain regions have negative effect on the Group's operation

The majority of the above political, economic and social risks are beyond the Group's control due to their global scale. The member companies of the Group have reached a certain level of financial stability which helps to overcome short-term negative economic fluctuations in the country. In case significant political and economic instability in Russia or in a certain given region arises, which will negatively impact the operations and the revenues of the Group, the management of the Group assumes that the Group will undertake a number of crisis management measures in order to mobilize business and minimize negative impact of the unfavorable political and economic situation in the country and/or separate regions on the business of the main companies of the Group.

It is impossible to determine the specific measures of the Group in case some of the above events occur in future, as the elaboration of the adequate and relevant measures is complicated by the uncertainty of the future developments. The parameters of the applied measures will depend on the specific situation on a case-by-case basis. The Group cannot guarantee that the activities taken to overcome negative fluctuations will lead to considerable change in the situation as most of the above risks hereof are beyond the Group's control.

However, in case of negative impact of the country and regional changes on the Group's operations, the management of the Group plans to take the following measures to maintain the profitability of the Group's operations:

- if possible, to save fixed assets until the situation improves;
- to undertake measures aimed at sustainment of the Group's employees and on their

- productivity;
- to introduce adequate changes to the pricing policy to maintain the demand on the products on the proper level;
- to take additional measures on cost saving, including measures to reduce purchasing prices and to limit wage expense; and
- to revise the capital expenditure program.

In order to minimize the risks related to the force majeure circumstances (military conflicts, riots, natural disasters, state of emergency, etc.) the Group reflects the possibility of such events within its contract activity.

The Group acts under Art. 401 of the Civil Code of the Russian Federation which states that the person who does not exercise the obligations due to force majeure circumstances provided herein does not bear responsibility to the counterparty.

To reduce the above risks the Group plans to further expand its operations in different regions of Russia in order to diversify risks.

Risks related to the possible military conflicts, state of emergency and strikes in the country and/or the region where the Company is registered as a tax payer and (or) operates its business.

The Russian Federation is a multinational country consisting of the regions with different social and economic development levels; thus, it is impossible to completely eliminate the possibility of internal tension in Russia including armed conflicts. Also the management of the Group cannot completely exclude risks related to the emergency state.

According to the Ministry of Emergency Situations of Russia, terrorism is one of the most real threats to the stable social and economic development of the country as well as to an improvement of the living standards of population and strengthening of the national security of the Russian Federation. The danger of the acts of terror still exists in the entire territory of the Group's operations, especially in the North Caucasian Federal District and the Southern Federal District, as well as in the larger cities of Russia.

Risks related to the geographical peculiarities of the country and/or the region where the Company is registered as a tax payer and (or) operates its business, including high threat of natural disasters, possible stop of transport connection due to remoteness and (or) inaccessibility, etc.

The regions with the Group's presence may face the drastic consequences of conflagrations on the economic objects and in the public sector, accidents and failures of utility systems and transport, natural fire, dangerous hydro-meteorological phenomena (strong winds, frosts, heavy snowfalls and heavy rains), earthquakes, land subsidence and sinkhole collapse, contagion outbreaks among people and animals. For example, exposure to natural and climatic risks, including natural disasters (hurricanes, floods, earthquakes, etc.) is distinctive geographical feature of the Southern Federal District. The geographical peculiarities of the region do not eliminate the risk of possible stop of transport connection due to remoteness and/or inaccessibility of a city or any other location.

FINANCIAL RISKS

The Group is exposed to risks related to the changes of interest rates

The Group's companies raise borrowed funds to finance business development of the Group and to expand its resource base. Raise of the interest rates may have a substantial negative effect on the operational results of the Group.

Exposure of the financial position of the Group, its liquidity, funding sources, operational results, etc. to the foreign exchange movements (currency risks)

Over the last years Russia has faced considerable fluctuations of the exchange rate of the Russian ruble to foreign currencies. Substantial ruble devaluation may result in the reduction of the dollar cost of sales and assets of the Group denominated in rubles. Additionally, decrease of the ruble exchange rate may lead to the decline of the dollar cost of tax deductions arising from the realization of capital investments, since the balance sheet assets will reflect their ruble value as at the moment of acquisition.

The Group does not export its products, and all its main obligations are ruble denominated. Import products comprise a certain share of revenue, which makes the Company dependent on the possible foreign exchange fluctuations. In case of such fluctuations, the Group is able to modify the structure of goods purchases in favour of the Russian counterparts.

The Group purchases and plans to purchase in future imported retail equipment and vehicles for foreign currency, thus, a considerable decline of the ruble exchange rate may lead to the increase of the Group's expenses in ruble terms.

Thus, the actualization of such risk may have an adverse effect on the Group's revenue and profitability.

In addition, a dramatic ruble devaluation may have a negative effect on the country's economy on the whole and lead to the decline of the purchasing power of the population.

Prospective measures of the Group in case currency fluctuations and interest rates have negative effect on the operation of the Group

In case movements of exchange rates and/or interest rates are negative for the Group, the management of the Group plans to carry out tough policy of cost saving. However, it should be taken into consideration, that part of the risk cannot be completely neutralized, since the indicated risks mainly lie beyond the Group's control but depend on the general economic situation in the country.

Inflation influence on the payment on securities

The Group faces inflation risks which may have an adverse effect on its business activity. The purchasing prices on the products depend on the overall price level in Russia. The growth of the purchasing prices may lead to further increase of retail prices on the products and other goods sold by the Group. This may negatively influence the competitiveness of the Group or its financial performance.

If the exchange rate of the ruble to US dollar increases simultaneously with inflation, the Group may face expenses increase in dollar terms on certain cost items. Some expense items of the Group, such as payroll, expenses on construction, lease and utilities are sensitive to the overall growth of the price level in Russia. Due to competitive pressure or legal restrictions the Group may not be able to properly increase its prices in order to retain its profit rate and, moreover, to increase its profit rate.

Inflation growth in the Russian Federation may also entail the overall growth of the interest rates.

Critical inflation indices according to the management of the Group

Today the 30-35% level of inflation is considered critical by the management of the Group. Serious acceleration of the price increase rate may lead to the growth of Group’s expenses, loan funds costs, and result in the profitability downturn.

Prospective measures of the Group to reduce the inflation risk

In case of a considerable excess of the actual inflation indices over the forecasted by the Government of the Russian Federation, the management of the Group plans to take measures required in order to limit growth of other expenses (not related to the purchase of products to be sold), reduce accounts receivable and shortening its average term.

Financial report statements of the Company mostly subject to changes under the foregoing financial risks (including risks, probability of their occurrence and nature of changes in reports)

The Group’s expenses and profit are mostly exposed to the influence of the foregoing financial risks. In case of unfavorable change of the situation upon realization of one or several risks, the expenses will be the first to grow and will entail profit reduction correspondingly.

In case of substantial inflation growth and/or significant ruble devaluation and therefore the expenses growth, the Group may increase the prices on the products for sale.

Moreover, in case of significant ruble devaluation and growth of inflation and/or interest rates the Group plans to take the following measures:

- revision of the programs of capital investments and loans;
- optimize the receivables turnover;
- additional measures to reduce costs;
- revision of the financing structure.

At the moment hedging of the foregoing risks is not carried out.

The Group is also exposed to the liquidity risk, i.e. the risk of losses due to deficiency of funds within the established terms and as a result, risk of inability of the Group to fulfill its obligations. Realization of such risk may entail penalties, fines, injury to the goodwill of the Group, etc.

The Group manages liquidity risk through analysis of the scheduled cash flows.

Exposure of the financial report statements to the foregoing financial risks

Risks	Probability	Nature of changes in the report statements
Interest rates growth	high	Interest rates growth will increase the cost of borrowings for the Group, thus it may have negative effect on the Group’s financial position, particularly, will increase the operational expenditures of the Group and reduce its profit.

Inflation rates growth	high	Inflation rates growth will lead to the increase of the Group's expenses (raw commodities costs, payroll expenses, etc.). At the same time the acceleration of the inflation rate growth will result in the growth of the consumer prices for the Group products and correspondingly increase the sales of the Group. Thus, the part of increase of the Group's expenses will be compensated by the increase of the product prices.
Change of the exchange rate of US dollar to ruble	high	It does not produce strong effect, as the main profits and losses of the Company are ruble denominated.
Liquidity risk (risk of undue obligation fulfillment)	medium	Failure of the Group to fulfill its obligations in due time may entail penalties, fines, etc., which will result in unscheduled expenses and reduce the Group's profit. In connection herewith, the Group carries out the policy of the cash flows' planning.

Other financial risks

Risks related to the dependence on the Russian banks

The Russian bank and other financial systems are less developed and less regulated, and the Russian legislation related to banks and bank accounts may be interpreted ambiguously and is applied inconsistently. Nowadays there are a limited number of creditworthy Russian banks (most part of which have their headquarters in Moscow) that are able to provide services to a company similar in size to the Group. Many Russian banks do not meet international banking standards, and the transparency of the Russian bank sector to a certain extent falls behind the international level. Supervision of bank activity is also often insufficient, whereby many Russian banks do not observe the actual instructions of the Central Bank of the Russian Federation regarding loan criteria, credit quality, loan loss provision, risks' diversification and other requirements. Application of more severe regulations or interpretations may result into insufficient equity capital or insolvency of some banks.

As a rule, the Group supports relations and keeps its accounts only with a limited number of reliable creditworthy Russian banks, including public joint-stock company "Sberbank of Russia" (PJSC "Sberbank"), joint-stock company "ALFA-BANK" (JSC "ALFA-BANK"), public joint-stock company VTB Bank (PJSC "VTB Bank"), "Gazprombank" (joint-stock company) and public joint-stock company "ROSBANK". Bankruptcy of one or several of the specified banks may negatively affect the Group's business. Moreover, the lingering and severe bank crisis or bankruptcy of those banks with which the Group keeps its funds may lead to inaccessibility to the cash assets for several days or even to the loss of all Group's deposits in such banks, which may have material negative effect on the Group's business activity, operational results, financial position and prospects.

Risks related to the transfer pricing

The Tax Code of the Russian Federation establishes special criteria for determination of prices for the taxation purposes in transactions executed between related parties. The established transfer pricing rules significantly increase the tax burden on a taxpayer due to the necessity of identification and separate records of controlled transactions, "price testing" in terms of

compliance with the market level, preparation of documentation, as well as provision of notifications of controlled transactions.

The legislation provides for the right of the Russian tax authorities to apply adjustments to the tax base and to charge additional amounts of income tax with relation to all controlled transactions, if the price applied to the transaction differs from the range of market prices. The current law enforcement and judicial practice is contradictory due to different interpretation of the applied criteria by the Russian tax authorities, arbitration courts and taxpayers. Therefore, tax authorities can try to challenge prices for controlled transactions of the Group member companies and adjust the accrued taxes.

The law provides for large amounts of penalties for the non-payment or underpayment of tax amounts as a result of applying in a controlled transaction the price not comparable with the financial terms of transactions between parties which are not related. The amount of these penalties is 20% of the outstanding tax amount until 2017 and 40% of the outstanding tax amount but not less than 30 thousand rubles from 2017.

LEGAL RISKS

The Group is exposed to the following legal risks:

Common risks related to legal entities according to the legislation of the Russian Federation

Certain transactions with participation of the Group's companies may be acknowledged as related party transactions. Such transactions may include, inter alia, sales and purchase agreements of manufactured goods, purchase of shares and service contracts. If such transactions or their actual approvals are successfully contested, or if the approval of transactions of the Group's companies which require special approval according to the legislation of the Russian Federation is prevented in future, it may limit the flexibility of the Group's companies in the operational issues and may have a negative effect on its operating activity.

In practice, standards of corporate governance remain underdeveloped in many Russian companies, and minority shareholders of these companies may experience difficulties with the exercise of their legal rights and may bear losses. Although the Federal Law "On Joint-Stock Companies" and the Civil Code of the Russian Federation (in the wording of the Federal law № 315-FZ of October 22, 2014) entitle a shareholder (shareholders) to file a claim against (i) an individual authorized to act on behalf of the joint-stock company under the law, other legal act or constituent document of this joint-stock company, (ii) members of collective bodies of the joint-stock company and (iii) individuals who are actually able to determine actions of the joint-stock company, who caused damage to the joint-stock company by their activity (or inactivity) and who acted unfairly or unreasonably during the performance of their duties, Russian courts do not have enough experience of handling with such claims. Therefore, the feasibility of investors to get the compensation is limited. As a result, protection of interests of minority shareholders is limited.

The Civil Code of the Russian Federation and the Federal Law "On Joint-Stock Companies" provide that the shareholders of the joint-stock company are not liable for its obligations and are only exposed to the risk of loss of the investments within the limit of the value of the shares in their ownership. However, if the bankruptcy of the legal entity is caused by the shareholders, the owner of the property of the legal entity or other persons who are entitled to

give instructions, which are mandatory for this legal entity, or otherwise determine its actions, subsidiary liability for the obligations of the legal entity may rest on them in case of deficiency of the property of the legal entity. Thus, being the parent company with regard to the subsidiaries in which the Company directly or indirectly owns more than 50% of the charter capital, the Company may bear responsibility for the obligations in the above cases. Responsibility for obligations of the subsidiaries may have significant negative effect on the financial position of the Company.

Securing the rights of shareholders according to the Russian legislation may lead to additional expenses, which may lead to the deterioration of the Company's performance. According to the Russian legislation, shareholders who voted against or abstained from voting on certain issues have appraisal rights. Shareholders have the appraisal rights if they vote against or abstain from voting on the following issues:

- reorganization;
- major transaction which is subject to approval by the general shareholders meeting;
- amendments restricting the shareholders' rights to the charter of the Company or ratification of the Charter in a new edition; and
- decision to make the statement on delisting of the Company's shares (exclusion of securities from the list of securities admitted to trading at the stock exchange) and (or) securities of the Company convertible into its shares.

Obligations of the Company to buy the shares back may have significant negative effect on the cash flows of the Group and its ability to service its debt.

Weakness of the Russian legal system and imperfection of the Russian legislation provide vague environment for investments and business activity

Efficient legal system essential for the functioning of the market economy in Russia is still in the formation process. It is only in recent times that many crucial laws have come into effect. Sometimes insufficient consensus on the scope, content and period of economic and political reforms, rapid development of the Russian legal system, which is not always consistent with the directions for the development of the market relations, are expressed in uncertainty, inconformity and inconsistency of the provisions of the law and subordinate acts.

Additionally, the Russian legislation often refers to the statutory acts which are to be adopted, leaving considerable loopholes in the mechanism of the legal regulation. Sometimes new laws and regulatory acts are adopted without being comprehensively discussed with the interested participants, whose activity is related to the legal system and/or with the law enforcement practice, or in the society in general, and do not contain any adequate transitional provisions, which creates serious complexities in their application. Defects of the Russian legal system may negatively influence the ability of the Group to exercise its rights in accordance with contracts as well as the ability to defend against claims of the third parties. Besides, the Group cannot guarantee that the governmental and judicial agencies as well as the third parties would not litigate the Group's meeting of the requirements of the laws and subordinate acts.

Risks related to the protection of investors' rights

Russian investor protection legislation may be less favorable than the legislation of the other countries with the developed market economy. Besides, there is a risk of changes of the applicable legislation in future which may be unfavourable for investors. Income of the foreign investors from the investments into the Company's securities may be taxed in accordance with

the Russian legislation. Deterioration of the general economic and political situation in the country may result in tightening of the currency regulation and control and in limitation of the performance of transactions with the Company's securities.

Risk related to the impossibility for foreign investors to export the return on shares of the Company outside the Russian Federation

Today, the Russian legislation on dividend payment sets forth that dividends on shares in rubles may be paid to the shareholders without limitations. Possibility of the foreign investors to convert rubles into any freely convertible currency ("FCC") depends on the availability of such currency on the Russian exchange markets. Although in Russia there is the market for conversion of rubles into FCC, including trading on the exchange market of the Moscow Exchange as well as over-the-counter markets and currency futures markets, further development prospects of this market remain vague.

Risks related to changes in the currency regulation

There are risks of the regulation of a number of the currency operations. Significant changes in the currency regulation and currency control may complicate fulfillment of obligations under the agreements with the counterparties. In the opinion of the Group's management, these risks influence the Group as is the case with the other market entities.

The Group conducts continuous monitoring of the regulatory environment of the currency regulation and control and conforms to the established rules. During the reporting period there have been no amendments introduced to the Russian legislation on the currency regulation and the currency control which may influence the operations of the Group.

Risks related to the tax legislation

Tax legislation of the Russian Federation is exposed to quite frequent changes. In the opinion of the management of the Group, these risks influence the Group as is the case with the other market participants.

The following amendments in the Russian tax system may negatively influence the operations of the Group:

- Amendments of the acts of the tax and levy legislation related to the increase of the tax rates; and
- Introduction of new taxes.

Such amendments, if they are significant, as well as other significant amendments of the tax legislation, may result in the increase of tax payments and, consequently, in the reduction of the profit of the Group. Changes in the Russian taxation system can negatively influence the attractiveness of investments in the Company's securities.

Russian companies make considerable tax payments of a great number of taxes. These taxes, inter alia, include:

- Income tax;
- Value added tax;
- Excise taxes;
- Land tax; and
- Property tax.

Legislative and subordinate acts which regulate the above taxes lack sufficient history of application as compared to the other countries. Therefore, the law enforcement practice is

often ambiguous or is not yet established. Currently there are very few generally accepted clarifications and interpretations of the tax legislation. Different ministries and authorities often have different interpretations of the tax legislation, which creates uncertainty and grounds for the conflict.

The taxation system in Russia changes frequently, and the tax legislation is inconsistently applied on the federal, regional and local levels. Due to vague legislation the Group is exposed to the risk of material penalty fees and fines despite the Group's efforts to comply with the legislation, which may lead to the increase of tax burden. The Group is aimed at complying with the applicable tax legislation in full, which, nevertheless, does not eliminate the potential risk of division of opinions with the relevant regulatory bodies on controversial issues. At present, tax administration is relatively inefficient, and the Government of the Russian Federation may have to introduce new taxes to increase its income. Thus, the Group may have to pay considerably higher taxes, which may negatively influence the business, operational results and financial position of the Group.

In the course of operations the Group conducts operational monitoring of the tax legislation and enforcement of the applicable legal provisions. The Group estimates and forecasts the extent of potential negative influence of amendments of the tax legislation aiming efforts at minimization of risks related to such changes. Generally, the tax risks related to the Group's activity characterize most of the businesses operating on the territory of the Russian Federation and may be regarded as national.

Risks related to the customs control and duties

Changes of customs control and duties regulations may entail the increase of the purchasing prices on the imported goods, which may result in the decrease of the Group's income.

The Group is exposed to certain risks related to amendments to the customs legislation regulating the setting of the procedure for movement of goods across the customs border of the Russian Federation, setting and application of the customs regimes and introduction and levying of customs payments. The Company is aimed at complying with the requirements of the customs control, processing of all documentation necessary for import transactions in time and has sufficient financial and personnel resources to follow the regulations of the customs legislation.

Risks related to the requirements of licensing of the core business line of the Group or licensing of the rights to use objects which are limited in the turnover (including natural resources)

The core business line of the Group is retail which is not subject to licensing. The companies of the Group have the licenses for the retail sale of alcohol consumed not in the point of sale. If the licensing requirements change, the management of the Group will operate under the new requirements including re-issuance and obtaining of new licenses. The Group does not use in its business objects with the limited presence in the turnover (including natural resources). The management of the Group assesses risks related to the licensing requirements as minimal.

Risks related to the change of the judicial practice on issues related to the Group's operation (including licensing issues) which adversely affect the results of its operation, as well as the results of the current legal proceedings in which the Group is involved

While carrying out commercial activity and making business decisions, the Group takes into consideration the law enforcement practice in order to estimate and forecast possible scenarios and to foresee the risks.

The management of the Group regularly monitors decisions made by the high courts and estimates the trends of the law enforcement practice, formed at the level of district arbitration courts, actively implementing and using it not only for the protection of its rights and legitimate interests through legal proceedings but also for the resolution of legal issues arising in the course of the Group's operation. Therefore, the risks related to the change of the judicial practice are considered to be insignificant.

Risk of loss of business reputation (reputational risk)

The Risk of the Group starting to have losses due to inability of the Group to maintain existing and set up new business relations and to get access to the long-term financing sources due to negative interpretation of financial stability and financial status of the Group or the nature of its activity as a whole is currently assessed by the management of the Group as low.

Other reputational risks

Risks related to the sale of private label products

As a way of attracting customers and strengthening the consumer loyalty for private label, the Group plans to continue the sale of private label products. Therefore, there exists the probability of potential customer claims to the quality of the Group's private label products. High product quality is of the utmost importance for the private label, and chain operators are exposed to serious risks while promoting poor quality products under private label. Claims to the quality or other characteristics of such products may dramatically damage the image of the Group on the whole, discredit the brand of the Group for the customers and lead to considerable financial losses.

Besides, retail margin for private label products on the average is higher than for similar branded goods. As a result increased proportion of sales of the private label products in the entire sales turnover affects gross profit margin of the Group favorably. In connection with this, the management of the Group is working on improving the concept of private label products and plans to increase the proportion of sale of the private label products in the entire sales turnover of the Group. On the other hand, should the Group in future be unable to attract sufficient number of customers to buying private label products as a result of higher level of the consumers' claims to the quality of goods or due to some other reasons, the proportion of sales of the private label products in the entire sales turnover will drop, which fact will affect its gross profit margin negatively.

Risks related to the quality of products for sale

There is a risk related to the Group's responsibility for the quality of products sold at the Group's stores as well as the risk of filing a claim due to the harm to life and health. According to the agreements entered into with the majority of suppliers, the producer takes the material liability for the quality of sold products, provided that the Group observes the necessary storage conditions. Such claims may also be addressed to the seller of the products at the discretion of a complainant. Any similar situation may cause damage to the reputation of the Group, reduce the market share of the Group and negatively affect its financial position.

Moreover, there is a risk related to the careless attitude of the Group personnel to the storage conditions of the products, which may lead to legal material liability of the Group under such claims.

The “Magnit” word mark is used by other participants of the sales turnover as a component of the company name, which may have material adverse effect on the operation of the Group.

The Group has invested substantial funds in promotion of its “Magnit” brand on the Russian market, including the private label products of the Group. Due to “Magnit” brand the Group has achieved considerable success in its operation.

Meanwhile, the trademark “Magnet” in Latin letters in the certain classes is registered in the name of the third party. A certain risk of interests’ conflict between the owners of the trademark “Magnit” (or “Magnet”) definitely exists, the Group might be forced to re-brand its stores. The expenses for such re-branding may negatively affect the operation results of the Group.

Moreover, due to the fact that Russian legislation provides limited protection for the company names on the market, there exist a number of other organizations using “Magnit” in their names. Business activity of some of them has partially similar features to the operation of the Group. The Group cannot prevent these organizations from using such names, and this may result in negative effect of these companies’ activity on the business activity and reputation of the Group.

STRATEGY RISKS

Risks related to the implementation of the long-term strategy of the Group aimed at expansion of the existing store chain

One of the main components of the long-term strategy of the Group is the expansion of the existing store chain. The expansion of the chain will have the following directions: within the existing formats and the introduction to the market of the new formats. Within geographical position the chain will expand in regions with the maximum concentration of existing stores (in the Southern, North-Caucasian, Central and Volga federal districts) and in the other regions of Russia.

The strategy success will depend on a number of factors within and out of Company’s control. These factors include:

- Ability to raise enough funds for capital investments. If the Group fails to raise enough funds for chain expansion at the scheduled scale, the Group may have to considerably limit the scale of the chain expansion and take disadvantageous position versus competitors who will develop their business activity faster, which may lead to the loss of the market share and deterioration of the operational results of the Group;
- Ability of the operating professional team to carry out the projects on business expansion and subsequently to manage it. The abilities of the operating management team may turn out to be insufficient for maintenance of the operation efficiency within the conditions of dynamic expansion. Business expansion makes it more complicated to manage the Group in terms of operation and increases the workload upon employees. Therefore, the improvement of operational and financial systems together with control measures and procedures will be required. Furthermore, the systems of purchasing, logistics, information technologies, accounting, financing, marketing and

sales will need to be revised. If the Group fails to update the management system in time, it may negatively affect its business activity, operating results and financial position;

- Success of the Group's expansion in new regions will largely depend on its ability to identify attractive opportunities on the markets of the potential growth, on the ability to successfully implement assortment matrix appropriate for each region and establish the effective purchasing system as well as on ability to manage the operation on the new local markets. Thus, the Group may not achieve the expected profit and/or lose the part of the funds invested in the new projects;
- Implementation of the effective marketing strategy which will provide not lower level of the effectiveness of sales or insignificant decline of sales than the Group managed to achieve in the past. Due to the increase of the competition in retail sector, the effectiveness of the Group's marketing campaign may considerably decrease in the future which will reduce the amount of its customers and consequently reduce the sales turnover;
- The chain expansion in the territory of one urban area may result in the cannibalization (which already affects negatively the level of comparable sales of the Group stores), which will lead to the reduction of the sales turnover in the average within the stores of the Group;
- The Group's growth strategy foresees changes in the business activity model concerning the ownership rights on the sales areas. Within the development of the operating formats the Group plans to carry out the independent construction/acquisition of premises and purchase the equipment for the stores more actively than before, which will mainly affect the structure of its assets and operating results and, therefore, the performance indicators;
- Availability of the necessary space areas and land plots for the new stores. The market may not have the sufficient number of areas suitable for store constructions, which may slowdown the retail chain expansion rates against the scheduled strategy and result in the loss of the Group's market share in favor of competitors;
- Competition level in some regions at the moment of the store openings by the Group may prove to be extremely high for Group to enter the markets of these regions, which will not allow to achieve the expected profitability level; and
- Within the economic slowdown on the regional markets, the retail chain expansion on new territories may turn out to be not as successful as expected by the Group, which may have negative effect on the Group's business and profitability.

Risks relating to the program of renovation of convenience stores

The Group continues the program of renovation of convenience stores, which is aimed at improving the outside appearance of such stores, improved use of the sales areas, increased trade list by increasing the completeness of the sales range of products per square meter as well as at installation and use of new equipment in order to increase the flow of customers and the level of comparable sales. In 2017 the Group renovated about 2,000 convenience stores. In 2018 the management of the Group is planning to renovate about another 1,200 convenience stores, which would increase the proportion of convenience stores in renovated format to 53% of all the convenience stores belonging to the Group. It is expected, that renovated stores will demonstrate the average revenue growth at the level of up to 10%. Implementation of the program of renovation of convenience stores relates to a number of risks. The cost of renovation of the stores may turn out to be higher than planned. Time planned for renovation of a store

may turn out to be insufficient, which will have negative impact on the Group revenue. E.g., management of the Group planned from 21 to 24 days for renovation of a convenience store, whereas in 2017 28 days were spent for renovation of one such store in the average. Restoration of the flow of customers into a renovated store and subsequent growth of the revenues in such stores may take longer than expected by the management of the Group. And, finally, revenue increase may turn out to be much less than the one planned or may not be there at all, in particular in the future if the level of growth of consumer demand in Russia is low or there is drop in the consumer demand.

RISKS RELATED TO THE COMPANY'S OPERATIONS

Risks related to the current lawsuits in which the Group is involved

The Group is involved in a number of legal proceedings which arise in the ordinary course of business and do not pose any material risk to the activity of the Group.

Risks related to the inability to extend the Company's license for a particular type of activity or for the use of objects limited in the turnover (including natural resources)

The core business of the Group is retail business which is not subject to licensing.

Today the retail sale of alcohol drinks is subject to licensing which relates to all Group's enterprises engaged in such activity.

The Group has licenses for retail sale of alcohol consumed not at the point of sale. In case of changes in the requirements for licensing, the Group will operate under the new requirements, including the license re-issuance and new licenses' obtaining.

Risks related to the possible liability of the Company for the third parties' debts including the subsidiaries of the Company

The Company provided the security in the form of the guarantee for the purpose of obtaining of credits by JSC "Tander" (the main operating company of the Group which controls the trading division and is the center of profit consolidation of the Group). The Company is liable to creditors for the fulfillment by JSC "Tander" of its obligations in full, including repayment of credit amounts, payment of interest in credit, fees and penalties.

At the moment the management of the Company considers that JSC "Tander" is able to fulfill its obligations properly. However, as the majority of the risks are out of the Company's control, the Company cannot entirely exclude their occurrence in future, which may negatively affect the ability of JSC "Tander" to fulfill its obligations properly, which in turn may cause material adverse effects to the operation of the Group.

Risks related to the potential customer loss, the turnover of which amounts to no less than 10 percent of the total sales of products (works, services) of the Group

The Group is engaged in retail sale of food-stuffs and non-food goods through its retail network. The customers in the retail network of the Group are a broad range of natural persons and legal entities. Thus, the risks related to potential loss of customers, the turnover of which amounts to no less than 10 per cent of the total sales of products (works, services) of the Group does not exist.

Other risks related to the Group's operations

Risks related to the intensive growth

Expansion of the Group through acquisition of other companies or their assets may be fraught with different risks which may have material adverse impact on the economic activity of the Group and its financial position

The Group does not rule out the possibility to expand its operation through acquisitions of other companies or their assets. Acquisition opportunities imply certain risks, including failure to carry out an adequate due diligence of the operations of the target companies or of their assets and/or financial position, and much higher financial risks and operational expenses than expected before the acquisition. At the same time, there is a risk of impossibility of successful assimilation of operations and personnel of the acquiree, lack of introduction and integration of all necessary systems and control, risk of customer loss, as well as the risk of entering the markets, where the Group has no or minor experience, and/or markets with the limited access to the necessary logistic support and distribution network, as well as the risk of operational disruptions and loss of the Group's management resources. If the Group is not able to successfully integrate its acquisitions, such failures may have a material negative effect on its financial position and operational results.

Failure to raise enough funds may prevent the Group from realization of its expansion plans

Implementation of the Group's expansion strategy may require large capital expenditures. There's no guarantee that the operational cash flow of the Group and/or borrowings from financial institutions or proceeds received from the stock market would be enough to finance its scheduled expenses in the nearest future. If the Group fails to receive sufficient cash flows or raise sufficient capital to finance its planned expenditures, it may have to cut, slow down or cease expansion of its trading network.

Rapid growth of the Group may lead to deficiency of administrative, industrial and financial resources

Historically the range of the Group's operations has been growing fast. The growth is expected to continue in the projected future which may lead to a significant lack of administrative, operational and financial resources. As a result, the "Magnit" retail chain will have particularly to continue the improvement of its operational and financial systems, administrative management and management techniques. The Group will also have to achieve strict coordination of operation of transportation, technical, accounting, legal, financial, marketing, warehouse and store personnel. If the Group fails to meet the above challenges, this may negatively affect the operations and financial position of the Group.

Due to the ongoing growth, the Group may experience difficulties with continuation of usage, extension and improvement of its management and information system. If the Group fails to maintain its management information system, financial accounting and in-house audit systems at a proper level, its economic activity and financial position may substantially suffer.

OTHER RISKS

Reduction in the amount of payments from suppliers may influence adversely the results of operating activity and financial position of the Group.

Pursuant to standard international practice of the retail trade companies the Group receives discounts and bonuses from the suppliers supplying goods to its shops. The Federal Law No.381-FZ "On Fundamentals of State Regulation of Trade Activities in the Russian

Federation” limits the payments, by which the suppliers may thank the retailer for large purchases, by 5% of the value of the supplied food-stuffs and alcohol and prohibits any payments from the suppliers, which are banned by this law. Gross profit margin of the Group, which depends upon the amount of discounts and bonuses received by the Group from the suppliers, may reduce in future as a result, for example, of a possible further tightening of regulation of the maximum size of payments from the suppliers, or changes in business relations of the Group with its suppliers resulting from emergence of new major companies on the retail or wholesale markets, consolidation in these sectors, or otherwise. If the Group becomes unable to maintain the payments received by it from the suppliers at the same or a higher level than the payments received by its main competitors from their suppliers, this can have a material adverse effect on the business, operating results, financial position and prospects of the Group.

Unionization of the Group employees may have a material adverse effect on its financial position and operational results

At the present time the majority of Group employees do not league any labor unions. If the considerable part of Group employees league labor unions, it may substantially affect the payroll costs of the Group and/or settlement of labor conflicts, which in its turn may have a substantial negative impact on financial position and operational results of the Group.

The risk related to management members’ loss and failure to engage qualified employees in the future

According to the labor contracts entered between the Group’s companies and some of the persons indicated above, they have the right to resign office by filing the notification 1 month prior to the dismissal. The Group is not insured from the harm which can be caused to the Group by the loss (discharge) of its leading specialists and top managers. The Group strives to hire the most qualified and experienced personnel, and adjust its compensation policy to the changing standards of the Russian labor market.

The loss of one or more managers or failure to attract and motivate extra highly skilled employees required for effective management of a large-scale business may have material negative effect on the business activity, operating results and financial position of the Group.

Risks related to the accounting and control system

The system of the Group’s financial and management reporting currently operating is based on the volume of operations exercised by the Group within the certain period of time. In case of substantial business expansion of the Group, the technical level of the accounting and control system may fail to meet the requirements of the information processing efficiency and lead to the delays in receiving the adequate data for making tactic and strategic management decisions and thus damage the effective operation of the Group.

The risks related to the computer network failure

Managing and processing of operational and financial information in the Group is carried out via electronic devices of information transmission and processing including the network of the personal computers, access to Internet and system of financial accounting and automated system of stock management. As a result, effectiveness of operational performance of the Group as well as its ability to collect, process and provide in time adequate data to adopt accurate management decisions depend on the efficient and stable work of computer and information networks. The systems and their functioning are subject to operation failures,

which may be caused by human factor, natural disasters, blackouts, computer viruses, willful acts of vandalism and similar factors. For example, on December 20, 2017 a failure took place in the work of the cash register equipment "Shtrikh-M" which the Group employs in nearly 11,000 of its stores of all four formats. The Group's employees eliminated the consequences of the failure by the end of December 23, 2017, but losses of proceeds resulting from such failure amounted, at the estimate of the management of the Group, to about one billion rubles. There is no guarantee that in the future there will be no serious systemic failures resulting in interruption of functioning of the network or significantly slowing its functioning. The blackout in computer network or system failures resulting in interruption of functioning of the network or significantly slowing its functioning may lead to the sudden interruptions of customers service, failures in the stock registration system, degradation of the customer service quality and damage to the goodwill of the Group, mistakes in the management decisions which may result in the loss of customers, the growth of operating expenses and financial losses.

Risks related to the operations with the large cash flows

The specific character of the Group's business activity and the current level of the bank sector development in Russia provide that the substantial part of the Group's operations is exercised with the cash funds. Thus, the risk of insufficient payments caused by unintentional actions of the Group's personnel as well as by deliberate thefts and robberies increases.

Risks related to the protection of intellectual property

If the Group fails to successfully protect its rights for the intellectual property or successfully prove that it shall not be liable for it or forfeit any rights for the intellectual property due to claims from the third parties for the intellectual property, supposedly caused the violation of their rights, the Group may lose its rights or bear serious responsibility for damages.

For execution and protection of its rights for intellectual property, the Group firstly relies on copyright, trademarks rights, legislation on commercial secret protection, on its user policy, on the license agreements and the restrictions on the information disclosure. Despite the above precautionary measures, third parties may illegally copy or otherwise receive or use intellectual property of the Group. On the whole Russia does not provide enough protection of the rights for the intellectual property as compared to many other countries with the developed economy. Failure of the Group to protect the rights for the intellectual property from violation and misappropriation may negatively affect its financial position and the ability of the Group to develop its business activity. Moreover, the Group maybe involved in the legal proceedings on protection of its rights to intellectual property or on establishing the validity and the scope of rights of other parties. Any lawsuit may lead to substantial expenses, distraction of the management and of the Group resources, which may negatively affect the operation and financial position of the Group.

Pursuing ill-considered policy on securing the Group's interests in terms of intellectual property may seriously hinder its business activity in the future

The Group is at the stage of intensive development and expansion of all its business spheres. Measures on securing the rights of the Group to certain objects of intellectual property have to be taken on the basis of the existing plans of commercial development and go ahead of any commercial activity. Insufficient experience of Russian companies in elaborating policy related to the objects of intellectual property produces the whole set of risks of unfavorable effect, including the problems of using the promoted trade marks for individual

products (services) in a number of countries, conflicts with employees, involved specialists and organizations regarding determination of rights for jointly manufactured products and split of the use rights on these products between the Group and other bodies.

Risks related to insufficiency of insurance coverage for damages arising from the forced interruption of activity, damages to the Group's property or responsibility to the third parties

The Group does not apply insurance for the forced interruption of its business activity, bringing to responsibility for products quality, fire (except for stocks and supplies) or changes in core management, and does not enter into insurance agreements on real estate property, distribution centers, stores or stocks at the warehouses (with rare exception). Moreover, the Group does not form special reserve or other funds to cover possible losses or settle claims with the third parties. Thus, in case of occurrence of any of such uninsured risks they may drastically disrupt the Group's operation, cause considerable damage and/or require expenses which will not be compensated. All the foregoing circumstances may have negative effect on the business activity of the Group, its financial position and prospects.

A major accident may result in substantial property losses and incapability to repair such losses

If in case of a major accident one or more objects of the Group (e.g. the headquarters in Krasnodar, a distribution center or a hypermarket) are seriously damaged, the Group may not be able to resume its activity within the established time period. The Group does not exercise the insurance or form special funds to cover possible losses resulting from such accidents. Any such accident may have negative effect on the Group's business activity, its operational results, financial position and prospects.

16. KEY ASPECTS OF SOCIAL AND ENVIRONMENTAL POLICY

SOCIAL RESPONSIBILITY

“Magnit” retail chain is Russia’s largest non-governmental employer. As of December 31, 2017 the company’s total headcount comprised 276,290 employees, out of which:

202,497 – in-store personnel,

36,461 – people engaged in distribution,

22,162 – people in regional branches,

11,992 – Head Office employees,

3,178 – other personnel (in-house production, LLC “Magnit Energo”, LLC “Green Line” greenhouse complex).

The Company offers a decent salary and the extended number of the employee benefits including seniority bonuses for in-store personnel, corporate pension programs in the Company’s own pension fund, corporate mobile communications plans, corporate taxi services, corporate educational programs, travel warrants at discount prices, special offers on the services of the company’s partners, gym for the Head Office employees, etc.

The Company operates in accordance with the Labor Code of the Russian Federation and the Company’s internal regulations on staff relations.

Magnit is strongly committed to the principle of equal opportunities, fairness and tactful attitude towards its employees. In accordance with the “Code of business ethics of PJSC “Magnit” the Company’s high level of business culture is based on the transparency of all personnel-related procedures, accounting and payment policies, incentives and social measures taken to ensure the comfortable working conditions of the employees across the company. The staff business relations are based on the principles of justice, trust, honesty and ethics.

New employees are selected on a competitive basis if their professional knowledge, skills and experience correspond to the required skills and company’s values.

The company’s hiring process is effectuated in accordance with the “Recruitment regulations”, which reflect overall rules of the hiring procedure, determination of the hiring needs, steps to be taken through the recruitment process, procedure of collaboration with the divisions participating in the hiring process, vacancies closing dates.

All Magnit’s vacancies are publicly available on its official website www.magnit-info.ru as well as on other job search websites.

Magnit collaborates with the leading universities in the regions with the demand for students or graduates.

The Company regularly participates in career fairs, career and faculty days, organizes specific courses and provides students with the opportunity to do internships. On a regular basis Magnit participates in the Vacancy Fairs, Career Days, Faculty Days, meetings with students of universities. “Magnit” retail chain was one of the first to support All-Russian Educational Olympics «I am a professional» and worked out the tasks for the “Economics” profile. In 2017 the Company was included into the expert society of the national championship of professions and entrepreneurial ideas “Career in Russia” held at the system of the Russian University of Cooperation in Krasnodar. “Magnit” became the general partner of the Vocational Students Forum “Breakpoint 2017” in Rostov-on-Don. The Company participated and stepped into the final of the international contest among organizations for the best system of youth outreach held in Yugorsk.

Magnit organizes reconnaissance visits of the core facilities of the Company for students which is a tool of occupational orientation activity. For example, starting from autumn 2017 the Company launched tours at its distribution centers in Krasnodar and Saint-Petersburg

for students of the Kuban State University, Saint-Petersburg State University of Economics, Plekhanov Russian University of Economics. Some students who attended the DC tour were later accepted for internship.

Starting from 2016 and during 2017 the Company is developing the program of internships and trainings named "Magnit: New Generation". Internship can be taken during the entire year both by the appointment card of the partner university and student's initiative. During the summer time the Company conducts competitive selection for the paid internship which has more serious project nature of work. In the course of the program implementation over 250 students went through the Company's internship and training. The most successful students were employed. The Company also supports on-the-job training programs of those employees who combine employment with higher education.

In October 2017 there was an image event for top 100 students of the Krasnodar region with participation of the Company's executives: Sergey Galitsky, Khachatur Pombukhchan and Ilya Sattarov. In the format of the open dialog they shared their success stories and explained the advantages of working in one of the largest Russian retailers. This was the first event of such scale in the head office.

In order to increase the loyalty to the employer's brand among young people the Company launched the cycle of the educational master classes "Magnit Wednesday" to develop professional competencies of students. The cycle consists of 10 events. At each of them leading Company's experts share their knowledge and disclose the work specifics in different units of the chain. Participation is free of charge for students. Over 150 students of the Krasnodar region have already participated in "Magnit Wednesdays" and shared their interest in the start of career in the Company.

According to the "Code of business ethics", all preferences including nationality, gender, age, religion etc. are prohibited in the company. If an employee experiences any aspects of biased attitude or discrimination, they may address the special complaints processing commission, which has an obligation to thoroughly examine the issue.

The salary and incentives of all employees are determined for the specific positions and do not depend on gender, nationality or age of an employee but only on their performance.

The company's turnover is one of the lowest in the Russian food retail sector. One of the company's priorities is to take consistent steps in order to decrease the turnover rates. That is why the level of turnover has been constantly slowing down and for the last several years almost halved.

The company's labor relations fully conform to the provisions of the Russian Labor Code. Moreover, the company has internal Standards and Regulations based on the legislation, which stipulate all HR management procedures, payroll calculation, benefits and compensation schemes, internal labor policies and procedures, etc.

All workplaces comply with the legislation and the company's standards. According to the latter all workplaces shall be ergonomic, safe and aesthetic.

The company's Health and safety department closely monitors and assesses the existing working conditions, elaborates and implements the procedures of their enhancement.

Magnit deliver events on a regular basis aiming at protection of life and health of employees and safety conditions of their workplaces:

- All equipment and raw materials are tested and thoroughly examined before their actual use by the employees;
- Organization of safety and health protection on the newly opened stores;
- Provision of the functioning system of the safety and health protection at the existing stores;
- Workplaces come under close scrutiny and assessment;

- Organization of health and safety courses, trainings and tests of the employees' knowledge and understanding of the topic;
- Purchases of the safety clothing, footwear and equipment;
- Mandatory medical examination of the employees;
- Audit of meeting the requirements of the safety and health protection on the stores maintained by the Company
- Compliance of all buildings, construction and production sites, facilities etc. with the applicable Russian legislation.
- Determination of reasons of industrial injuries after accident investigation, elaboration and implementation of preventive measures.

The company keeps the statistics of accidents. As a result of measures taken to reduce the number of occupational injuries, the total accident frequency rate of the company (number of accidents per 1,000 employees) in 2017 compared to 2016 decreased by 17%, the number of injuries fell by 9%.

In 2017 the company worked hard and took the following steps to reduce the number of accidents:

- safety culture campaign. Information on the labor protection measures taken by the company is systematically published in "Nash Magnit" corporate newspaper;
- improvement of provision of the personal protection equipment;
- planned introduction of the new labor safety practices in all business divisions in compliance with the employment legislation and work safety regulations;
- regular notification of employees of the occupational safety rules: allocation of visual materials, such as instruction sheets and occupational safety stands, demonstration of videos about safe working methods in all business divisions of the company;
- development of the "Regulations on the safety management system" in the company including the procedure of the special assessment of the working conditions in accordance with the legislation;
- development and introduction of labor protection regulations by professions and types of work;
- holding of regular daily briefings together with the heads of the structural divisions of the company concerning the safety provision, labor protection and reduction of the accident frequency rate.

The company has the "Employees and applicants claims commission" which is authorized to conduct official investigations of claims related to labor and social disputes. The commission considers objectively each claim from employees and applicants received by the company's hotline.

Following the results of claims consideration, the Commission makes decisions on administrative actions against those responsible, as well as on the change of the company's technologies, rules and work standards to settle conflicts, reduce social strain of the personnel and develop the culture of respect for employees.

As a result of work of the "Employees claims commission" the company can see a significant decrease in the number of claims to the external labor inspections.

In order to provide employees with additional social guarantees the company implements a number of social programs, which can be used by any employee regardless of the length of employment, professional achievements and position occupied.

The company carries out the following social programs:

- subsidized sanatoria and holiday-homes vouchers;

- provision of employees with an opportunity to buy products and use services of organizations of different business areas on special favorable terms and/or at discounts provided only to the company's employees;
- corporate pension programs of the company's own pension fund;
- bus service, corporate taxi service;
- blood donor assistance for seriously ill employees and their close family members;
- free corporate gym to the Head Office employees.

In 2017 about 30 thousand employees used the above mentioned social programs.

Apart from various social programs, the company holds different regular corporate events and motivation programs which are an important and essential part of the corporate culture of the company and are aimed at:

- development of corporate culture and team spirit,
- motivation of employees and increase of loyalty to the company,
- recognition of personal and professional achievements,
- promotion of sport and attracting employees to a healthy lifestyle.

These measures develop, unite and engage employees into participation in the company's life. They are aimed at encouragement and recognition of employees and give them the opportunity of self-fulfillment at and outside work (sport, teambuilding, professional, creativity competitions).

The company attaches great importance to provision of its employees with the timely and correct information about its mission, values, culture, development priorities, innovations, etc.

For these purposes the company uses different tools, such as: portal of internal communications, corporate newspaper, weekly electronic digest of retail market news, internal newsletters to the company's employees, informational stands in different divisions of the company, various training programs for new employees, holding of regular meetings and daily briefings, as well as corporate events and teambuildings.

ENVIRONMENTAL RESPONSIBILITY

Environmental policy of the Company¹¹ is based on the balanced and socially acceptable combination of economic growth and maintenance of a favorable environment for future generations. Maintenance of a favorable environment is the Company's liability and it provides significant opportunities to increase the efficiency of its development and to reduce costs, and in some cases to get additional income.

Environmental policy of the Company is based on the Constitution of the Russian Federation, federal laws and other regulatory legal acts of the Russian Federation, international legal documents related to the protection of the environment and sustainable use of natural resources.

The Company has the following liabilities that are fulfilled by it and it requires their fulfillment by its partners and contractors:

1. To ensure the compliance with all environmental regulations and requirements established by the legislation of the Russian Federation, international legal documents related to the protection of the environment.

¹¹ Information is provided with regard to PJSC "Magnit" and its subsidiaries

2. To ensure a reduction of a negative impact on the environment, efficient use of resources.
3. To ensure compensation of a possible damage to the environment.
4. To take preventive acts to avoid a negative impact on the environment which means the priority of preventive measures to avoid a negative impact over the measures to relieve the consequences of such impact.
5. To increase the energy efficiency of operation processes.
6. To ensure involvement of the Company's employees in activity related to the reduction of environmental risks, continuous improvement of the environmental management system, performance in terms of protection of the environment.
7. To increase the level of awareness and competence of the Company's employees in terms of solving the issues of environment protection.
8. To participate in environmental programs and in projects aimed at maintenance of a favorable environment in the regions of presence.

Mechanisms for implementation of environmental policy liabilities

The main mechanisms for implementation of the Company's environmental policy liabilities are:

1. Industrial environmental control and monitor, evaluation of impact of the Company's business activity on the environment.
2. Compulsory record-keeping of environmental aspects and evaluation of risks while planning the activity, developing and implementing projects.
3. Implementation of innovative projects aimed at the increase of energy efficiency, use of renewable energy resources and nonconventional energy resources.
4. Maximum use of waste as secondary raw materials and energy resources.
5. Application of the best available technologies at different stages of operational procedures, including purchases of technologies, materials and equipment.
6. Involvement of all employees of the Company in the activity related to the environmental management system.
7. Improvement of the system of environmental training of the Company's employees.
8. Interaction with organizations and parties interested in the increase of the environmental safety of the Company;
9. Communication of the Environmental policy liabilities to all persons working for the Company or on its behalf, including contractors working at the Company's facilities.
10. Participation in environmental programs and projects aimed at maintenance of a favorable environment.

17. CORPORATE GOVERNANCE

To enhance the attractiveness of the Company for existing and potential investors, PJSC “Magnit” strives to a full compliance with the best practices and standards of the corporate governance.

The Company works consistently on maintaining an effective system of corporate governance by its sustainable development and improvement.

PJSC “Magnit” fully meets the requirements of securities laws, company laws and other statutory enactments.

Adherence of the Company to the main and most significant principles of the Corporate Governance Code recommended for application by the Bank of Russia is aimed at the achievement of a reasonable balance of the Company’s interests as a business entity and as a joint stock company and at the efficient interaction between shareholders and management of the Company .

Board of Directors of PJSC “Magnit”

PJSC “MAGNIT” CORPORATE GOVERNANCE AND CONTROL STRUCTURE

The General Shareholders Meeting is the supreme management body of the Company. The Board of Directors, elected by the shareholders and accountable to them, provides strategic management and oversight of the work of the executive bodies, namely the Chief Executive Officer, the Chairman of the Management Board and the Management Board.

The executive bodies effect the current management of the Company and carry out the tasks entrusted to them by the shareholders and the Board of Directors.

The Company has built an effective system of the corporate governance and internal control over financial and economic activity to protect the shareholders’ rights and legitimate interests.

The Board of Directors oversees the Audit Committee, which in conjunction with the Internal Audit Department helps the management bodies to ensure the Company’s effective operation. The Revision Commission monitors the Company’s compliance with the regulations and the legality of its operations.

The Internal Control and Risk Management Department of the Company was formed for the purpose of effective organization and functioning of the internal control and risk management system.

To inspect and verify the Company’s financial statements PJSC “Magnit” invites the external auditor with no property interest related to the Company or its shareholders.

The HR and Remuneration Committee, which is a part of the Board of Directors, provides the recommendations on the key appointments and incentives of the members of the Board of Directors, executive and controlling bodies.

The Corporate governance department which performs functions of the Corporate secretary was formed in the Company for the purposes of efficient interaction with shareholders, coordination of the company’s activities in terms of protection of shareholders’ rights and interests, and maintenance of the efficient performance of the Board of Directors.

The Company timely and in full discloses reliable information, including details of its financial position, economic performance and ownership structure, thereby giving shareholders and investors the opportunity to make valid decisions.

The information is disclosed in compliance with the Russian legislation and the requirements of the UK financial regulator, the Federal Conduct Authority (FCA). The Company also has its own Regulations on the access to insider information, the PJSC “Magnit” Rules of protection of confidential and insider information and control over compliance with the legislative requirements against the misuse of insider information and market abuse.

GENERAL SHAREHOLDERS MEETING

The Company’s shareholders participate in the management of the Company by making decisions at the General Shareholders Meeting. Shareholders may considerably influence the business by means of voting, specifically, the powers of the General Shareholders Meeting include approval of the annual report and accounting statements, profit allocation, including the dividend payment, election of the Company’s core management and control bodies, approval of major and related-party transactions, and some other important issues.

The procedure of holding of the General Shareholders Meeting is aimed at observance of the shareholders’ rights and meets all requirements of the Russian legislation, as well as the UK financial regulator, the Federal Conduct Authority (FCA).

BOARD OF DIRECTORS

The Company's Board of Directors is a core element of the PJSC "Magnit" corporate governance system.

The Board of Directors represents the shareholders' interests and is responsible for the increase of the business value by organizing the efficient management.

The Board of Directors of the Company carries out overall management of the Company's activities in compliance with the provisions of the Company's Charter, Regulations on the Board of Directors of PJSC "Magnit" and the requirements of the legislation of the Russian Federation.

The main goals of the Board of Directors are the following:

- to achieve the maximum profit amount and increase the Company's assets;
- to protect the rights and legitimate interests of the Company's shareholders;
- to monitor the executive bodies' activity;
- to ensure that the Company's public information is complete, accurate and objective.

Members of the Company's Board of Directors are elected by the General Shareholders Meeting for a term lasting until the next annual General Shareholders Meeting. The members of the Board of Directors are elected by the cumulative voting.

Decisions of the Company's Board of Directors are approved by the majority of the Board of Directors' members participating in the meeting, unless otherwise is stipulated by the Charter or the Company's internal documents and the legislation.

Every member of the Board of Directors has one vote while making the decisions at the Board of Directors meeting.

Meetings of the Board of Directors are held when necessary but at least once in two months.

The Chairman of the Board of Directors calls a meeting on his own initiative or at the request of the Board of Directors' member, the Revision Commission or the Auditor of the Company, the Chief Executive Officer of the Company and at the request of other persons specified by the Federal Law "On Joint Stock Companies" and the Company's Charter.

The Chairman of the Company's Board of Directors organizes and manages the Board of Directors work.

In accordance with the best corporate governance practices, in compliance with the recommendations of the Corporate Governance Code and requirements of the Listing Rules of the Moscow Exchange, the Board of Directors comprises 3 (Three) independent directors. The Company uses recommendations of the Corporate Governance Code and other acknowledged native and foreign criteria for specification of the Board of Directors' member independence criteria.

The Board of Directors has two specialized committees:

- Audit Committee;
- HR and Remuneration Committee.

The committees work in compliance with the Regulations on Committees of the Board of Directors of PJSC "Magnit".

The members of PJSC "Magnit" Board of Directors, information on the meetings of the Board of Directors in 2017 year, report on the operation of the Board of Directors and other information are represented in the previous sections of the present Annual Report.

MANAGEMENT BOARD

The Management Board is the collective executive body of PJSC “Magnit” which together with the Chief Executive Officer (Chairman of the Management Board) manage current operations. The Management Board reports to the General Shareholders Meeting and the Board of Directors.

The Management Board acts in compliance with the Russian legislation, the Charter and the Regulations on the Management Board, which has been approved by the General Shareholders Meeting.

The Board of Directors determines the personal composition of the Management Board, elects and early terminates the powers of its members every year at the first Board of Directors’ meeting held after the annual General Shareholders Meeting.

The Chief Executive Officer forms a part of the Management Board and performs functions of the Chairman of the Management Board. The powers of the Chairman of the Management Board terminate with the powers of a Chief Executive Officer of the Company.

The Management Board is responsible for the Company’s current operations except for the issues referred to the competence of the General Shareholders Meeting and the Board of Directors, and implements the decisions adopted by these bodies. More detailed information on the powers of the Management Board is provided in the Charter of the Company and in the Regulations on the Management Board of PJSC “Magnit”.

THE CHIEF EXECUTIVE OFFICER – THE CHAIRMAN OF THE MANAGEMENT BOARD

In accordance with the PJSC “Magnit” Charter, the Chief Executive Officer of the Company has the full authority to manage the Company’s current operations and resolve the relevant issues not referred to the competence of the General Shareholders Meeting, Board of Directors and Management Board of the Company.

The Chief Executive Officer of the Company manages the Company’s operations in accordance with the provisions of the Company’s Charter, the requirements of the legislation of the Russian Federation and with the internal documents of the Company.

THE CORPORATE SECRETARY

A special structural division which performs the functions of the corporate secretary – Corporate governance department – was formed in the Company for the purpose of efficient interaction with shareholders, coordination of the company’s actions in terms of protection of rights and interests of shareholders, maintenance of the efficient performance of the Board of Directors in accordance with the recommendations of the Corporate Governance Code and requirements of the Listing Rules of the Moscow Exchange. The head of this division is the Corporate governance director who is the Company’s official.

The Corporate governance department reports to the Board of Directors of the Company.

The main functions performed by the Corporate governance department are:

- Involvement in improvement of the system and practice of the company’s corporate governance;
- Involvement in preparation and holding of general shareholders meetings of the company;
- Maintenance of work of the Board of Directors and its committees;
- Involvement in implementation of the company’s policy on information disclosure, ensuring storage of corporate documents of the company;

- Ensuring the interaction of the company with its shareholders and involvement in prevention of corporate conflicts;
- Ensuring the interaction of the company with regulatory authorities, market operators, registrar, and other professional securities market players within the authorities assigned to the Corporate governance department;
- Immediate informing the Company's Board of Directors of all identified law violations, as well as provisions of the company's internal documents securing the compliance of which is a function of the Corporate governance department;
- Ensuring of implementation of procedures established by the legislation and the company's internal documents, which ensure execution of rights and realization of legitimate interests of shareholders, and control over their fulfillment.

The Regulations on the corporate governance department of PJSC "Magnit" were approved by the Decision of the PJSC "Magnit" Board of Directors on May 27, 2016, and Ekaterina Kister was approved for the position of the Director for corporate governance.

Biographical information:

Name: Ekaterina Kister.

Year of birth: 1978.

Education: higher - in 2000 graduated from the Kuban State University – a law degree.

Information on the primary employment:

- Director for corporate governance of PJSC "Magnit".

BODIES SUPERVISING FINANCIAL AND ECONOMIC ACTIVITY OF PJSC "MAGNIT"

Internal control and audit of the Group is an essential part of the corporate governance and one of the most important factors of effective work of the Company. The internal control and audit bodies ensure the sustainability of PJSC "Magnit" development and protect the shareholders and investors' interests, thus increasing the investment attractiveness of the Company.

Internal control and audit comply with the best world practices and meet the requirements of the Russian legislation.

The bodies supervising financial and economic activity of PJSC "Magnit" have the following structure:

Revision Commission of PJSC "Magnit";

Audit Committee of the Board of Directors of PJSC "Magnit";

Internal Audit Department;

Internal Control and Risk Management Department

External Auditor.

Revision commission of PJSC "Magnit"

The Revision Commission of the Company verifies the Company's compliance with the applicable legislation and other statutory acts that regulate its activity and the legality of the Company's operations. The Revision Commission is elected at the annual General Shareholders Meeting of PJSC "Magnit" and consists of 3 (Three) members. The General Shareholders Meeting determines its personal composition for the period until the next annual General Shareholders Meeting.

On June 8, 2017 at the annual General Shareholders Meeting the following candidates were elected to the Revision Commission:

Roman Efimenko;
Irina Tsyplenkova;
Lyubov Shaguch.

Audit committee of PJSC “Magnit” Board of Directors

The Audit Committee was established in accordance with the Regulations on the committees of PJSC “Magnit” Board of Directors.

The committee is established by the decision of the Board of Directors which determines its quantitative and personal composition and elects the Chairman of the Committee.

The Committee consists of 3 (Three) members.

The Committee members are elected for the term until the termination of the Board of Directors’ powers.

The audit committee performs the following functions:

In terms of accounting (financial) statements:

to ensure that the company’s financial statements are complete, accurate and credible;

analysis of the material aspects of the accounting policy of the company;

participation in consideration of material issues and judgments related to the accounting (financial) statements of the company;

analysis of significant changes to the legislation which may influence the accounting (financial) statements of the company and of the results of inspections of the company by any regulatory authorities;

cooperation with the Revision Commission and auditors of the company;

In terms of risk management, internal control and corporate governance:

determination of the operational principles of the system of internal control and risk management;

to ensure that the system of risk management and internal control and the corporate governance system are efficient and reliable, including assessment of efficiency of procedures of risk management and internal control of the company, of the corporate governance practice, and suggestions for their improvement;

analysis and evaluation of compliance with the company’s policy for the risk management and internal control;

control over procedures ensuring the compliance of the company with the legal requirements, as well as ethical standards, rules and procedures of the company, requirements of stock exchanges;

analysis and evaluation of compliance with the company’s policy for management of the conflict of interests;

analysis and evaluation of compliance with the company’s Policy for the risk management and internal control;

evaluation of efficiency of the system of risk management and internal control of the Company and preparation of suggestions for their improvement;

analysis and evaluation of performance of the system of risk management and internal control, including preparation of suggestions for the system improvement;

In terms of performance of the internal and external audit:

to ensure that the internal and external audit functions are performed in an independent and objective way;

consideration of the Regulations on the internal audit;

consideration of the business plan of the Internal audit department;

receipt of the information on the performance of the business plan and of the internal audit;

consideration and preliminary approval of the decisions on appointment, termination of appointment and determination of remuneration of the head of the Internal audit department;

consideration of the existing limitations of authorities or budget for the performance of the internal audit which can negatively affect the efficient performance of the internal audit;

evaluation of the efficiency of performance of the internal audit, including the assessment of the efficiency of the internal and external audit process;

evaluation of independence, objectivity and absence of the conflict of interests of external auditors of the company, including assessment of candidates for the position of the company's auditor, generation of proposals on appointment, reelection and removal of external auditors of the company, on payment for their services and terms of their involvement;

supervision over the external audit and assessment of quality of the audit and the auditors' conclusions, including the assessment of the company's external auditors' conclusions provided for the future provision to shareholders by the company as materials for the annual General shareholders meeting;

to secure the efficient interaction between the Internal audit department and external auditor of the company;

development and control over company's compliance with the policy determining the principles of rendering and combining auditing and non-auditing services by the auditor to the company;

preliminary consideration of reports on the results of performance of the Internal audit department;

consideration of any material disagreements between auditors, Revision Commission and the company's management related to the accounting (financial) statements;

In terms of countermeasures against unfair acts of the company's employees and third parties:

to ensure the efficiency of the system of notification of the possible fraud by the company's employees and third parties as well as other disorders in the company;

control over the conduct of special investigations on issues of the possible fraud, dishonest use of the inside or confidential information;

control over the implementation of measures adopted by the executive management of the company on informing on the possible unfair acts of employees and other breaches, including the analysis and evaluation of execution of the provisions of the company's Code of business ethics;

preparation of recommendations for major transactions, related party transactions and transactions subject to the approval in accordance with the company's charter, which the company plans to execute;

consideration of issues related to the company's compliance with its information policy;

making decisions on other issues related to the financial activity, risk management, internal audit, corporate governance in cases when, according the chairman of the Audit committee, such issue relates to the Committee's functions.

On June 22, 2016 at the meeting of the Board of Directors the decision to elect the following 3 (three) candidates to the audit committee of the PJSC "Magnit" Board of Directors was made: Alexander Zayonts, Aleksandr Aleksandrov and Alexey Pshenichniy.

On June 29, 2017 at the meeting of the Board of Directors the decision to elect the following 3 (three) candidates to the audit committee of the PJSC "Magnit" Board of Directors was made: Dmitry Chenikov, Aleksandr Aleksandrov and Alexey Pshenichniy.

Internal audit department of PJSC "Magnit"

According to the PJSC "Magnit" Regulations on the internal audit for the achievement of the stated objectives the Internal Audit Department performs the tasks on the following main directions:

- assistance to the executive bodies of the Company and employees of the Company in the development and monitoring of performance of procedures and actions on the improvement of the systems of risk management and internal control and corporate governance of the Company;

- coordination of activities with the external auditor of the Company as well as with the persons providing consulting services in the sphere of risk management, internal control and corporate governance;

- the conduction of the internal audit of subsidiaries of the Company under the established procedure;

- preparation and provision to the Company's Board of Directors and executive bodies of reports on the Internal Audit Department's operation results (including information on existing risks, problems, results and effectiveness of corrective actions of revealed problems, the results of performance of operating plan of internal audit, results of evaluation of actual condition, reliability and effectiveness of the risk management, internal control and corporate governance system);

- check of compliance with the legislation and policies of the Company, concerning inside information and anticorruption efforts, by the members of executive bodies of the Company and its employees.

For the purpose of solution of stated problems and achievement of objectives the Internal Audit Department performs the following functions:

- evaluation of adequacy and effectiveness of the internal control system;

- evaluation of the effectiveness of risk management system;

- evaluation of corporate governance;

- auditing in accordance with the approved performance plan of internal audit;

- conduction of other verifications, performance of other tasks on request/ by order of the Board of Directors (Audit Committee of the Board of Directors and/or executive bodies of the Company) within their competence;

- consultation of executive bodies of the Company on the issues of risk management, internal control and corporate governance (under the condition of securing of independence and objectiveness of internal audit activity);

- development of internal control operation plan;

- preparation and provision to the Board of Directors (Audit Committee of the Board of Directors) and the sole executive body of the Company the report following the operating results of internal audit;

- cooperation with the divisions of the Company regarding to the internal audit activity;

- control of rectification of violations detected following the verifications and employee investigations;

analyses of audit results of the Company, control of development and implementation of plans and procedures of rectification of violations detected during the auditing;
preparation of proposals on the improvement of internal control procedures;
development of documents regulating the activities of Internal Audit Department.

Based on the principles of the Corporate governance code and the corresponding international policies and standards, the Information the Ministry of Finance of Russia No. PZ-11/2013 "Organization and implementation of economic entity's internal control performed facts of economic life, accounting and accounting (financial) statements", COSO framework "Internal Control - Integrated Framework" (2013), COSO framework "Enterprise Risk Management - Integrated Framework" (2004) the Internal audit department evaluated the performance of the system of internal control and risk management of PJSC "Magnit" and its subsidiaries for the year 2017.

The evaluation was conducted in terms of components of the process of internal control and risk management: internal (control) environment, targets setting, event definition, risk assessment, risk response, means of control, information and communications, monitor. Parameters were identified for the components of the process of internal control and risk management, and the current state of the parameters characterizing the level of organization and performance of the system of internal control and risk management.

According to the results of evaluation of the Internal audit department, the current level of organization and performance of the system of internal control and risk management was recognized as well-established and meeting the requirements of the Company.

The report of the Internal audit department efficiency of the system of internal control and risk management of PJSC "Magnit" and its subsidiaries for the year 2017, containing the evaluation results, was reviewed by the Company's Board of Directors at the meeting on March 23, 2018. Following the results of the report consideration the findings of evaluation of the system efficiency and suggested measures for its improvement were approved.

In December 2017 the Board of Directors approved the business plan of the Internal audit department for the year 2018.

Internal control and risk management department of PJSC "Magnit"

The Internal Control and Risk Management Department was formed for the purpose of effective organization and functioning of internal control and risk management system in the Company.

For the achievement of specified goals the Internal Control and Risk Management Department performs the following tasks:

- building of corporate system of internal control and risk management of the Company;
- general coordination of internal control and risk management processes;
- development of methodological documents in the field of securing of the internal control and risk management process;
- organization of procedures regarding to the identification, classification, analysis, managing and monitoring of risks in the sphere of Company's activities;
- assuring of the process of development and realization of risk management activities;
- preparation of recommendations on the determination of the risk appetite of the Company and estimation of the level of acceptable risk of the Company (the level of risk tolerance of the Company);
- analysis of risk portfolio of the Company and generation of proposals on the order of response to the correspondent risks;

monitoring and control of risk management procedures of the Company, as well as satisfying the requirements of internal regulations in the sphere of internal control and risk management;

making recommendations focused on improvement of effectiveness of control procedures, reduction of influence of realized and potential risks of realization of business processes;

formation of consolidated reporting on the risks of the Company;

efficient verification of internal control and risk management process by the divisions of the Company and in the established procedure by subsidiary companies;

organization of consulting of Company's employees in the sphere of internal control and risk management;

informing of the Company's Board of Directors and executive bodies of the organization of internal control and risk management processes, as well as of other issues, required by the Policy.

Independent auditor

Ernst & Young LLC (Taxpayer Id. Number 7709383532), registered in the Russian Federation at 77 Sadovnicheskaya embankment, building 1, Moscow, was approved as the auditor of the consolidated financial reports of the Company prepared in accordance with the International Financial Reporting Standards by the annual General Shareholders Meeting on June 8, 2017. Ernst & Young LLC is a member of the Self-regulatory organization of auditors "Russian union of auditors" (Association) (SRO RUA) (Certificate of October 20, 2016, decision No. 274 of 20.10.2016, Principal Number of Registration Entry 11603050648) and is one of the global leaders in the audit services.

Ernst & Young LLC is part of Ernst & Young Global Limited.

Ernst & Young Global Limited received worldwide recognition and was awarded many times for the high quality of services and unique corporate culture.

In the reporting year the auditor conducted the audit of the consolidated financial statements of PJSC "Magnit" and its subsidiaries in accordance with the IFRS for the year 2017.

Following the results of the conducted audit, the auditor of PJSC "Magnit" expressed an opinion on the fair presentation of the consolidated financial statements prepared in accordance with the IFRS.

Audit Firm "Faber Lex" LLC, located at 144/2 Krasnykh Partisan Street, Krasnodar, was approved as the auditor of the accounting (financial) statement of the Company for 2017 year prepared in accordance with the Russian Accounting Standards by the annual General Shareholders Meetings on June 8, 2017.

AF "Faber Lex" LLC is a member of the Self-regulatory organization of auditors "Russian union of auditors" (Association) (SRO RUA) with the main registration number (Principal Number of Registration Entry) of 10203002910, Certificate of membership in SRO RUA of 03.08.2016.

Following the results of the conducted audit, the auditor of PJSC "Magnit" expressed an opinion on the fair presentation of the financial position of the Company in all respects in the accounting (financial) statements.

INFORMATION ON THE COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Within the preparation of the report on the compliance of PJSC “Magnit” with the principles and recommendations of the Corporate Governance Code the evaluation method and prospective form of the report recommended by the Letter of the Bank of Russia №ИИ-06-52/8 as of 17.02.2016 were used.

The report is an integral part of the present Annual Report and contains in the annex hereto (ref. Annex №6).

ENHANCEMENT OF MODEL AND PRACTICE OF CORPORATE GOVERNANCE

The corporate governance of PJSC “Magnit” is performed in accordance with the current legislation of the Russian Federation and the Charter of the Company in compliance with the rules and traditions of the corporate governance, which correspond to the basic Russian and international standards and contribute to the creation of a positive image of the Company in the eyes of investors, clients and employees. PJSC “Magnit” constantly masters new methods and approaches and rejects from the practice, which doesn’t meet current requirements.

In 2017 a self-evaluation of the work of the board of directors was introduced into the Company’s corporate governance practice, which includes the evaluation of the work of committees, individual members of the board of directors and the board of directors as a whole. The results of the evaluation conducted during the reporting period were considered at the Board of Directors meeting in presentia.

By the end of 2018 it is planned to bring some internal documents of the Company, particularly Regulations on the information policy Regulations on the Board of directors, and others in compliance with the recommendations of the Corporate Governance Code.

18. INFORMATION ON THE AUDITOR AND THE CONSULTANT OF THE COMPANY

Under the resolution of the annual General Shareholders Meeting of June 8, 2017 (minutes of 08.06.2017) the auditing firm AF "Faber Lex" LLC was appointed as the Company's auditor in accordance with Russian Accounting Standards for the year 2017.

Among the factors which were taken into account to choose the auditing firm are: duration of auditing company, the cost of auditing services, the number of employees and their qualification.

Information on the auditor of the Company which conducted the audit of the statements of the Company for the year 2017 in accordance with the Russian Accounting Standards:

The auditor of the Company in 2017 was Limited Liability Company Auditing Firm "Faber Lex", address: 144/2 Krasnykh Partizan Street, Krasnodar.

AF "Faber Lex" LLC is a member of the Self-regulatory organization of auditors "Russian union of auditors" (Association) (SRO RUA) with the main registration number (Principal Number of Registration Entry) of 10203002910, Certificate of membership in SRO RUA of 03.08.2016.

Telephone number: +7 (861) 220-03-20, 221-41-42, 226-41-41, 226-45-22, 226-38-15, 226-44-54.

Information on the auditor of the Company which conducted the audit of the statements of the Company for the year 2017 in accordance with the International Financial Reporting Standards:

The 2017 year statements in accordance with the International Financial Reporting Standards were audited by Limited Liability Company "Ernst&Young", address: 77 Sadovnicheskaya embankment, bldg. 1, Moscow, 115035, Russian Federation.

"Ernst&Young" LLC is the member of the Self-regulatory organization of auditors "Russian union of auditors" (Association) (SRO RUA) (Certificate of October 20, 2016, decision No. 274 of 20.10.2016, Principle Number of Registration Entry 11603050648).

Information on the financial consultant of the Company on the securities market, which signed the securities prospectus registered on 06.03.2006:

<i>Full name of organization</i>	Open Joint-Stock Company «Federal Fund Corporation»
<i>Short name of organization</i>	OJSC «FFC»
<i>Address</i>	25 Ostozhenka street, Moscow, Russia
<i>Phone number (including city code)</i>	+7 (495) 737-86-30
<i>Fax number (including city code)</i>	+7 (495) 737-86-32
<i>Website of the financial consultant to disclose the information about the Company according to the requirements of the Regulation on the information disclosure by the issuer of securities, approved by FFMS</i>	www.fscorp.ru

<i>The number of license of the professional on the securities market</i>	License of the professional participant of the securities market for brokerage activity № 077-06174-100000, License of the professional participant of the securities market for dealer activity № 077-06178-010000
<i>Date of issue</i>	August 29, 2003
<i>Period of validity</i>	Without restriction on the period of validity
<i>Issuing authority</i>	Federal Commission for Securities Market

Services provided by the financial consultant:

- Preparation of the draft prospectus according to the information provided by the Company;
- Signing of the prospectus approved by the Company, after adequate verification based on all the documents provided by the Company, according to the written inquiries of the Financial Consultant and receipt of the proper written certifications of the Company on reliability, adequacy and completeness of the information contained in the above indicated document and to be included in the prospectus, except for the part, verified by the auditor and/or appraiser;
- Expertise of the documents filed to the registration authority for the prospectus registration;
- Signing of documentation, which might be required from the Company for organization of stock trading with the trade organizers;

Consulting on securities issue, including information disclosure on the securities market according to the requirements of the legislation.

**19. INFORMATION ON THE VOLUMES OF THE UTILIZED ENERGY RESOURCES
WITHIN 2017**

Type of energy resources	Unite of measure	Utilization capacity in volume terms	Utilization capacity in money terms, thousand rubles
Nuclear energy	-	-	-
Heating energy	-	The quantitative accounting is not maintained	943.4
Electrical energy	-	The quantitative accounting is not maintained	1,387.8
Electromagnetic energy	-	-	-
Oil	-	-	-
Petrol	-	-	-
Diesel oil	-	-	-
Furnace oil	-	-	-
Natural gas	-	The quantitative accounting is not maintained	220.3
Coal	-	-	-
Shale oil	-	-	-
Peat	-	-	-
Other:	-	-	-

Other types of energy resources, except for those specified in the table, were not consumed and used in the reporting year.

20. MANAGEMENT RESPONSIBILITY STATEMENT

I confirm that:

- *the financial statements prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its consolidated subsidiaries taken as a whole; and*
- *the management report includes a fair review of the development and performance of the business and the position of the Company and its consolidated subsidiaries taken as a whole, together with a description of the principal risks and uncertainties that they face.*

On behalf of the Management Board,

K. Pombukhchan

CEO, Chairman of the Management Board

ANNEXES TO THE ANNUAL REPORT OF PJSC "MAGNIT" FOR 2017

ANNEX No. 1: Consolidated financial statements of PJSC "Magnit" for the year ended on December 31, 2017.

ANNEX No. 2: Consolidated financial statements of PJSC "Magnit" and its subsidiaries for the year 2017 prepared in accordance with the Federal Law No. 208-FZ "On Consolidated Financial Statements".

ANNEX No. 3: Accounting report of JSC "Tander" for the year 2017 prepared in accordance with RAS:

- ❖ Auditor's report of "Faber Leks" Audit Limited Liability Company of the annual accounting report of JSC "Tander" for the year 2017;
- ❖ Accounting reports of JSC "Tander" for the year 2017;
- ❖ Explanations to the accounting reports of JSC "Tander" for the year 2017.

ANNEX No. 4: Accounting report of PJSC "Magnit" for the year 2017 prepared in accordance with RAS:

- ❖ Auditor's report of "Faber Leks" Audit Limited Liability Company of the annual accounting report of PJSC "Magnit" for the year 2017;
- ❖ Accounting reports of PJSC "Magnit" for the year 2017;
- ❖ Explanations to the accounting reports of JSC "Tander" for the year 2017

ANNEX No. 5: The list of transactions executed within the year 2017 considered related party transactions according to the Federal Law "On Joint Stock Companies".

ANNEX No. 6: Report on the compliance with the principles and recommendations of the corporate governance code for the year 2017.