

Building a **New**



Annual Report 2018

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Building a New



Foundation

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01.
MAGNIT
TODAY

Profile

Objective:

To become a store of choice for all Russian families

Values:

- Caring about our customers
- Stronger together
- Achieving results
- Taking responsibility

About Magnit¹

Public Joint-Stock Company "Magnit" (the "Company") is a Krasnodar-based holding company for a group of entities engaged in retail through the "Magnit" store chain.

"Magnit" is one of Russia's leading food retailers with

18,399 stores



2,976 cities and towns

"Magnit" stores are located in 2,976 cities and towns of the Russian Federation. The stores cover an enormous area that stretches west to east from Bryansk to Krasnoyarsk and north to south from Murmansk to Vladikavkaz. Most stores are located in the Southern, North Caucasus, Central, and Volga Federal Districts. "Magnit" stores are also located in the Northwestern, Ural, and Siberian Districts. "Magnit" opens its stores in both large cities and small towns. Roughly two-thirds of the Company's stores operate in cities with a population of less than 500,000 people.

The "Magnit" retail chain is Russia's largest private employer. At present, the Company has approximately

300,000 employees

The Company has been repeatedly awarded "The Best Employer of the Year."

Magnit operates its own logistics system, which is comprised of

38 modern distribution centers and a fleet of

5,902 vehicles

PJSC "Magnit" shares are listed on the Moscow Exchange and its global depository receipts are listed on the London Stock Exchange.

¹ As of December 31, 2018.

Target business model

We are changing
to gain your trust

18,399
stores

2,976
cities

38
distribution
centers

5,902
trucks

Our strengths –
a foundation for growth



- No. 1 grocery chain in terms of selling space in Russia
- Multi-format model (food, cosmetics, pharmaceuticals)
- Extensive geographical presence
- High level of customer loyalty in the regions
- Availability of the company's own production facilities for private label development
- The second largest logistics network in the country
- New independent Board of Directors
- New management team

Focus on what's most important –
improving the value proposition



- Availability of the most popular products
- Strong localization of the product range
- Private label development
- Product freshness and quality
- Store redesign
- Friendly and welcoming staff
- Multi-format loyalty program
- Continued price leadership

Digital expertise –
a platform for leadership in the future



- Creating an omni-channel ecosystem
- Additional communication channels with the customer
- Convenient system for product selection, delivery, and payment
- New pricing methods
- Clear understanding of demand – mass personalization
- Breakthroughs in process efficiency

Customer centricity –
is part of Magnit's DNA



We will become
the new standard of affordable consumption for all Russian families

For details on new formats, see page 23.



The Company started out in Krasnodar in 1998 by meeting basic customer needs – people's demand for food. Today, with growing prosperity, customers increasingly demand service – a convenient location, pleasant atmosphere, and original unique solutions. Expanding the format and creating platforms to engage with customers in a real way is taking Magnit to a new level in terms of meeting customers' needs today.

Olga Naumova,
CEO

Chairman's statement



A Year of Change for Magnit

Charles Ryan
Chairman of the Board of Directors

Dear Shareholders,

The year 2018 was indeed a year of change for Magnit. In February Sergey Galitsky, the founder, long term CEO of the Company and one of the most respected private business owners in Russia, decided to sell most of his stake in Magnit to VTB and, eventually, Marathon Group, two well-known local institutional investors. This transaction set off a chain of events that included the appointment of a completely new Board of Directors and a new Management Board, paving the way to the launch of a new Strategy in September, with the aim to transform the business and achieve a turnaround in the financial and operational results of the Company.

The new Board of Directors was elected on April 19th, 2018. I can confidently say that the Board is well balanced in terms of the Director's skill sets and nomination by shareholders and that its composition fully corresponds to the sector specifics and the scale of Magnit's business objectives and operations. Five out of the seven Directors are independent and all four sub-committees of the Board - audit, remuneration, strategy and capital markets - are chaired by one of the independent Directors.

Given the changes outlined above, the most important matters for the Board in 2018 were the appointment of the new management team and setting their key performance indicators, as well as approving the new business strategy, processes and corresponding budgets. The guiding principles we adopted were rooted in international corporate governance standards and best practice.

All members of today's Management Board, consisting of 10 highly qualified professionals, were identified in the course of last year, although some were only able to join at the beginning of 2019. I am very happy with the results and I feel that we truly have assembled the best retail team in Russia. They are supported by well-drafted short- and long-term incentives schemes that align the management's interests closely with those of the shareholders, as per best international practice.

I think it was clear from the outset that the Company needed an urgent transformation. The policies and processes the Board adopted in 2018 together with the new strategy and budgets form the basis and set out the direction for the management to successfully fix the existing business and deliver the transformation necessary. I would characterize 2018 as the year of building the foundation to allow for the transformation to be successfully implemented in 2019.

I would like to thank my fellow Directors for their valuable contributions and flexibility that were required on top of our already demanding board schedule. I would particularly like to thank our Deputy Chairman, Paul Foley, who readily shared his vast retail experience to the benefit of the Company during the transition period and his help was invaluable as the new management team got settled in.

Very importantly, on behalf of the Board as a whole, I would also like to express our great appreciation to the management team and nearly 300,000 employees at Magnit throughout the Russian Federation. They continue demonstrating their ability to maintain high standards in a highly competitive market, in the midst of a transformation of the Company's business operations and the company's culture, reflecting our new focus on customer centricity.

Finally, I would like to extend our gratitude to all Magnit's shareholders for staying with us and sharing our belief in the Magnit story. I am confident that we are on a path to achieve our goals and succeed in transforming the Company's business, in order to deliver value to our shareholders.

Chief executive officer's statement



"Our goal is to become the Store of Choice for all Russian families"

Olga Naumova,
CEO

Shaping the foundation

When the management team started working together mid-year 2018, we straightaway began with mapping out the future for Magnit. Our new strategy, announced in September, is rooted in the principles of customer centricity that are coupled with a multi-format service offering under a single unified brand.

As customer centricity became our core focus, it was apparent that a substantial overhaul in Magnit's customer value proposition was essential, including an upgrade of the look and the feel of our stores, expanding our assortments and improving our service levels. The CVP for each of the company's formats was analyzed, with due consideration to regional differences, and new designs are being rolled out or piloted in the first half of 2019.

One brand – multiple formats. This is the fundamental basis for our service model. We want to fulfill multiple shopping missions while simultaneously offering our customers the synergies of a single brand, be it through cross format promo campaigns, a unified loyalty program or a strong cross format private label assortment based on our high-quality own production. We launched our new Magnit cross-format branding in March 2019.

Most the various building blocks of our new concept were already available to us in-house or were in the process of development when the new management took over. We were, however, missing the much-needed specialized distribution platform for our fast growing Magnit Cosmetics and Magnit Pharmacy formats. To close this gap, in November we finalized the acquisition of SIA, a major Russian pharma distributor. To-date, we have migrated more than half of Magnit Cosmetics business and all of our growing Pharmacy business onto this new platform.

2018 Performance

Considering our starting point and the launch of our overreaching transformation program, the 2018 performance results were reasonable. Despite the challenging macro environment of 2018, with slow macro growth and stagnating consumer purchasing power, we were able to post a top line 8.2% growth for the full year, an EBITDA margin of 7.3% and first indications of LFL growth in the fourth quarter of the year. These financial results give us a solid base for our transformation program in 2019 and allowed us to pay dividends for 2018 as well as to launch a significant share buy back program, which was successfully concluded in March this year.

In 2018 we opened 2,396 new stores, mostly in our core convenience store format, increasing our total sales area by 11.6%. We also refurbished 1,352 stores during the year.

Transformation

In Q4 2018 we launched a major 12 month organizational transformation program, with 12 new multi-format regional management units formed to allow for decentralization of front office functions and placing decisions closer to the customer, while centralizing the back office functions to achieve efficiencies of scale. Although the transformation to the client-centric organization and introduction of the new CVP and product mix mean substantial change for our almost 300,000 employees, they have showed great flexibility and enthusiasm towards the new Magnit. I would like to express a sincere big 'thank you' to them all from myself and the whole management team.

Looking forward

As noted earlier, many of our initiatives have now progressed to pilot or roll out phases and we expect to start seeing improvements in performance this year, which will allow us to deliver on our financial promises for 2019 and beyond, and to provide firm grounding to continue our smart growth and deliver value to our shareholders.

With close to 20,000 stores, almost 300,000 employees, the second largest logistics fleet, and one of the largest food production businesses in Russia, we are also fully aware of our role in society and the responsibility it entails. We look forward to working closely with all our stakeholders while ensuring that as a business we act socially responsibly.



02.
**STRATEGIC
REPORT**

Market overview

Magnit is Russia's largest retail chain and ranks second among the top 25 FMCG retailers in Russia. Magnit currently has a 9% share of the FMCG market, but plans to increase this share to 15% by 2023. The overall environment of the retail market and the Company's enormous potential offer a real opportunity to achieve this goal.

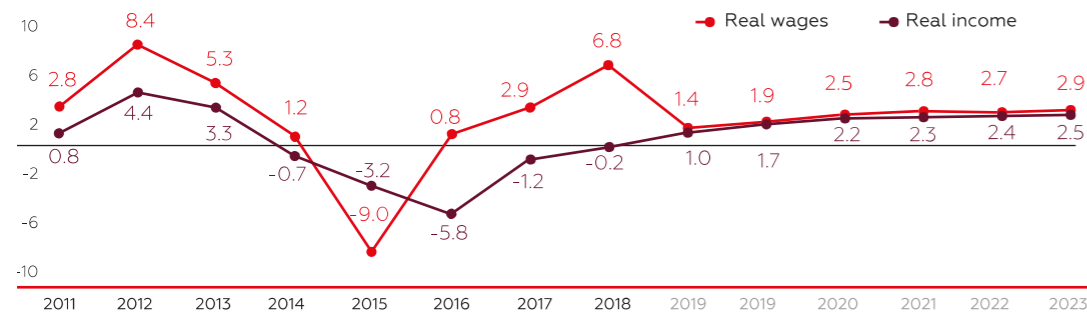
Macroeconomic environment

According to the long-term forecast¹ for the socioeconomic development of the Russian Federation for the long-term period, steady economic growth and improved labor productivity will underpin an increase in wages. As a result, real wage growth will stabilize at 2.6% in the long term and increase 1.6 times. Sustainable and dynamic economic growth, a stable and low level of inflation as well as a gradual increase in the most significant revenue components through government policies (wages, pensions, and social benefits) and a decrease in expenditure components (mortgage lending interest rates) will drive the growth of the real disposable income. This data suggests that the Russian Federation will experience moderate economic growth in the coming years. However, leading analysts say there is still a high risk of a crisis due to U.S. and EU sanctions, which continue to put pressure on the Russian economy, and increased state regulation.

That said, there are risk factors that could have a negative impact on the Russian retail market:

- According to analysts, there is more than a 25% probability of recession on the Russian market in 2020–2025;
- Economic sanctions by the U.S. and EU countries putting pressure on the Russian economy;
- The trend of the tighter state regulation (VAT increase, changes in customs duties and certification and customs rules, etc.).

Real wages and real income dynamics, %



Source: Federal State Statistics Service and the Ministry of Economic Development forecast as of November 2018

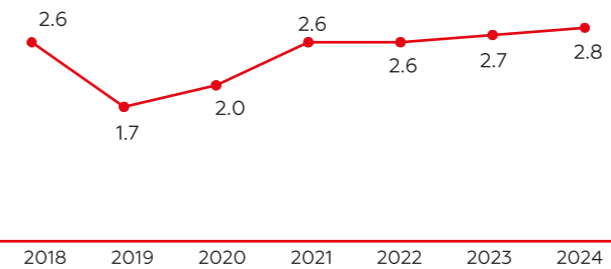
1. Ministry of Economic Development forecast of November 28, 2018

Retail market environment¹

In 2018, the Russian retail market expanded by 2.6% in comparable prices (5.8% in monetary terms) to RUB 31.5 trillion (including VAT), with the food market growing by 4.0% in monetary terms to RUB 15 trillion. The 200 largest FMCG retail chains (including specialized chains and gas station stores) account for more than 59% of food retail turnover in Russia, while the five largest FMCG chains, including Magnit, account for only 29% of turnover.

The government predicts that retail turnover in the Russian Federation will continue to expand in 2019-2024 with an average annual growth rate of 2.4%.

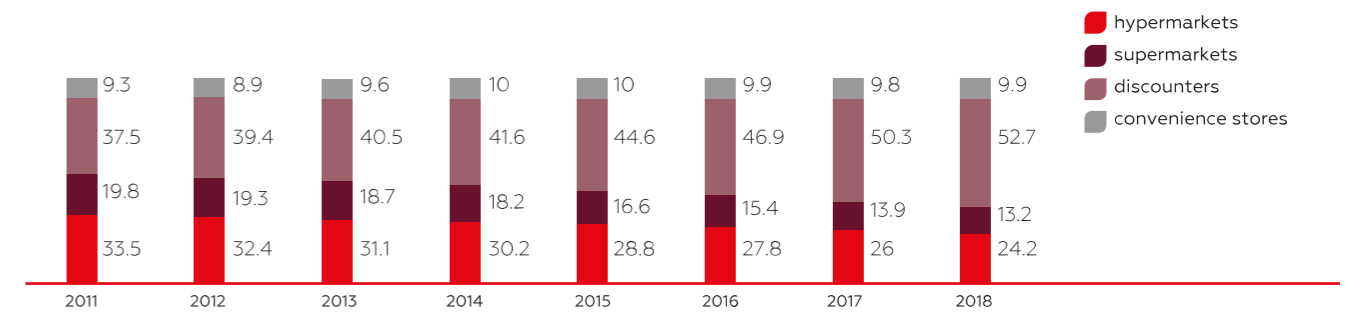
Growth in Retail Turnover, 2018-2024, Forecast, %



The number of stores of the top 200 FMCG retailers increased by 6,298 in January-December 2018, while total retail space grew by 2 million sq. m. The top 200 FMCG retailers had a total of 59,418 stores as of December 31, 2018, with overall retail space of more than 24.8 million sq. m. X5 Retail Group, Magnit, Red & White, and Lenta made the largest contributions to the growth in retail space in 2018.

As in previous years, discounters² demonstrated the most rapid growth in retail space in 2018, whose share in the overall revenue structure grew by 2.4 percentage points and reached 52.7%. The share of hypermarkets and supermarkets in the retail space structure continues to decline due to increased competition from discounters and specialized chains operating in the convenience store format.

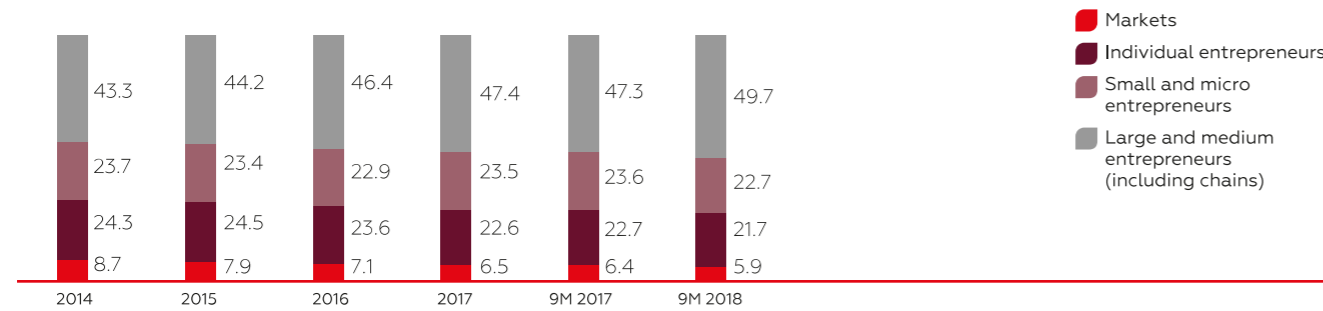
Retail space by format, %



Source: INFOLine

1. Based on the Company's information and an overview by the INFOLine news agency "The State of the Consumer Market and Rating of FMCG Trade Networks in Russia" (January 2019)
 2. According to the INFOLine's classification, a **discounter** is a facility with selling space of less than 500 sq. m. or a self-service store with a small (less than 15%) share of non-food items in a range of 2,000-7,000 items. INFOLine classifies a number of major Russian players, such as Pyaterochka, Dixy, and Magnit in the "soft discounter" format.

Retail turnover by organization type, %

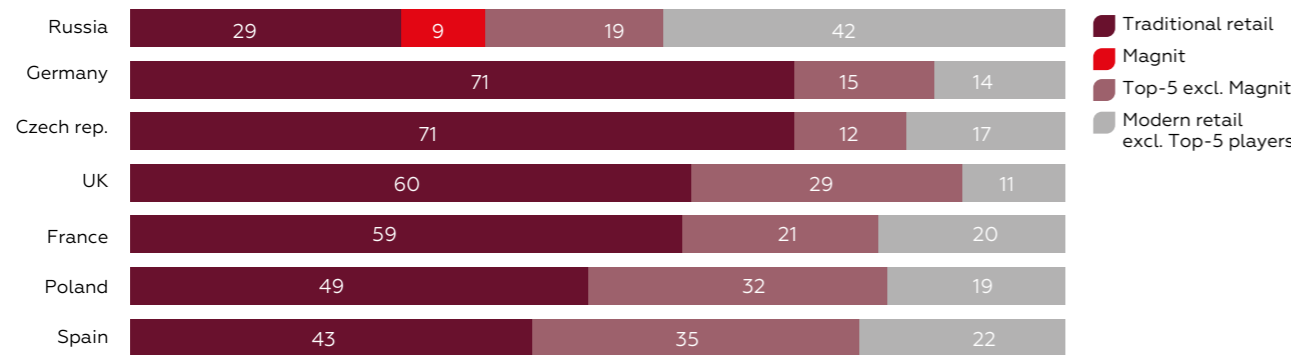


In terms of the types of organizations, the share of markets, medium-sized enterprises, individual entrepreneurs, small enterprises, and micro enterprises continued to trend downward in the overall structure of retail turnover in the first nine months of 2018. Conversely, large organizations (primarily retail chains) increased their market share, which shows there are great prospects for working in these formats in the Russian retail.

Retail market dynamics

Given the under-saturated market and the large share of traditional retail (29% in 2017) on the back of the fragmented sector (the top 5 retailers only have a 29% market share), there is potential for further organic development and consolidation of the sector. For Magnit, opening stores in regions with low level of modern retail penetration (for example, Siberia) will make it possible to secure the best locations, including through the consolidation of regional players. The Company remains focused on the convenience store format, which is most suitable for consumers who value their time and a convenient shopping process. Magnit also plans to expand into complementary segments including pharmacies among others.

Retail market dynamics¹, %



1. Data of 2017

Key trends in the market

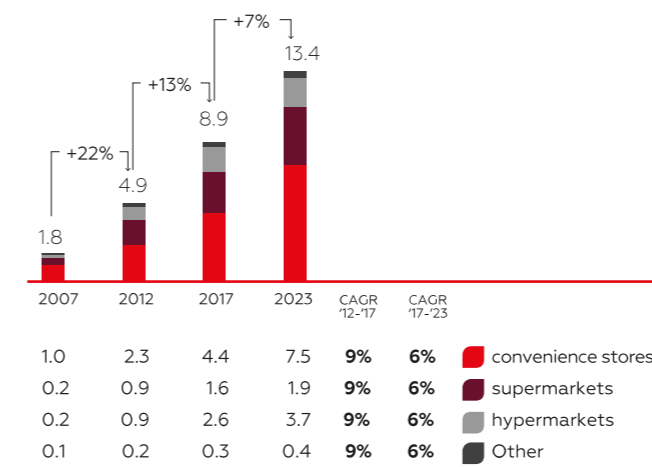
1. Anticipation of moderate market growth. The outlook for LFL is positive. Growth in the market will require a significant improvement in the customer value proposition.
2. Customer income remains limited, but customers are becoming more demanding. Price remains an important factor for customers when picking retail store locations together with better quality and service.
3. The race for retail space continues. Even though the proportion of modern retail is growing, the market from greenfield investment remains unconsolidated. It is important to note that in many cases growth does not come from greenfield, but through the replacement of previous retailers. In 2018, 70% of Magnit's store openings took place at an existing retail location.
4. Efficient operations and cost-management play an increasing role. Moderate growth along with a high level of competition exert additional pressures on the Company's margin.

5. Digital technologies are changing all the components in the value chain of the value chain: the use of all possible channels to interact with customers, analysis of big data on customers, and automated and digital operations.

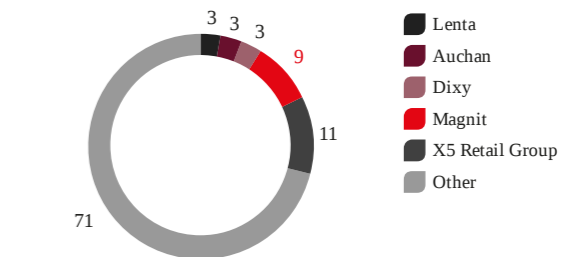
Magnit on the Russian retail market

X5 Retail Group and Magnit together account for 74% of total growth in retail space. In 2018, Magnit, despite lower investment activity, increased its share in the overall growth in retail space by 6.1 percentage points to 24.9% and expanded its total retail space by 497.4 th. sq. m. over the period¹. Growth in the number of stores of Magnit network in 2018 (1,318 new stores²) slowed down compared to 2017 (1,624 new stores³). As was the case in 2017, convenience stores generate most of the growth.

Summary retail dynamics, %
 Market size, T RUB ex VAT

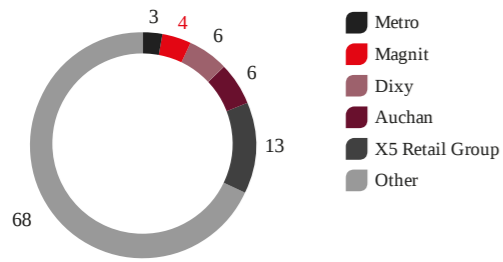


Share of players in the Russian retail market, %

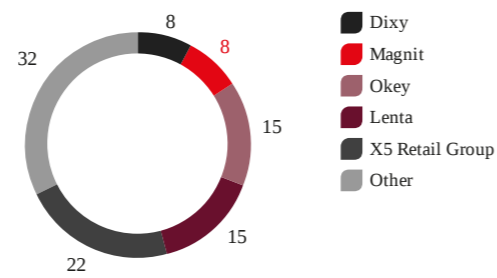


1. excluding "Magnit Cosmetic" and "Magnit Pharmacy"
 2. excluding "Magnit Cosmetic" and "Magnit Pharmacy"
 3. excluding "Magnit Cosmetic" and "Magnit Pharmacy"

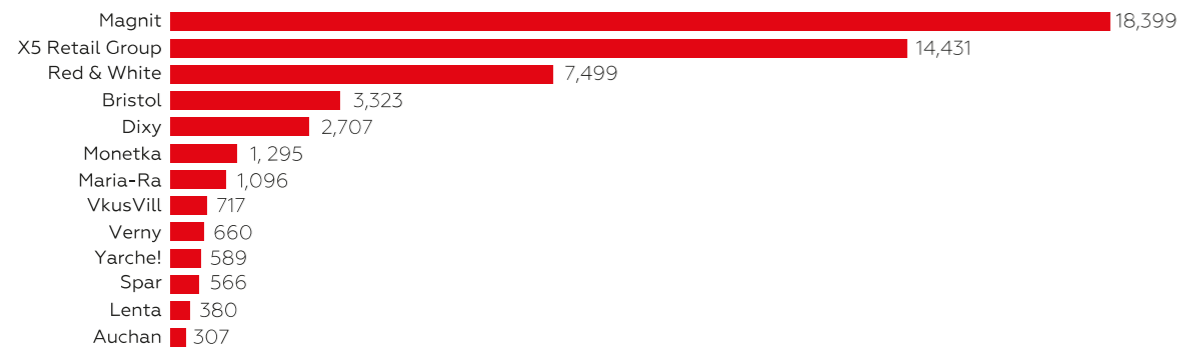
Share of players in the retail market of Moscow, %



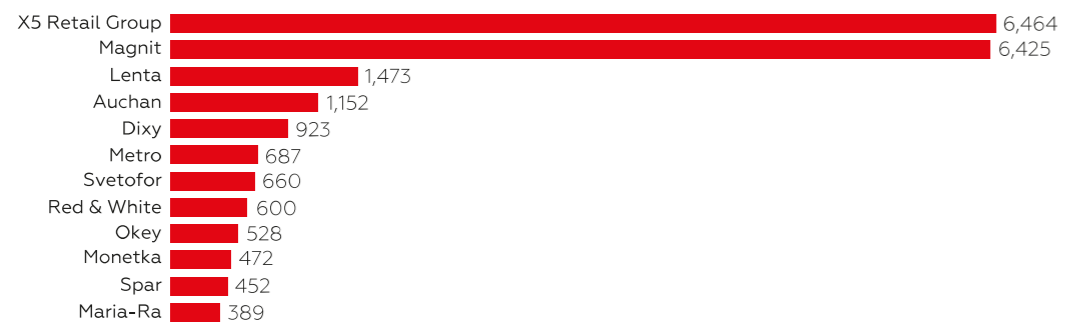
Share of players in the retail market of St. Petersburg, %



Rating of Russian FMCG retail chains by number of stores¹

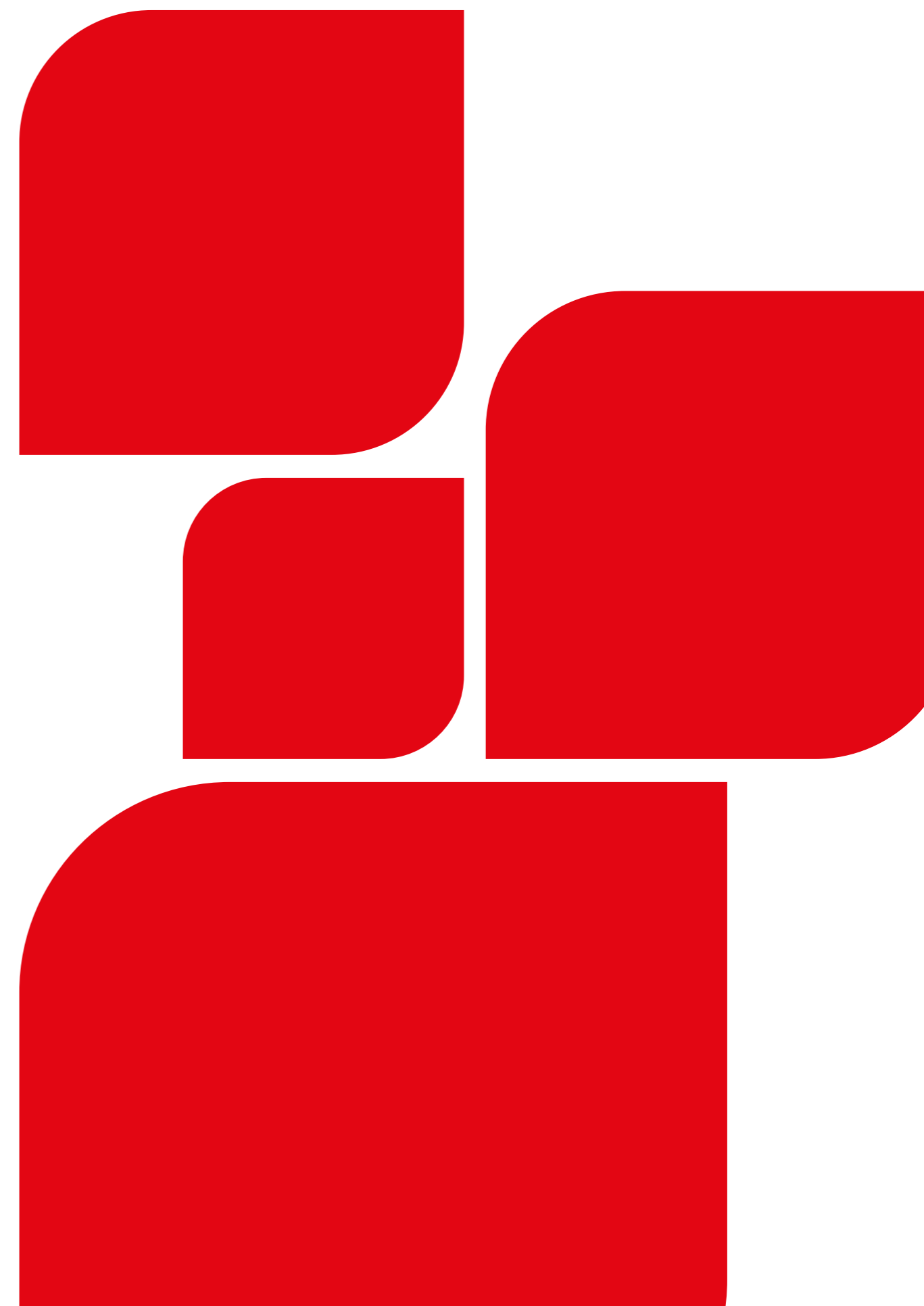


Rating of Russian FMCG retail chains by retail space, thousand sq.m.²



1. As of January 1, 2019

2. Comparable sales



The New Magnit

Magnit's strategic principles and vision

As part of our strategy development, we have formulated three strategic principles for Magnit:



1. The customer is the top priority

Our strategy is based on fundamental improvements in the value proposition for our customers. We will focus on the most important components for the consumer. We will update our product range: we will ensure the most in-demand products are available on our shelves, increase the degree of localization of the product line, and expand the share of private labels. We will monitor the freshness and quality of our products while maintaining our existing leadership in price. In an effort to improve the convenience of our stores, we have already launched a redesign program in which improvements have been made to the layout of the retail space and the display of products on the shelves, and the stores themselves have become brighter and cleaner. The customer focus will become part of Magnit's DNA, and our staff will become more friendly and welcoming.



2. Our strengths serve as the foundation for our growth

We will maintain our advantages of being close to the customer and having the largest supply chain. Our operating model is based on more than 18,000 retail outlets in 2,976 cities, 38 distribution centers, more than 5,900 trucks, and our unique direct import system and this will enable us to become a leader in terms of efficiency.

We will expand our own production capacity and develop the unified Magnit Store Family brand. Internal production will serve as the basis for the development of private labels, and multi-format offerings with a unified loyalty program will make our proposition even more attractive to consumers, set us apart from our competitors, and allow us to get a profound understanding of our customers' needs.



3. Digital competencies are a platform for future leadership

We will create new digital competencies for Magnit that are relevant to each component of the value chain. The omni-channel proposition for consumers will help us to enter the new and growing segment of the market and enhance the loyalty of our customers, while the digitization of internal processes will offer a breakthrough in the level of efficiency.

The retail market in Russia has evolved over the past five years. As market growth rates have slowed, competition has picked up: the top 5 national players already control 29% of the market, and their share is only going to get bigger. Our consumers are becoming increasingly demanding – such parameters as product freshness, the variety of assortment, a store's cleanliness and convenience, and the staff's friendliness and appearance have become critical to them. Having said that, they still remain sensitive to price and are not willing to overpay for quality.

Magnit must adjust to the changing retail market. In an effort to meet the new reality and strengthen our leadership position, we have launched a strategic program of the company's transformation. The program

focuses on our customers and meeting their needs, maximizing the strengths of our business model, and creating new platforms for growth. We have set the goal of offering a new standard of affordable consumption and a positive consumer experience for all Russian families. We will meet the most important needs of customers under a single umbrella brand. We are creating a network of Magnit stores for all Russian families.

The transformation program was launched in the second half of 2018 and has rapidly produced results: we are proud that the Company had positive comparable sales in the fourth quarter of 2018 for the first time in two years.

Based on the market context and our strategic principles, we have formulated the following vision for Magnit:

1

Gain the trust of customers and ensure the cost-efficiency of key business operations:

- Attain a profound understanding of our customers' needs.
- Introduce a new value proposition for existing store formats:
 - Maintain our traditional advantage of low prices.
 - Update the product range and create a differentiated offering through the product freshness and quality provided by our unique Internal Production and Private Labels
- Launch and scale a loyalty program
- Reinforce the customer's perception of the Magnit umbrella brand.
- Transform the efficiency of operations in stores and the supply chain

Growth due to the customer-focused transformation of existing formats

2

Become the new standard of affordable consumption for all Russian families:

- Strengthen our unique proposition that unites all formats, categories, sales channels, and communications. Launch a mass omni-channel proposition:
 - Accommodate all customer missions associated with the purchase of food, health and beauty products, child care, baby food, and pet care, and create an offering of related services (e.g. delivery)
 - Create a specialty store proposition for each mission
- Make our loyalty program even more attractive to consumers by introducing the practice of the mass personalization of offerings based on big data analytics.
- Create a seamless omni-channel ecosystem that allows customers to quickly and conveniently switch between sales channels and missions.

Grow by increasing the customer's wallet share, mass personalization, and robust omni-channel business model

Strategy implementation drivers

We use five drivers to achieve our strategic vision:

1. Growth in LFL at the main formats due to the introduction of a new value proposition
2. Sustaining our margin and ensuring investment in price leadership by enhancing operational efficiency at the store network and supply chain
3. Efficient growth in the store network
4. Expanding the customer's wallet share through a multi-format proposition linked to a unified loyalty program
5. Creating a platform for future growth through an omni-channel proposition

Growth in LFL in the main formats due to the introduction of a new value proposition

One of our Company's top priorities is to increase LFL within its main formats. In many regions, we are lagging behind our competitors in terms of sales density. Closing this gap will significantly increase our revenue. To this end, we have launched a project to create a new customer value proposition (CVP) for our customers at locations tailored to the target audience and shopping missions.

The CVP determines all key aspects of the store's perception:

- Retail space and location
- Assortment, price, and promotions
- Atmosphere, experience, and communication

In 2018, we developed detailed CVPs for each of the main formats based on consumer research and an analysis of our competitors:

MAGNIT

The Company is focusing on its main format – convenience stores. This is the backbone format for Magnit and a rapidly growing segment in Russian retail. It's a convenient store for daily shopping that customers trust. The format offers a suitable range of products, prices that are always competitive, and the opportunity to experience the benefits of the Magnit family of stores. The main missions are routine top-up, food for tonight, or minor stock-up. The convenience store is a leader in terms of «favorable price» perception compared with its formatted competitors, has specific locations, and maintains its margins.

MAGNIT FAMILY

«Magnit Family» is a full-fledged supermarket for the whole family with an expanded product range and improved consumer experience, but which also has offerings for price-sensitive segments and is perceived as a value-for-money place to shop. This format has the ability to attract new target audiences for Magnit – comfort seekers and business people. Such customers are more demanding in terms of the quality of service and product range and less sensitive to prices. At the same time, we have retained our appeal to the three main segments – saving fans, goal-oriented customers, and enthusiasts. Target missions: routine top-up, major shopping, food for tonight, and eating out.

MAGNIT PHARMACY

The main competitive advantage of pharmacies is simple and easy navigation, a convenient open display, and friendly staff that is accessible to customers (not behind the glass wall) and willing to consult on the product. Large pharmacies offer additional services. The format enables customers to fix basic health issues and find preventive health care at an affordable price. The open display combined with the pharmacist's friendliness and expertise creates an atmosphere of simplicity, convenience, and trust. Basic issues can be solved with the guaranteed availability of the most in-demand drugs as well as medicines for acute/transient conditions. Preventive care includes specially designed «health baskets» and the purchase of drugs for chronic diseases.

MAGNIT COSMETIC

A store for women aged 30 to 55 years where they can enjoy regular shopping for personal care and household goods. This format is based on a basic approach to the customer experience: sophisticated and appropriate assortment, good prices, friendly staff alongside with the expertise in beauty products, and all other advantages of the Magnit family of stores.

Introducing the new CVP

We plan to start introducing the new CVP in 2019. To this end, we are carrying out a number of initiatives:

- The main components of the CVP involve comprehensively updating the product range, ensuring it meets customers' needs, and creates points of differentiation. The latter is particularly important for target categories – the ones in which our proposition will be much stronger than those of our competitors. We have already revised the basic principles for building our product range at the national level and over the course of 2019 we plan to highly localize the range through using district-based teams. In a number of large-format stores, we will also launch a reinforced proposition in the farm product, pet product, and baby product categories
- New pricing methods will help more clearly determine the competitive level of regular prices for each outlet. A new-look approach to promos will allow us to strategically manage promotional activities based on advanced analytics and make promos both more attractive to consumers and more profitable for us
- Optimizing the supply chain will improve the quality and freshness of the products on the shelf. Introducing modern retail technologies at the store level will enhance service standards (including displays, price tag matching, cleanliness, and queues) without any additional staff costs
- To support the CVP, we will continue the redesign program for retail outlets. In fact, the latest-generation redesigns have shown sales growth of more than +10% in all formats. As part of the redesign, we are conducting major repairs, refurbishing equipment, equipping the storefronts with stained glass, and updating the entrance space, exterior and interior decorations, and navigation. The new CVP will be introduced at stores redesigned under the previous concept as part of the light redesign program (with minimal capital expenditures)
- A new strategy for communications and the Magnit Store Family brand. Magnit will support the updated CVP. We will build a communications system with target customer segments based on the key emotional and practical themes for each format

Sustaining our margin and ensuring investment in price leadership by enhancing operational efficiency at the store network and supply chain

Optimizing processes and introducing technologies at the store network and supply chain will not only allow for implementing the CVP without additional transaction costs, but will create an opportunity for additional investments in price leadership.

Optimization of processes and technologies at the store network

Projects launched in 2018:

- Processes were updated at retail outlets. We optimized working hours at the retail outlet level, reduced the amount of administrative burden, launched staff rankings based on the quality of staff work, and optimized acceptance and display processes to reduce losses
- We added more cash registers and shopping carts to stores to increase throughput
- Store management at the district-level focused on store sales and mandatory visits to stores were introduced

The following projects will be implemented in the long term:

- Processes will be updated at stores, including trust-based acceptance and end-to-end digital workflow
- New equipment will be introduced (e.g. digital price tags and price checkers)
- The development of the supervisor system will be continued, and there will be greater availability of information on store KPIs

Optimization of processes and technologies in logistics

Projects launched in 2018:

- Improved planning and reduced logistic peaks
- Increased level of service from 78% to 82%
- 15% reduction in inventory at distribution centers
- Reduced workflow
- Launch of a supplier pooling project

Projects to be launched and completed by 2023:

- The transport structure will be revised and the proportion of contractors will be increased
- We will enhance quality control and freshness throughout the supply chain
- We will revise processes and tools, improve the quality of forecasts, and optimize the management structure
- In the future, we will enhance the level of service and further reduce inventory

Efficient growth in the store network

As the market continues to consolidate, the growth and development of the network is a matter of long-term survival. It is essential to ensure growth in the Company's market share in order to maintain a leading procurement position. The pace of development must also be maintained since the battle among retailers for locations closest to consumers has intensified amidst consolidation.

We plan to expand retail space using three sources of growth:

- The M&A of small modern retail networks that find themselves in a difficult situation as a result of price pressure from federal competitors
- Natural growth in locations with a low concentration of modern retail due to the displacement of traditional retail and regional networks
- Moving into retail space that emerges from the construction of new residential areas

We will ensure the efficiency of investment in the network's growth through a combination of geographical information systems and investment rules. To pre-determine the optimal locations, we will use an algorithm that takes into account the population in the coverage area, current traffic flows and points of interest as well as competition at a specific address. To make the final decisions, we have built a transparent process of financial approval for investments at the retail outlet level.

Expanding the customer's wallet share through a multi-format proposition linked to a unified loyalty program

In order to become the main retail platform of the Russian Federation and to fully meet the basic needs of our customers, we plan to launch a number of new formats and cubes.

Formats:

- Magnit Pharmacy is a simple, convenient, and reliable way to address all your basic health needs, including disease prevention, at an affordable price. The Pharmacy's success is driven by a high-quality customer proposition (recommendations and an open retail area) and unique multi-product offerings for the treatment and prevention of some of the most common health problems. We will build Pharmacies based on the traffic of the main formats and combine all the propositions with a unified loyalty program.
- Magnit Wholesale offers a format to meet the needs of a special shopping mission. The format will offer a range with a limited share of fresh products and large packages of dry goods.
- Magnit Post is an ultra-small format in collaboration with Russian Post to provide a basic product range in a wide range of locations throughout Russia without rent expenses and with minimal staff costs. With this format, we will be able to ensure our presence in the most remote corners of our country.

Cubes:

We are also planning to launch specialized cubes (a store-within-a-store) in large formats with the unique grocery offerings and additional customer experience. At present, we have already conducted a series of successful tests of farm product, of the potential of farm product, pet product, and baby product cubes.

In an effort to unite the whole Magnit Store Family, we plan to launch a loyalty program in the first quarter of 2019 that will become available throughout Magnit geographical presence by the end of 2019.

As the program kicks off, we will launch a cross-format loyalty card with a points system and three loyalty levels. Going forward, we plan to launch personalized promo and affiliate programs by the end of 2019. As part of the rollout of the loyalty program, we will also launch a new mobile app.

Creating a platform for future growth through an omni-channel proposition

To ensure long-term growth beyond the 2023 strategy, today we need to pilot and create an omni-channel eco-system that will ensure our presence in the fastest-growing market segment, enable us to meet the unfulfilled demand of our customers, and create an additional channel of communication with the consumer.

We plan to create an omni-channel eco-system that will offer:

- A high-quality product range and ease of choice (search, rating, and pricing)
- A convenient payment and delivery service (internal payment service, fast delivery, and friendly support)
- Trust and an understanding of demand and loyalty (mass personalization)

In 2019, we are planning to launch a pilot project to deliver our core hypermarket range offering to customers in Krasnodar in order to test demand for omni-channel offerings outside of Moscow and St. Petersburg.

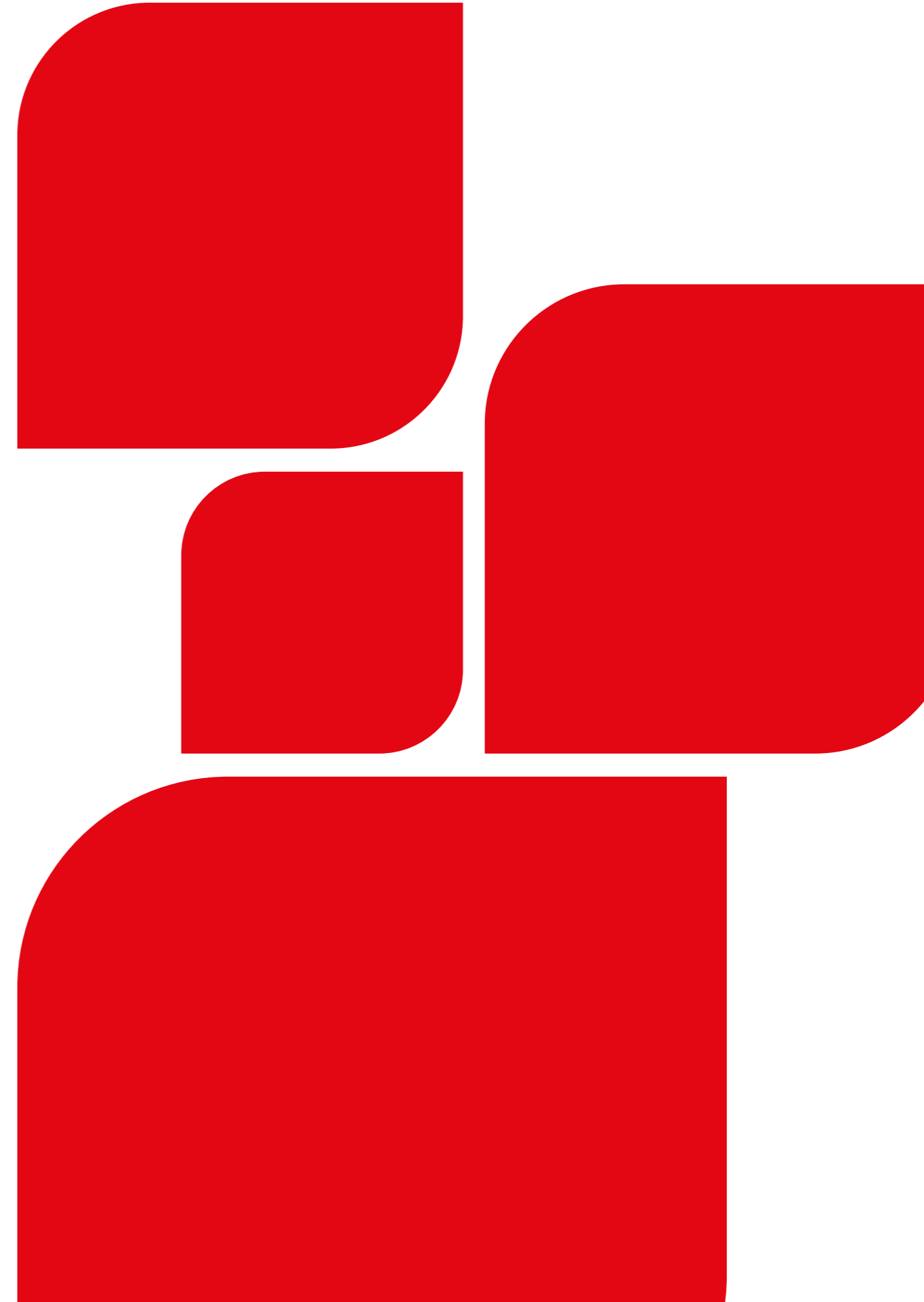
Internal changes at Magnit

In order to successfully implement the five drivers and achieve our vision, Magnit will need to transform internally as well. We will revamp the organization and create a new corporate culture.

We are planning the following initiatives over the course of 2019:

- We will review the approach to the Company management. We need to update and merge outdated IT systems, create a unified policy for handling data and analytics, and build data-based decision-making processes
- We will build up our functional expertise. As one of the top priorities, we will focus on creating category management teams and CVP. We will also start developing expertise in analytics, big data, and digital marketing
- We will decentralize the organization based on multi-format districts to speed up the decision-making cycle and provide an understanding of the local consumer using functional teams at the local level. We will also launch a common service center and improve management efficiency.

In addition to organizational transformation, Magnit will need to convey its strategic goals to the entire organization and shift the focus from executing processes to the result in order to implement the strategy. Customer focus will become a part of Magnit's DNA.



The background features several large, overlapping red geometric shapes. On the left, there is a vertical red bar with rounded ends. To its right, a larger red shape with rounded corners and a white notch at the top right overlaps it. Further right, another large red shape with rounded corners overlaps the previous one. The overall composition is modern and minimalist.

03.

**PERFORMANCE
REVIEW**

Financial results

Key financial results (RUB mln)

| | 2016 | 2017 | 2018 |
|----------------------------------|-----------|-----------|------------------|
| Net sales, RUB mln | 1,074,812 | 1,143,314 | 1,237,015 |
| Convenience stores | 790,157 | 846,113 | 917,853 |
| Supermarkets | 214,599 | 206,214 | 207,434 |
| Drogerie stores | 64,449 | 78,786 | 91,563 |
| Wholesale | 5,606 | 12,201 | 20,164 |
| Gross profit, RUB mln | 295,759 | 289,498 | 296,447 |
| Gross margin, % | 27.5 | 25.3 | 24.0 |
| EBITDAR, RUB mln | 145,125 | 136,967 | 141,140 |
| EBITDAR margin, % | 13.5 | 12.0 | 11.4 |
| EBITDA, RUB mln | 106,654 | 91,644 | 89,931 |
| Adjusted EBITDA ¹ | 106,654 | 91,644 | 91,429 |
| EBITDA margin, % | 9.9 | 8.0 | 7.3 |
| Adjusted EBITDA margin, % | 9.9 | 8.0 | 7.4 |
| EBIT, RUB mln | 80,828 | 57,928 | 53,413 |
| EBIT margin, % | 7.5 | 5.1 | 4.3 |
| Profit before tax, RUB mln | 68,780 | 45,424 | 43,072 |
| Profit tax expenses, RUB mln | -14,371 | -9,885 | -9,207 |
| Net income, RUB mln | 54,409 | 35,539 | 33,865 |
| Net income margin, % | 5.1 | 3.1 | 2.7 |

Net sales for 2018 amounted to RUB 1,216.9 billion, a 7.6% increase from 2017 that was driven by the opening of 2,049 new stores (an 11.6% increase in selling space) and LFL sales growth of -2.5%. The main contribution to sales came from the convenience segment, while the strongest sales growth was demonstrated by the drogerie format.

Wholesale reached RUB 20.2 billion, an increase of 65.3% compared to 2017.

1. Adjusted EBITDA differs due to one-time inventory write-offs and provisions in the amount of RUB 1.5 billion that were accrued in the first half of 2018.

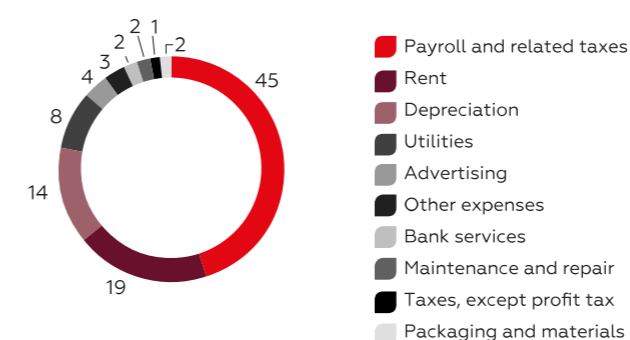
Gross profit for the whole year increased by 2.4% and the gross profit margin for 2018 was 24.0% vs 25.3% a year ago. The gross profit margin deteriorated by 136 bps as a result of the following factors:

- The cost of goods sold increased ahead of sales and contributed to 122 bps of the contraction:
 - Due to investment in prices, higher shrinkage due to provisions created for write-offs and the increased share of the fresh assortment, pressure from selling off old slow-moving stock, and the increased share of the wholesale segment from 1.1% to 1.6% in 2018;

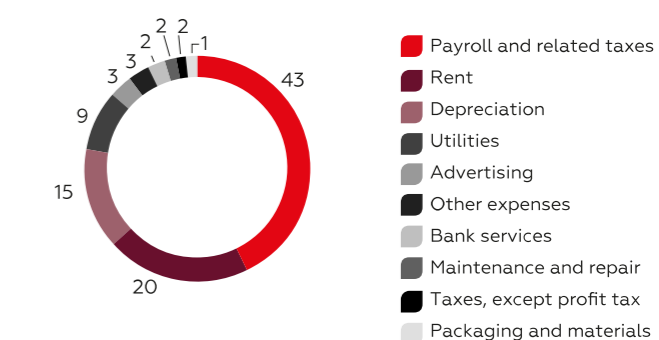
- Partially offset by improvements in commercial terms from suppliers.
- Transportation expenses as a percentage of sales increased by 14 bps as higher centralization ratio (89% vs 88%), reduced average distance per trip (560 km vs 490 km) and other operational efficiency weren't enough to offset the impact of higher fuel prices and increased external transport rates.

Selling, general and administrative expenses, %

2017



2018



| Index | 2017 | | 2018 | |
|------------------------------|----------------|-----------------|----------------|-----------------|
| | RUB mln | as % of revenue | RUB mln | as % of revenue |
| Payroll and related taxes | 107,806 | 9.4 | 107,833 | 8.7 |
| Rent | 45,323 | 4.0 | 51,209 | 4.1 |
| Depreciation & amortization | 33,716 | 2.9 | 36,517 | 3.0 |
| Utilities | 19,591 | 1.7 | 21,274 | 1.7 |
| Advertising | 8,432 | 0.7 | 8,601 | 0.7 |
| Other expenses | 7,376 | 0.6 | 7,587 | 0.6 |
| Bank services | 4,466 | 0.4 | 6,059 | 0.5 |
| Repair and maintenance | 5,041 | 0.4 | 4,421 | 0.4 |
| Taxes, other than income tax | 3,399 | 0.3 | 3,804 | 0.3 |
| Packaging and raw materials | 3,443 | 0.3 | 3,531 | 0.3 |
| Total SG&A | 238,593 | 20.9 | 250,837 | 20.3 |
| SG&A excl D&A | 204,877 | 17.9 | 214,319 | 17.3 |

SG&A expenses as a percentage of sales improved by 59 bps YoY in 2018:

- Payroll related expenses decreased by 71 bps mainly due to increased overall productivity at the Company by 10.1%
- Utilities went up only 1 bp as the indexation of tariffs in July 2018 were almost completely offset by a reduction in energy consumption
- Rent as a percentage of sales went up by 18 bps due to the higher share of rented space of 69.5% vs 66.4% a year ago
- Advertising costs as a percentage of sales decreased by 4 bps due to the positive impact of more cost-effective media channels used for promotion campaigns
- Bank services as a percentage of sales were 10 bps higher due to increased rates for money collection, which was partly offset by the introduction of automated deposit machines inside stores
- Maintenance expenses declined by 8 bps as a percentage of sales vs 2017 due to the review of suppliers and improved commercial terms

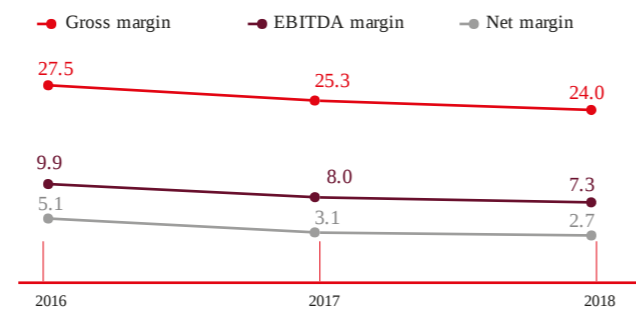
As a result, operating profit for the Company was RUB 53.4 billion for 2018, or 7.8% lower than the previous year.

Finance costs decreased by 29.4% to RUB 8.9 billion compared to 2017 (RUB 12.6 billion). This was the result of lower interest rates combined with refinancing activities and the lower average amount of borrowing compared to the previous year. The weighted average cost of debt for 2018 was 7.2% (including the effect of subsidized debt).

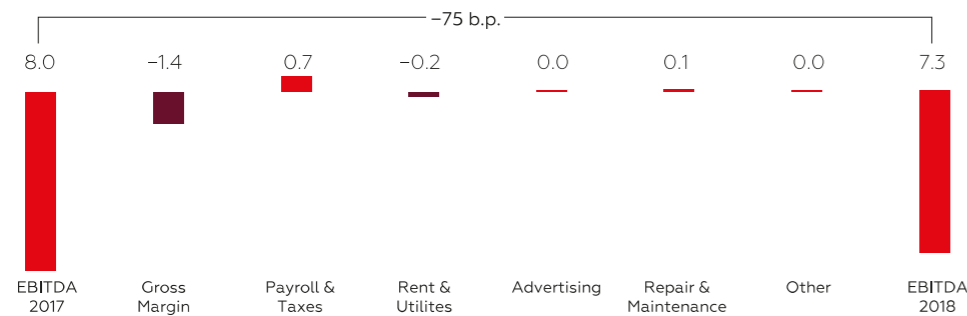
Income tax for 2018 was RUB 9.2 billion. The effective tax rate was 21.4% vs 21.8% in 2017.

As a result, net income for 2018 was RUB 33.9 billion and the net income margin was 2.7%, down YoY by 4.7% and 37 bps, respectively.

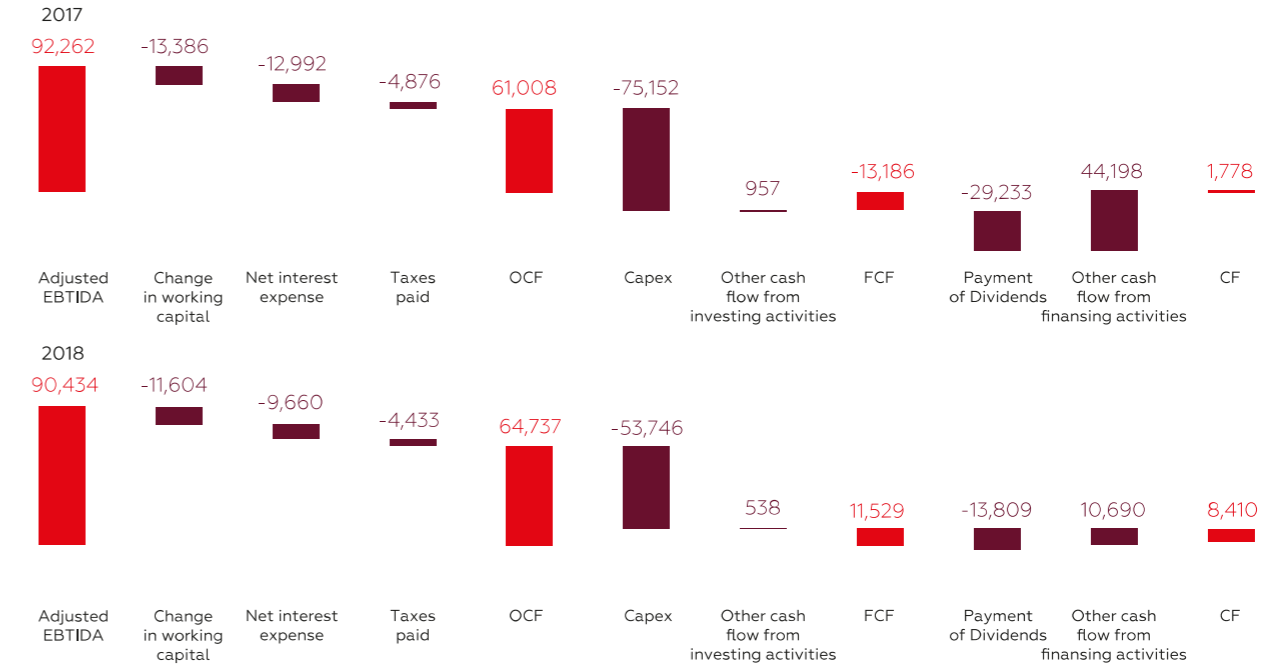
Profit margins (%)



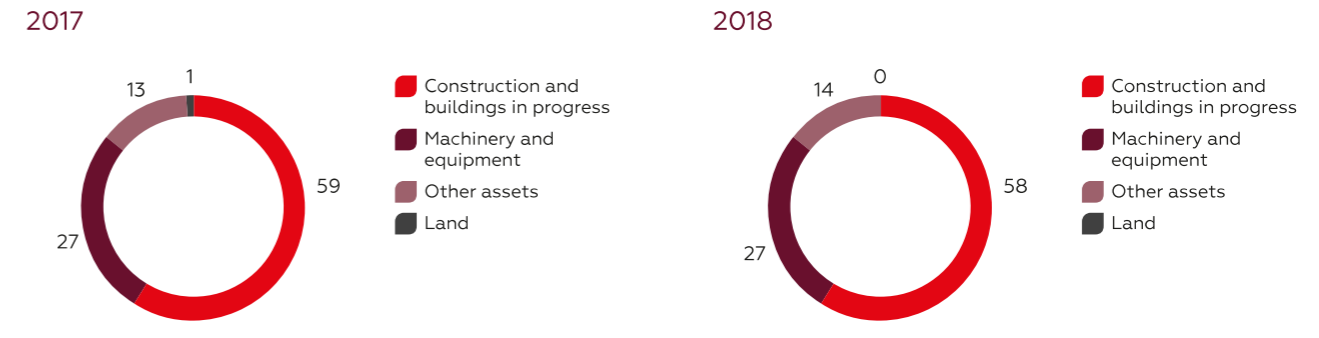
EBTIDA Margin Bridge



Free cash flow



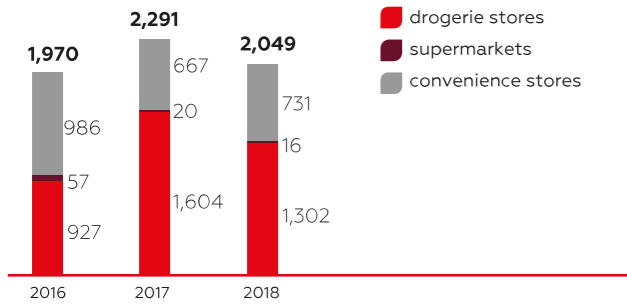
Capital expenditures, %



| RUB mln | 2017 | 2018 | Change, % | Comments |
|--|---------------|---------------|--------------|--|
| Construction and buildings in progress | 44,443 | 31,414 | -29.3 | there were fewer store openings (2,385 stores in 2018 versus 2,665 in 2017), fewer facilities were redesigned (1,352 versus 1,976), and there was a decrease in advance payments and investment in in-house production |
| Machinery and equipment | 20,355 | 14,693 | -27.8 | |
| Land | 865 | 51 | -94.2 | growth in retail space over the course of the year due solely to rent |
| Other assets | 9,489 | 7,589 | -20.0 | 164 new vehicles were purchased in 2018 versus 625 in 2017 |
| Total | 75,152 | 53,746 | -28.5 | |

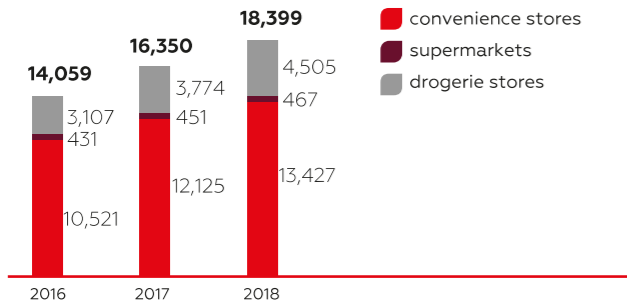
Operating results

Number of stores opened, NET



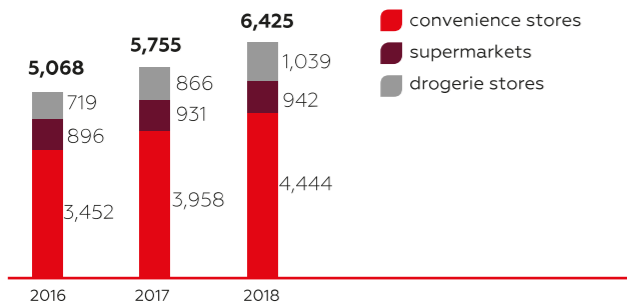
The number of new store openings has decreased slightly. In 2019, new stores will be opened with an improved layout taking into account the new customer value proposition. As of the year end, the Company had fully met its stated plans for 2018.

Total number of stores

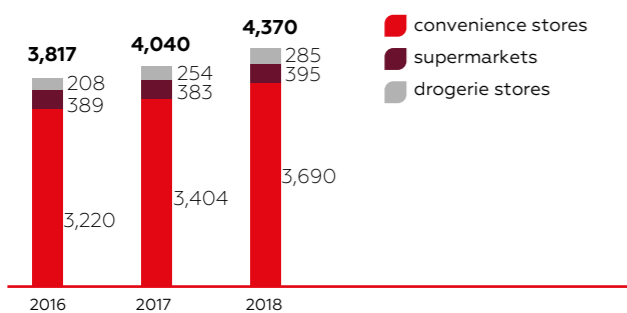


In 2019, the Company plans to maintain the pace of store openings at the 2018 level. Plans have been announced to open 2,000 pharmacies and develop ultra-small formats in cooperation with Russian Post.

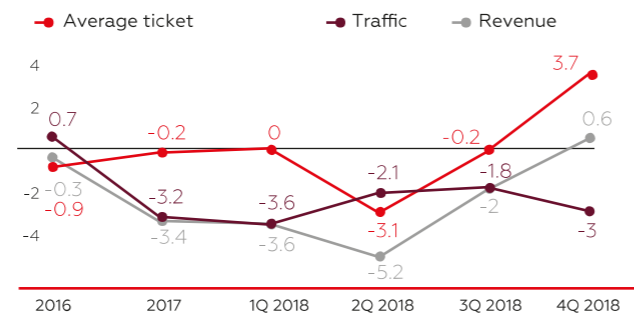
Retail space, thousand sq. m.



Number of customers, mln



LFL – Revenue



LFL – Revenue

| LFL – Revenue | 2016 | 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | 2018 (avg.) |
|--------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| convenience stores | 2.4% | -1.4% | -3.8% | -5.4% | -2.7% | 0.3% | -2.8% |
| supermarkets | -9.4% | -9.6% | -4.4% | -6.4% | -1.6% | -0.7% | -3.3% |
| drogeries | 4.9% | 0.0% | 0.1% | 0.7% | 3.9% | 6.5% | 3.0% |
| Total | -0.3% | -3.4% | -3.6% | -5.2% | -2.0% | 0.6% | -2.5% |

LFL – Average ticket

| LFL – Average ticket | 2016 | 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | 2018 (avg.) |
|----------------------|--------------|--------------|-------------|--------------|--------------|-------------|-------------|
| convenience stores | 0.3% | 1.2% | -0.1% | -3.3% | -0.5% | 3.9% | 0.0% |
| supermarkets | -1.1% | -2.3% | -2.2% | -5.3% | -1.9% | 1.1% | -2.0% |
| drogeries | 7.5% | 1.2% | 4.5% | 2.9% | 3.8% | 4.9% | 4.1% |
| Total | -0.9% | -0.2% | 0.0% | -3.1% | -0.2% | 3.7% | 0.1% |

LFL – Traffic

| LFL – Traffic | 2016 | 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | 2018 (avg.) |
|--------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| convenience stores | 2.1% | -2.6% | -3.8% | -2.2% | -2.2% | -3.5% | -2.8% |
| supermarkets | -8.4% | -7.5% | -2.2% | -1.2% | 0.2% | -1.8% | -1.3% |
| drogeries | -2.5% | -1.1% | -4.2% | -2.2% | 0.1% | 1.5% | -1.1% |
| Total | 0.7% | -3.2% | -3.6% | -2.1% | -1.8% | -3.0% | -2.6% |

The Company's LFL¹ sales had remained negative over a long period. However, clear improvements can be seen with this indicator since the start of renovations and particularly with the arrival in mid-2018 of the new management team that launched the transformation program. By the fourth quarter of 2018, the Company had already seen its first positive results in the last two years in the form of growth in comparable sales.

Magnit achieved this result by improving its customer value proposition, carrying out innovations in category management, and increasing the availability of goods on the store shelves. LFL sales in the key convenience store format also demonstrated growth of around 0.3%. A steady increase in the Average ticket compensated for the negative traffic. This resulted from a significantly better quality commodity-price mix as well as inflation. Magnit Cosmetic showed the best results: LFL sales in the fourth quarter of 2018 amounted to 6.5% as the LFL of the Average ticket increased by 4.9% and traffic rose by 1.5%. LFL sales at Magnit supermarkets remained negative, although a positive trend was seen as this indicator rose from -1.6% in the third quarter of 2018 to -0.7% in the fourth quarter of 2018.

1. According to the new method, a store is included in the LFL database 12 months after its opening date. Previously, the LFL calculation base had included stores of all formats that had operated for at least 12 months prior to the start of the last month of the reporting period.

Our stores

Convenience store

| Format | A convenient and affordable store for everyday shopping. Routine shopping, food for tonight/now, minor stock-up |
|---------------------------------|---|
| Location | Bedroom communities and business areas |
| Store space | Total 476 sq. m. Retail 331 sq. m. |
| Share of turnover | Food items 88% Non-food items 12% |
| Ownership structure | Company-owned 19% Rented 81% |
| Operating indicators | |
| Average ticket | RUB 249 |
| Number of customers | 274,826 customers per 1 store per year |
| Traffic | 2.4 tickets/sq. m. per day |
| Sales density | RUB 224,640 revenue/sq. m./year |
| LFL 2018 vs. 2017 | |
| Average ticket | 0.0% |
| Traffic | -2.8% |
| Revenue | -2.8% |
| Store openings | |
| Payback period | 3 years if rented 4-6 years if owned |
| Cost of new store | RUB 26,000 per sq. m. of total space |
| Cost of redesign | RUB 17,000 per sq. m. of total space |
| Time required to reach maturity | 14 months |

Supermarkets

| Format | Major shopping, special occasion, routine shopping, food for tonight. Comfortable and affordable store for everyday and major shopping |
|---------------------------------|--|
| Location | Bedroom communities, business areas, and shopping centers |
| Store space | Total 4,306 sq. m. Retail 2,017 sq. m. |
| Share of turnover | Food items 81% Non-food items 19% |
| Ownership structure | Company-owned 55% Rented 45% |
| Operating indicators | |
| Average ticket | RUB 525 |
| Number of customers | 846,404 customers per 1 store per year |
| Traffic | 1.2 tickets/sq. m. per day |
| Sales density | RUB 223,046 revenue/sq. m./year |
| LFL 2018 vs. 2017 | |
| Average ticket | 2.0% |
| Traffic | -1.3% |
| Revenue | -3.3% |
| Store openings | |
| Payback period | 6-9 years |
| Cost of new store | RUB 45,000 per sq. m. of total space |
| Cost of redesign | RUB 39,000 per sq. m. of total space |
| Time required to reach maturity | 14 months |

In the first half of 2019 Magnit developed a new customer value proposition for the supermarket format and presented it to the Board of Directors. The new model will be tested in a number of pilot projects to analyze the results and make a comparison with set profitability criteria prior to continuing the comprehensive development of the format.

Drogerie

| Format | Within walking distance to buy beauty and health products |
|---------------------------------|---|
| Location | Bedroom communities and business areas |
| Store space | Total 289 sq. m. Retail 230 sq. m. |
| Share of turnover | Non-food items 100% |
| Ownership structure | Company-owned 12% Rented 88% |
| Operating indicators | |
| Average ticket | RUB 322 |
| Number of customers | 63,170 customers per 1 store per year |
| Traffic | 0.8 tickets/sq. m. per day |
| Sales density | RUB 99,069 revenue/sq. m./year |
| LFL 2018 vs. 2017 | |
| Average ticket | 4.1% |
| Traffic | -1.1% |
| Revenue | 3.0% |
| Store openings | |
| Payback period | 3 years if rented 4-6 years if owned |
| Cost of new store | RUB 18,000 per sq. m. of total space |
| Cost of redesign | RUB 15,000 per sq. m. of total space |
| Time required to reach maturity | 10 months |

New format "Magnit Pharmacy"

We believe the pharmacy retail market in Russia is one of the most interesting markets for expansion. This segment is more than substantial in terms of size at over RUB 1 trillion. It accounts for roughly 10% of the food retail market and has shown steady growth in recent years. However, the pharmacy market has not yet been consolidated. Magnit is definitely capable of occupying a significant share of the market alongside the largest competitors in a short time.

Pharmacies and grocery stores are mutual drivers of consumer traffic, which, in turn, provides a multiplier economic effect. Magnit needs to have its own logistics platform for the large-scale development of the pharmacy chain on the core of its stores. The purchase of the SIA Group in November 2018 was a solution to this challenge. The SIA Group is one of the largest distributors of drugs and medical products.

In terms of regional coverage, the variety of the product range, and the availability of logistical capacity, the SIA Group's capabilities most closely meet the Company's needs.

This transaction will enable Magnit to enhance its competencies as quickly as possible and enter the pharmaceutical retail market with a significant competitive advantage. It is also a platform for the further development of our highly profitable Magnit Cosmetic format.

The initial stage of the SIA Group's integration into Magnit was completed in the first quarter of 2019. Under the approved plan, this logistics platform will be used to serve roughly 2,000 drogerie stores, which makes up almost half the total base of Magnit Cosmetic stores. In addition, a project was launched based on this platform to open 2,000 pharmacies in 2019.

Supply chain management

Conditions and procedure for selecting suppliers when signing supply contracts/manufacturing contracts under a customer's trademark

JSC "Tander" (an operating subsidiary of the Company) handles the selection of suppliers and quality control of deliveries for all Magnit store formats. When deciding whether to cooperate with a company, the legal status and reputation of the potential supplier is taken into account. Both legal entities and individual entrepreneurs are welcome to cooperate with the Company. To ensure the safety of supplies, the applications are evaluated based on whether a potential supplier has ever filed for bankruptcy, breached its obligations to market participants, or had any complaints lodged against it by the supervisory authorities for violations of the law. In order to ensure the maximum transparency and competitive selection procedures for suppliers, a two-stage selection process is employed:

1. the supplier is invited to prepare commercial proposals with their subsequent revision according to the supply requirements
2. a final commercial proposal is received

Step 1

The supply proposal is placed in the public domain in the External Partners Collaboration System <https://srm.tander.ru/>

Step 2

Commercial proposals are received from the suppliers using the standard form with product samples.

Step 3

The commercial proposals are reviewed by authorized employees. The commercial proposal review process, among other things, involves an assessment of the competitiveness of the price offered for the product and the product packaging features and an analysis of the supplier's transport and logistics capabilities as well as the volume and discreteness of supplies, including a comparison with existing delivery terms for similar products and commercial proposals from other suppliers.

The following additional factors may be considered when selecting a supplier:

- the availability of the supplier's own production facility and storage space for finished products;
- the availability of permanent inventory that can be used for the uninterrupted supply of products;
- the feasibility of electronic document workflow;
- the availability of well-developed transport and logistics infrastructure that is capable of ensuring the independent delivery of goods to storage sites and minimizing delivery time;

Step 4

If the commercial proposal meets the Company's business requirements, the Company sends the supplier a proposal to provide product samples for the tasting of food products or to assess the quality of non-food items.

Step 5

The company conducts an analysis of the samples based on their organoleptic characteristics (external, structural, mechanical, taste, and aromatic characteristics, among others) and the commercial proposal as a whole according to the product price/quality ratio.

Step 6

The supplier is notified about the acceptance of the commercial proposal and a draft supply agreement/contract for the manufacturing of products is sent.

The Company sends electronic rejection notices to suppliers whose commercial proposals were rejected.

Click here to learn more about the conditions for suppliers

· <http://magnit-info.ru/partners/about/>

· http://magnit-info.ru/partners/secondary_raw/

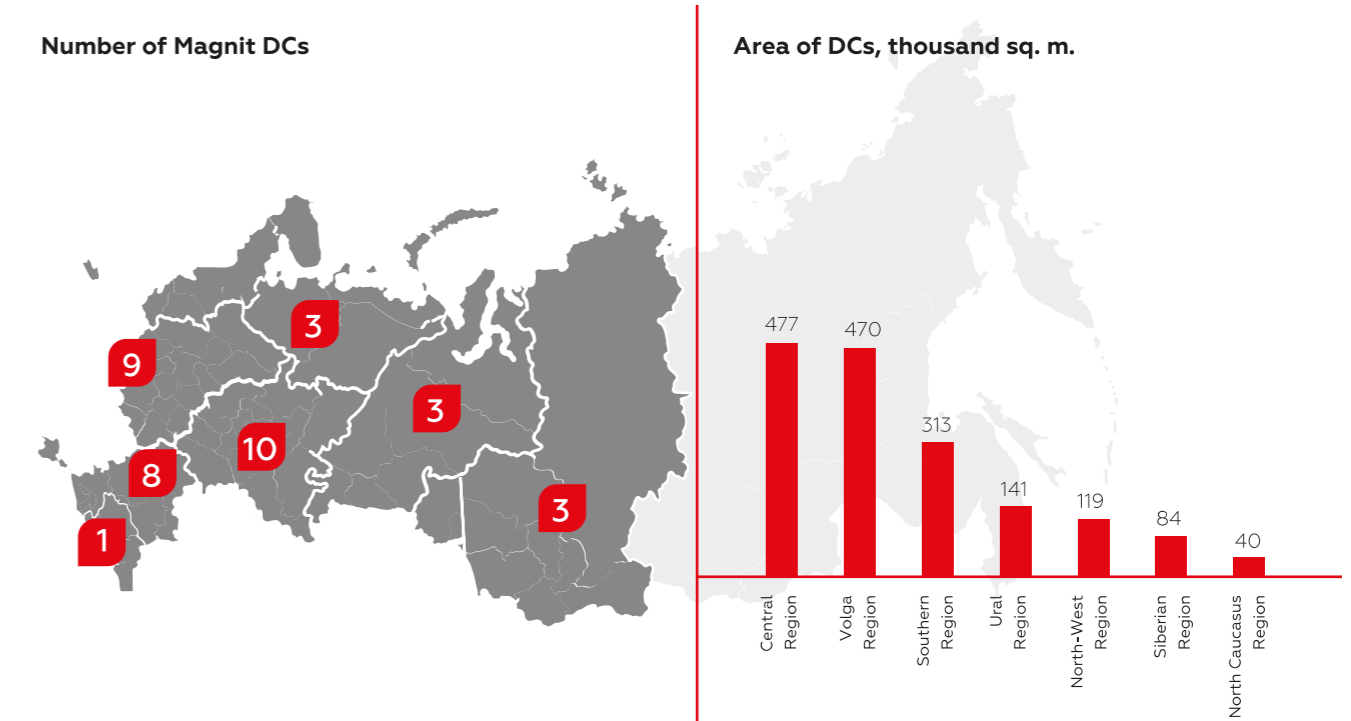
Logistics chain management

The logistics development strategy supports the development of Magnit's multi-format store chain and is based on the strategic network development plan:

| Thousand of stores | as of the end of 2018 | by 2023 |
|---|-----------------------|-----------|
| Convenience stores | 13.4 | 22.8 |
| Drogerie stores | 4.5 | 9.3 |
| Supermarkets | 0.5 | 0.9 |
| Pharmacies and ultra-small formats | 0.1 | 9.0 |
| Number of distribution centers ¹ | 38 | Around 50 |

One of the key factors affecting the achievement of the Company's targets is warehouse capacity, which needs to be increased by conducting a comprehensive review of the development strategy for the distribution center network and means of delivering goods to stores.

Magnit's warehouse infrastructure by federal district²



1. Including SIA
 2. Excluding SIA

Key warehouse infrastructure indicators¹

| Region | Number of distribution centers | Useful warehouse space (thousand sq. m.) | Number of stores served |
|-----------------------|--------------------------------|--|-------------------------|
| Central Region | 9 | 477 | 5,322 |
| Volga Region | 10 | 470 | 5,625 |
| Southern Region | 8 | 313 | 2,976 |
| Ural Region | 3 | 141 | 1,866 |
| North Caucasus Region | 1 | 40 | 579 |
| North-West Region | 3 | 119 | 1,152 |
| Siberian Region | 3 | 84 | 879 |
| Total | 37 | 1,645 | 18,399 |

Overview of the logistics chain²

| | |
|--|-----------|
| Revenue in 2018, RUB mln | 1,237,015 |
| Total selling space, thousand sq. m. | 6,425 |
| Number of stores served | 18,399 |
| Number of distribution centers | 37 |
| Useful warehouse space, thousand sq. m. | 1,645 |
| Selling space per 1 sq. m. of warehouse space, sq. m. | 3.9 |
| Number of facilities per 1 warehouse | 497.3 |
| Sales per 1 sq. m. of warehouse space, RUB thousand/sq. m. | 752 |
| Share of goods processed via distribution centers | 89% |
| Number of company-owned trucks | 5,897 |

1. Excluding SIA

2. Excluding SIA

Events of 2018

Magnit purchased the SIA Group, one of Russia's largest distributors of drugs and medical products, in November 2018 as part of the large-scale development of the pharmacy chain in Magnit stores. The SIA Group's warehouse logistics with total area of almost 80,000 sq. m. consist of a number of small warehouses and a large automated logistics center in Moscow with total area of more than 40,000 sq. m. This transaction provides a strong platform that allows us to rapidly grow our highly profitable "Magnit Cosmetic" format and develop the new pharmacy format.

As previously mentioned, the integration of SIA into Magnit is proceeding according to the approved plan and roughly 2,000 "Magnit Cosmetic" stores will transition to providing services via the logistics platform that was acquired by the end of the first quarter of 2019.

In addition, a project was launched based on this platform to open 2,000 pharmacies in 2019.

The goal of optimizing the network is to establish a Magnit logistic network structure based on the simulation of strategic scenarios. The simulation will be used to determine the optimal number of distribution centers and their distance from shopping facilities.

In addition to warehouse geography and their space, a number of initiatives are planned to improve the operational efficiency of distribution centers. Reducing stocks at warehouses and stores while maintaining a balance of representation and losses is a priority for improving the quality of supplies.

The strategic scenarios for optimizing the distribution network include an analysis of development and operation via transit warehouses and national warehouses, options for creating import hubs, and the introduction of a larger number of direct delivery warehouses.

When optimizing stocks, strategic scenarios involve revising the model for the staggered pick-by-line of inventory, considering alternative types of processing for certain product categories (cross docking and peak-by-line), storage at suppliers' warehouses, joint inventory management with suppliers, revising the minimum order size, and delivery frequency.

As part of the multi-format strategy adopted by Magnit, the priority of the Company's transport unit is to minimize costs by optimizing the structure of transit flows, using hired vehicles, and analyzing the structure of the vehicle fleet by age (retirement management). Other goals include improving the level of service, reducing delivery time, and revising the frequency of delivery for each format and the goods acceptance process.

Staff development

The revised strategy of "Magnit" calls for a greater focus on maximizing customer satisfaction and developing a multi-format business system. Meeting these challenges requires a comprehensive update of the Company's competency map and system of corporate values. The most sought-after competencies are skill sets in marketing (studying customer demand), category management, supply chains, and digitalization. The Magnit's regional management model is also changing and requires the development and training of strong independent regional teams.

Preparation for the qualitative renewal of the "Magnit" team began in 2018. The Company launched initiatives to establish a new Employee Value Proposition (EVP) in order to modernize incentive models and career development principles, create a positive working environment, alter the architecture of the working space, and ultimately form an updated set of values that are consistent with the Company's strategic objectives and will make the Company an attractive employer. In particular, we launched a project to develop an employer brand for various employee target audiences as well as a project to establish the values of the new "Magnit". Both projects have been completed in March 2019 and will form the basis of the operational HR strategy that will be formulated by May 2019.

Employee structure

Number of employees as of the end of 2018, thousand people

| | 2016 | 2017 | 2018 |
|---------------------------|---------|---------|---------|
| Total number | 271,369 | 276,290 | 297,746 |
| Head Office employees | 11,151 | 11,992 | 11,347 |
| Regional branch employees | 14,077 | 13,161 | 13,899 |
| Store personnel | 207,810 | 211,498 | 231,836 |
| Logistics Unit | 35,651 | 36,461 | 36,834 |
| Other | 2,680 | 3,178 | 3,830 |

Number of employees increased by 7.8% compared to the previous year due to the new store openings (the number of stores increased by 12.5% year-on-year) and the purchase of the pharmaceutical distributor SIA Group in late 2018. The average employee age remains stable at 35 years.

Distribution of employees by gender, %

| | 2016 | 2017 | 2018 |
|--------|------|------|------|
| Female | 69% | 70% | 74% |
| Male | 31% | 30% | 26% |

Proportion of employees with over five-year tenure

| Employment tenure | 2016 | | 2017 | | 2018 | |
|-------------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | Number of people | Proportion, % | Number of people | Proportion, % | Number of people | Proportion, % |
| Over 10 years | 5,618 | 2 | 8,430 | 3 | 11,337 | 4 |
| Over 5 years | 45,867 | 19 | 53,647 | 22 | 58,835 | 20 |

Employee structure by category, people

| Category | 2016 | 2017 | 2018 |
|----------------------------------|---------|---------|---------|
| Managers | 9,801 | 10,127 | 9,767 |
| Specialists and office employees | 89,773 | 83,194 | 87,152 |
| Workers | 171,795 | 182,969 | 200,827 |

Number of jobs created in 2018¹

| Region | |
|----------------------------------|--------------|
| Caucasus | 446 |
| Southern | 149 |
| North-west | 1,367 |
| Black Earth | 117 |
| Privolzhsky | 51 |
| Moscow | 1,964 |
| Ural | 2,330 |
| Siberian | 1,632 |
| Total in-house production | 958 |
| Total | 9,014 |

Recruiting principles

The Company's vacancies are publicly available on its official website and on the other job search websites. The main source of information about vacancies at the Company is Magnit stores, which advertise when hiring new employees. Linear hiring is managed internally by the Company's employees, which ensures a high level of efficiency and quality of recruitment. In 2018, the Company hired approximately 106,000 people in the retail segment and 16,000 people in logistics. As part of the management team renewal program at the district and branch levels, 151 managers at the CEO-1, -2, and -3 level were brought on staff over the last half of the year.

The Company hires candidates from related industries without limiting itself to grocery retail and provides them with training opportunities within the company.

Priorities for selecting candidates include:

- strong leadership,
- the ability and willingness to develop professionally,
- customer centricity,
- teamwork skills,
- a systematic approach,
- a high level of responsibility,
- speed in decision-making in uncertain conditions,
- an ability to manage widely scattered objects.

1. Excluding SIA

During the selection process, preference is always given to in-house candidates who must be evaluated and have the opportunity to prove themselves. Since July 2018, assessment centers have been used to evaluate 217 managers: 109 managers at the CEO-2 and -3 and Head Office levels and 108 managers at the Regional Director level.

The recruitment process is governed by the Employee Recruitment Regulations, which describe the general rules for recruitment, staffing requirements, the recruitment stages, the procedure for interacting with units involved in recruitment, and the timeframe for filling vacancies.

Development of leadership skills and the talent pool

In 2018, the Company launched a corporate training program for managers and specialists called the Magnit Business Academy (MBA).

The MBA includes several specialized departments:

- the MBA for branch directors,
- MBAadvp for regional managers of the Development and Launch Directorate,
- MBApro for district and branch network directors.

Training is conducted in Sprint format, with each Sprint lasting up to three months and including: pre-training preparation, intensive on-the-job training with internal and external expert coaches, and the post-training phase.

In 2018, 145 managers underwent the first short-term training programs within the MBApro and MBA departments. The MBAcadmen department began training 180 employees. Two new departments are in the design stage. The Company plans to organize training for 700 employees in 2019.

The Company has a well-established system for promoting and training its internal talent pool for management positions in retail. A total of 35,190 people underwent assessments and the training program under this system in 2018. As of the start of 2019, the retail talent pool included 2,176 employees who are ready to be appointed to new positions.

In 2018, "Magnit" spent RUB 19.3 million on employee training (including store positions, office positions, and executive positions). The training program budget is expected to more than double in 2019 to RUB 45.2 million.

Incentive system

Management KPIs

In 2018, "Magnit" launched a project to develop a unified performance management system and also introduced a short-term KPI-based remuneration system for managers at the level of department director and above. The Company switched this category of managers to a targeted bonus structure (short-term incentive, or STI), developed and introduced KPIs, and created KPI Maps. Thirty percent of the bonuses for all managers at this level depend on their fulfillment of three main goals: revenue, LFL, and EBITDA. The rest depends on the functional and projected KPI that must be achieved to meet the Company's strategic objectives.

Employee incentive scheme

The Company introduced a new employee incentive scheme that aims at improving efficiency of the store opening and modernization process.

The "Magnit" incentive scheme seeks to ensure that employees in various professions maintain a high level of engagement and focus on achieving the Company's goals.

With this in mind, the Company developed a Regulation on Long-Term Incentives (LTI) for key employees of JSC "Tander". The program includes 50 senior executives who have the greatest impact on the Company's business results. The LTI program provides incentives to fulfill two key objectives: boosting capitalization and EBITDA in absolute terms. The amount of remuneration is tied to stock prices and is offered in the form of shares and options.

Incentives for in-store personnel depend on the store's turnover and the quality of business processes. Salaries for in-store employees are consistent with the regional labor market and varies depending on the region of presence. The average salary in 2018 was RUB 33,987.

The Company is developing the 'Magnit-Idea' project in which employees develop their own creative potential and their best ideas are introduced into the Company's operations.

In 2018, "Magnit" employees proposed 1,133 ideas, with 39 being deemed viable. Two ideas were introduced, while another three ideas are in the process of being implemented.

"Magnit" regularly holds corporate events and motivational programs that aim to:

- develop corporate culture and team spirit;
- recognize personal and professional achievements;
- promote sports and inform employees about a healthy lifestyle.

More than 10,000 head office employees have all necessary sports equipment and facilities available and have an opportunity to participate at municipal sporting events.

In October 2018 the company launched the 'Magnit Health' project aimed at all head office employees. Now there is a pharmacy at the "Magnit" head office, injection treatments are available at the medical rooms upon a doctor's prescription, and the Company offers mass flu vaccinations. Specialists from the Mobile Health Center of the Medical Preventive Care Center conducted a free thorough examination of "Magnit" employees.

The Company annually celebrates the professional achievements of its workers and presents departmental and in-house professional awards to its best employees.

Employees rights

All internal regulations governing relations with employees are based on the norms of the Labor Code of the Russian Federation and take into account the principles of equal opportunity, fairness, and the personal development of employees. In accordance with the PJSC "Magnit" Business Ethics Code, the Company adheres to the concept of full transparency of staff management procedures, payroll calculation and payment, incentives for employee performance, and social measures that aim to ensure comfortable working conditions for employees of all departments.

The Business Ethics Code prohibits any preferences based on nationality, gender, age, religion, disabilities, sexual orientation, or political beliefs.

The incentive systems for the Company's employees are not dependent on gender, age, or nationality and are based solely on job performance. Salary is set by position.

If an employee feels that he/she is being treated in a biased manner, the employee can contact the Employee and Applicant Complaints Review Commission to initiate a thorough investigation of the matter. The Commission objectively reviews each request received from an employee or applicant via the Company's Hotline.

After the complaint is reviewed, the Commission decides whether to take administrative action against the guilty parties or whether to modify the technologies, rules, and standards used by the Company in order to resolve conflicts, reduce social tensions in the workforce, and develop a culture of respect for the employee.

Youth outreach

"Magnit" engages in long-term cooperation with educational institutions in an effort to attract young professionals and create a talent pool. The Company has signed contracts with such leading educational institutions of the Krasnodar Territory as Kuban State University, Kuban State Technological University, Kuban State Agrarian University, Kuban State Medical University, the Academy of Marketing and Social Information Technologies, the Kuban Institute of Professional Education, Krasnodar College of Electronic Instrumentation, the Russian University of Cooperation, and the Financial University under the Government of the Russian Federation.

In 2018, 633 students took part in master classes, 121 students completed on-the-job training (27 were hired), and 50 students held an internship at the Company (27 were hired).

The Company launched the 'Magnit Environment' series of educational master classes within the youth environment in 2018 in order to develop students' professional skills. During the master classes, leading "Magnit" specialists share their knowledge and shed light on the specifics of working in different parts of the chain.

In 2018, "Magnit" launched a new project: the 'Magnit – New Generation' on-the-job training and internship programs, which aim to attract promising students with industry-specific specializations to help solve the challenges facing the company. On-the-job training and internships are designed to train open-minded employees with a positive workplace attitude for specific job functions. Students have the opportunity to select their optimal participation format: on-the-job training (which lasts 2-4 weeks, involves performing "operator's tasks," and is unpaid) or internship (which lasts 1-3 months, involves project activities, and is paid). In 2018, "Magnit" organized a business game on the theme of 'Retail-2030' for students from the Krasnodar universities.

Social package

The structure and the scope of the social package will be modified due to the revision of the staff management strategy. In 2018, in addition to paying monthly salaries, the Company provided financial assistance for people facing difficulties in their lives, medical care, discounts on various services, and compensated relocation expenses for certain categories of employees.

Subsidised canteen and a free corporate gym are available for the head office employees.

The Company plans to provide 15,000 employees with private health insurance in 2019 and introduce other benefits for each category of employees.

Social projects

Vysshaya Liga marathons

"Magnit" became a partner of two marathons organized by the "Vysshaya Liga" company: 'City 225' in Krasnodar and the Sochi Marathon. The event participants and guests received branded "Magnit" lunch boxes and t-shirts with the 'Magnit Health' logo.

"Magnit" employees were presented with an award as the largest corporate team. A total of 179 athletes took part in the marathons, including 96 adults and 83 kids.



'Sales Day'

The 'Sales Day' initiative was further developed in 2018. During the busiest shopping days of the year or before a store opens, office employees come to the stores and help out the store staff. As a result, the office employees get a practical impression about some of the special aspects of retail work and can see how their standards and processes are being applied in practice. Meanwhile, the stores receive help and the opportunity to make suggestions to managers while bypassing administrative barriers.

The initiative peaked in the busy season of December 2018 when 10,710 office employees took part in the initiative (bringing the total to 11,197 for the year). A total of 4,844 stores participated in the project.



Health and safety

Magnit complies with all requirements of the legislation of the Russian Federation and other regulations concerning health and safety. The Company has developed and introduced policies that regulate the organization of labor, health, and industrial safety.

The existing health and safety management system covers all the Company's divisions and is also used when collaborating with subcontractors involved in the Company's production processes.

Strategic goals of health and safety:

- Protecting the health of employees and providing them with the safe working conditions;
- Reducing injuries and preventing emergencies and accidents.

Key procedures used to achieve these goals:

Assessment of working conditions

| Index | 2016 | 2017 | 2018 |
|--|--------|--------|--------|
| Number of enterprises covered by the assessment of working conditions | 88 | 94 | 169 |
| Number of employees covered by the assessment of working conditions | 49,829 | 50,304 | 34,192 |
| Number of employees in workplaces who fail to comply with regulatory occupational safety requirements ² | 1,504 | 1,804 | 2,151 |

In order to improve workplace management productivity, the Occupational Safety Service introduced, developed, and implemented the following new functions in 2018:

- work in the risk elimination system;
- a set of measures to reduce workplace injuries;
- preparation for inspections by the Inspectorate-General for Labor using check lists that were introduced in June 2018;
- organizing the work of the LLC "TK Zelenaya Liniya" and LLC "TD-holding" (integrated into the occupational safety system);
- obtaining feedback from the sales unit;
- forecasting the risk of workplace injuries (during sales peaks and different seasons);
- an initiative to amend legislation.

- strict compliance with the requirements of the labor legislation of the Russian Federation;
- drafting and implementing in-house health and safety policies and procedures;
- organizing health and safety training for 100%¹ of employees;
- continuously monitoring employees' compliance with health and safety standards;
- ensuring employees are provided with mandatory personal protective gear and compliance certificates;
- implementing a set of preventive measures to reduce the level of workplace injuries;
- investigating accidents, analyzing their causes, and developing and introducing preventive measures to prevent workplace injuries;
- conducting a special assessment of working conditions for 100% of the Company's workplaces.

The Company has an employee incentive system for health and safety and a lack of workplace injuries. The incentive-based portion of a manager's salary directly depends on the number of workplace injuries that occur within the unit overseen by the manager.

In 2018, the Company:

- provided workers with proper personal protective gear and compliance certificates;
- conducted preliminary and periodic medical examinations of employees;
- provided health and safety training for its employees;
- conducted a special assessment of working conditions in the workplace.

1. Data in this section is given for 89% of Magnit employees as of December 31, 2018 since statistics are not maintained for all companies of the Group.

2. The number of workplaces with harmful working conditions class 3.1 based on the results of a special assessment of workplace working conditions

Health and safety expenses of PJSC "Magnit", RUB thousand

| Index | 2016 | 2017 | 2018 |
|---|---------|---------|---------|
| Providing employees with personal protective gear | 186,661 | 210,703 | 150,559 |
| Measures to improve working conditions | 294,037 | 39,967 | 5,722 |
| Measures to prevent occupational diseases | 124,824 | 76,116 | 62,702 |
| Measures to reduce injuries and prevent accidents | 13,660 | 5,268 | 348 |
| TOTAL | 619,182 | 332,054 | 219,331 |

The health and safety management system covers 100% of the Group's employees. A total of 225,360 employees received health and safety training in 2018. As part of preventive measures to reduce the level of workplace injuries, the Company held unscheduled health and safety briefings and training, updated its health and safety policies and procedures, and conducted a special assessment of working conditions. Compliance with health and safety requirements is monitored internally on an ongoing basis. Information on any deviations that are identified is sent to the director of the enterprise in the form of a plan on how to eliminate shortcomings.

Based on the results of inspections by the Inspectorate-General for Labor, the number of health and safety violations declined by 12.5% and the total amount of fines decreased by 71.5% in 2018.

Magnit devotes significant attention to work that aims to reduce workplace injuries and regularly monitors compliance with health and safety requirements in production activities. In 2018, accidents were investigated, the responsible parties were identified, the causes of the risk were established, and measures were taken to prevent similar incidents in future activities.

The workplace injury rate decreased by 17% compared with 2017.

Workplace injury rate¹

| | All accidents (including fatal accidents) | | Fatal accidents | | Accidents with severe health consequences |
|------|---|--------------------|-----------------|--------|---|
| | number | ratio ² | number | ratio | number |
| 2016 | 223 | 0.5003 | 5 | 0.0112 | 29 |
| 2017 | 198 | 0.3993 | 5 | 0.0101 | 28 |
| 2018 | 168 | 0.3392 | 5 | 0.0101 | 22 |

Data given for all employees, including independent contractors, working on the territory of the Company's facilities at which the Company is responsible for ensuring safe working conditions.

Company's plans for 2019:

- enhance the level of professional training for health and safety employees;
- minimize the workplace injury rate at distribution centers and vehicle fleet enterprises;
- conduct a special assessment of working conditions at 100% of the Company's workplaces;
- utilize the concept of financial support provided by the Social Insurance Fund of the Russian Federation for preventive measures to reduce workplace injuries and occupational diseases among the Company's employees;
- provide all the Company's units with documentation on occupational safety issues.

1. Data given for all employees, including independent contractors, working on the territory of the Company's facilities at which the Company is responsible for ensuring safe working conditions.

2. Injury rates are calculated using the following formula: $FF=I/E*1000$

Environmental safety

Magnit's environmental policy is built on a balanced combination of economic growth and maintaining a favorable environment. The Company is committed to taking care of the environment, which offers significant opportunities to enhance the efficiency of its development, reduce costs, and, in some cases, generate additional profit.

The Company's environmental policy is based on the Constitution of the Russian Federation, federal laws and other regulatory legal acts of the Russian Federation, international regulatory and legal documents concerning environmental protection, and sustainable use of natural resources.

Magnit fulfills the following obligations and demands the same from its partners, contractors, and counterparties:

- guarantee compliance with environmental standards and requirements established by the legislation of the Russian Federation and international legal acts concerning environmental protection;
- ensure a reduction in any negative environmental impact and conserve resources;
- guarantee compensation for any possible environmental damage;
- take preventive measures to preclude any negative environmental impact, which takes priority over measures to mitigate the consequences of such an impact;
- improve the energy efficiency of production processes;
- ensure the Company's employees are involved in activities to reduce environmental risks and continuously improve the environmental management system and environmental protection indicators.
- raise the level of awareness and competence among the Company's employees when it comes to addressing environmental protection issues.

- take part in environmental programs and projects that aim to preserve a favorable environment in the regions where the Company operates.

Mechanisms for meeting environmental policy commitments

The main mechanisms used to meet the Company's environmental policy commitments are:

- carrying out industrial environmental control and monitoring and conducting an environmental impact assessment of the Company's operations;
- mandatory recording of environmental aspects and risk assessment when planning activities as well as developing and implementing projects;
- implementing innovative projects that aim to improve energy efficiency and utilizing renewable energy sources and unconventional energy resources;
- maximizing the use of waste as secondary raw materials and energy resources;
- utilizing the best available technologies during various stages of production activities, including the procurement of technologies, materials, and equipment;
- involving all the Company's employees in activities related to the environmental management system;
- improving the environmental education system for the Company's employees;
- collaborating with organizations and individuals that are interested in improving environmental safety at the Company;
- informing all persons who work for the Company or on its behalf, including contractors working at the Company's facilities, about its environmental policy commitments.
- taking part in environmental programs and projects that aim to preserve a favorable environment.

Energy conservation and efficiency¹

Magnit's Energy Conservation and Efficiency Enhancement Program (ECEEP)

| Projects | Measures |
|---|---|
| Lean energy consumption at the Company's facilities | Automated shutdown of electrical loads in convenience stores at night; introduction of lighting control |
| | Switching to LEDs at all the Company's existing facilities by 2020 |
| | Disconnection of unused/rarely used energy-consuming equipment at the Company's facilities; switching climate and refrigeration systems to energy saving mode |
| Work with tariffs | Improving the energy conservation culture among staff |
| | Selecting the best price category for the convenience store, "Magnit Cosmetic", "Magnit Family" supermarket, and Distribution Center formats |
| | Signing of direct contracts for heat and electricity |
| Reducing fuel consumption | Disconnecting refrigeration equipment during the most expensive tariff hours in the Distribution Center format |
| | Development of internal power generation: construction of energy centers |
| | Use of gas piston power units (GPPU) with a heat recovery system for heating needs |
| Process automation | Construction of gas boilers for the Company's facilities |
| | Converting solid fuel heating system to gas |
| | Introducing an automated information and measurement system for commercial electricity metering (AIMS CEM) and an automated information and measurement system for commercial heat and heat carrier metering (AIMS CHHCM) |

The following energy conservation and efficiency projects were implemented in 2018:

- Introduction of new technologies

replacement of light fixtures with LED lights in the supermarket shopping area, administrative building, distribution centers, supermarket and "Magnit Cosmetic" utility rooms, and warehouses and shipping rooms of the distribution center

- Conversion and modernization of equipment

automatic control device for the curtain heater in the unloading area of the "Magnit" convenience store and "Magnit Cosmetic" formats

- Changes to the operating model

shutdown of certain retail equipment in the supermarket format to conserve energy;

switching energy-consuming equipment to energy-saving mode;

changes in the exterior lighting control circuits in the "Magnit" convenience store and "Magnit Cosmetic" formats;

increasing the temperature in refrigerating chambers and cooling rooms of the distribution center by 2°C

- Employee outreach

conducting training events at the Company's facilities.

1. All figures are for the group of companies

Changes in fuel consumption by the Group's enterprises

| Fuel types | Total fuel consumption | | |
|-----------------------------|------------------------|-------------|-------------|
| | 2016 | 2017 | 2018 |
| Diesel fuel, t | 187,424,202 | 165,931,088 | 162,401,920 |
| Gasoline, t | 15,615,499 | 15,976,296 | 12,008,559 |
| Natural gas, m ³ | 183,777,157 | 182,699,112 | 203,422,886 |

Fuel consumption for transportation was reduced as a result of improved fuel efficiency and the optimization of fuel consumption rates.

Indicators of the Group's Energy Conservation and Efficiency Enhancement Program

| Energy intensity, gf/kWh | Measurement units | 2016 | 2017 | 2018 |
|--|---------------------------|--------|--------|-------|
| Specific fuel consumption for power generation | grams of fuel/kW per hour | 285 | 285 | 285 |
| Specific fuel consumption for heat generation | grams of fuel/kW per hour | 156 | 156 | 156 |
| Energy consumption reduction | | | | |
| Total reduction in fuel and energy consumption that was achieved as a direct result of energy conservation and energy efficiency initiatives | TOE | | | |
| | mIn kWh | 221.0 | 247.9 | 217.6 |
| | Gcal | 69,209 | 88,109 | 5,554 |

Energy expenditures by the Group's enterprises in 2016–2018, RUB mln

| Type of energy resource | 2016 | 2017 | 2018 |
|-------------------------|----------|----------|----------|
| Thermal energy | 1,441.4 | 1,444.0 | 1,926.4 |
| Electricity | 11,357.2 | 12,878.1 | 11,935.7 |
| Natural gas | 1,042.6 | 1,088.3 | 1,272.3 |

Information about energy resources used by PJSC "Magnit" in 2018¹

| Type of energy resource | Volume used in physical terms | Volume used in monetary terms, RUB thousand |
|-------------------------|---------------------------------|---|
| Thermal energy | No quantitative accounting kept | 724.3 |
| Electricity | No quantitative accounting kept | 1,121.8 |
| Natural gas | No quantitative accounting kept | 155.8 |

Efficient use of resources

Water consumption (m³)

| | 2016 | 2017 | 2018 |
|--|-----------|-----------|-----------|
| municipal and other water supply systems | 7,169,473 | 7,080,007 | 5,770,296 |

the introduction of measures aiming at efficient use of resources (aeration caps on water supply taps) helped to reduce consumption.

The Company regularly carries out separate waste collection (waste paper, polyethylene, plastic, wooden containers, scrap metal, etc.) and recycles waste.

Magnit enterprises employ modern methods for the treatment of household and surface (rain and melt) wastewater. Wastewater is mechanically treated before being discharged into centralized networks. Domestic wastewater undergoes mechanical, physical, chemical, and biological treatment before being released into water bodies. Surface wastewater undergoes mechanical, physical, chemical, and sorption treatment.

1. PJSC "Magnit" did not use or consume other types of energy resources other than those indicated in the table in the reporting year.



04.

**CORPORATE
GOVERNANCE**

Statement by members of the Board of Directors

As the Company aims to maximize its investor appeal, PJSC "Magnit" is committed to comply with the international best practice in corporate governance.

The Company undertakes to maintain a robust corporate governance system by consistently upgrading and improving the system.

PJSC "Magnit" fully complies with the requirements of securities laws, joint-stock companies' laws, as well as other legislation and regulations.

The Company complies with the principles of the Corporate Governance Code endorsed by the Bank of Russia, aiming to achieve a meaningful balance between the interests of the Company's business and its position of a joint-stock company, as well as seamless collaboration between the Company's shareholders and its management.

Board of Directors of PJSC "Magnit"

Corporate governance system

In matters concerning corporate governance, PJSC "Magnit" is guided by the requirements of Russian and UK laws, Moscow Exchange and London Stock Exchange listing rules, the recommendations of the Corporate Governance Code as well as Russian and international best practice in corporate governance and corporate disclosure.

The Company's corporate governance system is developing fast. Today, it includes all the key components that are standard for major public companies with a developed governance framework. By improving its corporate governance system PJSC "Magnit" aims to reassure its shareholders and investors that the Company scrupulously implements its approved strategy and decisions.

Magnit is consistently improving the level of its compliance with the Corporate Governance Code and systematically benchmarks its compliance with other public companies.

Compliance with the principles and recommendations of the Corporate Governance Code¹

| Corporate governance principles | Number of principles recommended by the Code | 2016 | | | 2017 | | | 2018 | | |
|---|--|---------------|-------------------------|-------------------|---------------|-------------------------|-------------------|---------------|-------------------------|-------------------|
| | | Complied with | Partially complied with | Not complied with | Complied with | Partially complied with | Not complied with | Complied with | Partially complied with | Not complied with |
| Shareholder rights and equal conditions for shareholders to exercise their rights | 13 | 8 | 2 | 3 | 9 | 2 | 2 | 9 | 2 | 2 |
| Board of Directors | 36 | 30 | 4 | 2 | 31 | 3 | 2 | 33 | 1 | 2 |
| Corporate Secretary | 2 | 2 | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 0 |
| Remuneration system for members of the Board of Directors and senior Company executives | 10 | 7 | 2 | 1 | 7 | 2 | 1 | 7 | 3 | 0 |
| Risk Management and Internal Control System | 6 | 6 | 0 | 0 | 6 | 0 | 0 | 6 | 0 | 0 |
| Corporate disclosure | 7 | 4 | 3 | 0 | 4 | 3 | 0 | 4 | 3 | 0 |
| Significant corporate actions | 5 | 3 | 2 | 0 | 3 | 2 | 0 | 3 | 2 | 0 |
| TOTAL GRADE | 79 | 60 | 13 | 6 | 62 | 12 | 5 | 64 | 11 | 4 |
| | 100% | 76% | | | 78% | | | 81% | | |

A detailed report on compliance with the principles and recommendations of the Code is provided in Appendix 167 to this report.

1. Statistics provided based on a report on compliance with the principles and recommendations of the CGC prepared on the basis of Recommendation Letter No. IN-06-52/8 from the Bank of Russia dated February 17, 2016.

Improving corporate governance

PJSC “Magnit” corporate governance system was designed and structured to conform with the existing laws of the Russian Federation and the Company’s Charter, to comply with the key Russian and international corporate governance standards, and to support a positive image of the Company as perceived by its shareholders, customers, and employees. PJSC “Magnit” constantly implements new methods and concepts to replace old practices that no longer meet modern requirements.

In 2018, the Company’s corporate governance system underwent significant changes, for example:

- the Board of Directors elected an independent director as its Chairman;
- the Board of Directors set up new dedicated committees: the Strategy Committee and the Financial Markets Committee;
- at the Annual General Meeting, the shareholders approved the Regulation on the Board of Directors of PJSC “Magnit,” which set the fixed remuneration as the

only form of financial compensation of the members of the Board of Directors for their work during the reporting period;

- the Company introduced an equity-based long-term incentive program for members of the executive bodies and other senior managers. This program was approved by the Board of Directors at its meeting on September 25, 2018.¹

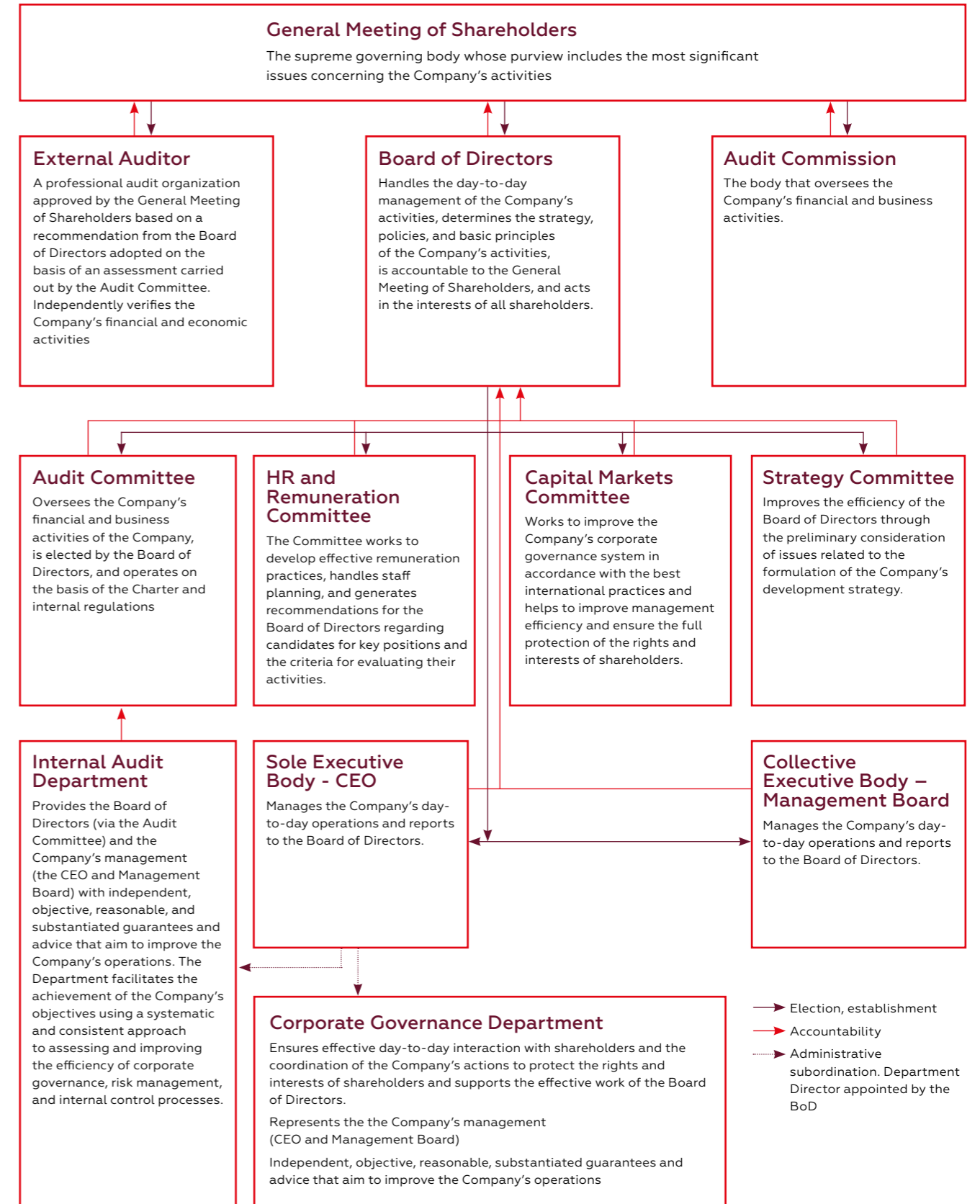
These important changes have brought the Company’s corporate governance framework a few steps closer towards full compliance with the recommendations of the Corporate Governance Code, aiming to improve the governance and ensuring the Company’s long-term, sustainable development.

By the end of 2019, the Company plans to bring its Charter and some of its corporate policies, particularly covering the information and disclosure practices and functions of the Board of Directors, in closer compliance with the recommendations of the Corporate Governance Code.

1. Unnumbered minutes dated September 26, 2018

Structure of corporate governance bodies

Chart of corporate governance bodies



The Company's highest decision-making body is the General Meeting, representing all the Company's shareholders. The Board of Directors, which is elected by the shareholders at the General Meeting and is accountable to them, provides strategic oversight and monitors the activities of the executive bodies: the CEO (Chairman of the Management Board) and the Management Board.

The executive bodies handle the day-to-day management of the Company and perform the tasks assigned to them by the shareholders and the Board of Directors.

The Company has built up robust systems of corporate governance and internal control of its financial and economic activities in order to protect the rights and legitimate interests of its shareholders.

The Board of Directors has an Audit Committee, which, along with the Internal Audit Department, helps the management bodies ensure the efficient operation of the Company, including the organization and functioning of the internal control and risk management system. The Audit Commission monitors the Company's compliance with legal and regulatory acts and the legality of operations.

In order to verify and confirm its financial statements, PJSC "Magnit" engages an external auditor that has no material interests with the Company or its shareholders.

The Human Resources and Remuneration Committee of the Board of Directors provides recommendations on key appointments and management incentives.

The Capital Markets Committee of the Board of Directors has been established in order to ensure high quality communication with investors, coordinate the Company's effort in protecting the rights and interests of shareholders, and provide capital markets feedback to the Board of Directors.

The Company is committed to timely, complete and reliable disclosure of information about its financial position, operational performance, and asset changes enabling its shareholders and potential investors to take informed decisions regarding the Company's stock.

The Company discloses its information in accordance with the requirements of Russian legislation as well as the UK Financial Conduct Authority's (FCA) Handbook of Rules and Guidance. The Company operates a procedure for Access to Insider Information; it has implemented the rules for protecting the confidentiality of insider information and monitors compliance with the legal requirements on preventing misuse of insider information and market manipulation.

General Meeting

The Company's shareholders participate in the Company's governance by voting on resolutions at the General Shareholders Meetings voting casts significant influence over the Company's business. The approval of the Annual Report and accounting statements, the distribution of profit, including dividend payments, the election of the Company's key management and oversight bodies, approval of major and related party transactions, as well as other important issues, all require shareholder approval at the General Meetings.

The procedure for the General Meeting aims to ensure the observance of the shareholder rights and meets all the relevant laws and regulations of the Russian Federation and the applicable legislation of the United Kingdom of Great Britain and Northern Ireland and the European Union. United Kingdom. Процедура проведения общего собрания акционеров направлена на обеспечение соблюдения прав акционеров и отвечает всем требованиям законодательства Российской Федерации.

Shareholders of PJSC "Magnit" held three General Meetings in 2018: two extraordinary general meetings (EGMs) and one annual general meeting (AGM) at which, among other items, the following key resolutions were adopted:

| GM and date | Quorum | Key resolutions |
|-----------------------------|--------|--|
| EGM April 19, 2018 | 71.73% | • Election of the new Board of Directors |
| AGM June 21, 2018 | 69.28% | • Approval of the distribution of profit (including the payment (declaration) of dividends) based on the results of the 2017 reporting year. • Approval of new versions of the Charter, the Regulation on the General Meeting of Shareholders, the Regulation on the Board of Directors, and the Regulation on the Collegial Executive Body (Management Board). |
| EGMS December 5, 2018 | 60.33% | • Payment of dividends on PJSC "Magnit" shares based on the results of the first 9 months of the 2018 reporting year |

Board of Directors

Role of the Board of Directors

The Company's Board of Directors is the key component of the corporate governance system of PJSC "Magnit". It represents the interests of all shareholders, and it is responsible for growing the Company's shareholder value by putting in place impactful management structures.

The Board of Directors devises and implements corporate governance practices and provides general direction of the Company's business, by setting strategic goals and priorities.

Independent directors make up the majority of the Board of Directors (five out of seven members). The current members of the Board of Directors have extensive expertise in such areas as finance, retail, strategy, technology, and corporate governance. The proportion of independent directors and the directors' skillset are balanced in such a way so as to ensure high standards of integrity and a strategic focus on increasing the Company's shareholder value.

Introduction and training of members of the Board of Directors

When newly elected, members of the Magnit Board of Directors undergo an induction program, which includes the following:

- meetings with members of the Management Board and the Company's senior executives,

- an introduction to the Company's history, strategy, corporate governance system, risk management and internal control system, the distribution of responsibilities between the Company's executive bodies, and the work of the Board of Directors,
- familiarization with the Company's documents: the latest annual reports, the minutes of Annual and Extraordinary General Meetings of Shareholders, the minutes of meetings of the Board of Directors, and other relevant information about the Company's activities.

Members of the Board of Directors

The Board of Directors includes individuals with an impeccable business and personal reputation who possess the knowledge, skills, and experience that are necessary for taking decisions in their capacity of members of the Board of Directors.

The current members of the Board of Directors fully meet its needs in terms of their professional qualifications, experience, and business skills.

The current Board of Directors is well-balanced in terms of the status of directors, their age, nationality, nomination by shareholders, and skillset, and its composition corresponds well with the sector specifics and scale of Magnit's business operations and objectives, as well as the interests of its shareholders.

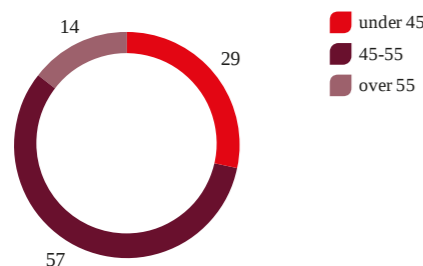
Composition of the Board of Directors

| Full name | Date of first meeting | Age ¹ | Status ^{2,3} | Participation in meetings of the Board of Directors | Chairmanship in the committees of the Board of Directors | | | |
|-----------------------|-------------------------|------------------|---|---|--|---------------------|----------|-----------------|
| | | | | | Audit | HR and Remuneration | Strategy | Capital Markets |
| Charles Ryan | 19.04.2018 | 52 | Chairman of the Board of Directors, INED | 13/14 | | | | + |
| Paul Foley | 19.04.2018 | 60 | Deputy Chairman of the Board of Directors, INED | 13/14 | | + | C | C |
| Gregor Mowat | 19.04.2018 | 47 | INED | 13/14 | C | | | |
| James Simmons | 19.04.2018 | 41 | INED | 13/14 | + | C | + | |
| Alexander Prysyzhnyuk | 19.04.2018 ⁴ | 46 | INED | 14/14 | + | + | | |
| Alexey Makhnev | 19.04.2018 ⁵ | 43 | NED | 13/14 | | | + | + |
| Tim Demchenko | 19.04.2018 | 45 | NED | 14/14 | | | | |

(+): Member of the committee

(C): Chairman of the committee

Age of BD members



Status of directors



1. As of December 31, 2018.

2. NED (non-executive director), INED (independent non-executive director)

3. the ratio (X/Y) indicates the number of meetings, in which the director participated (X) out of the total held (Y)

4. Was a member of the Board of Directors of PJSC "Magnit" in the period from April 1, 2004 to June 25, 2008

5. Was a member of the Board of Directors of PJSC "Magnit" in the period from June 25, 2009 to June 5, 2015



Charles Ryan
 Chairman of the Board of Directors

Age 52¹

Education:

- 1989 - Harvard University (Bachelor of Arts, Faculty of Arts and Sciences, Public Administration)

Current Employment: 2008 - Present / UFG Asset Management (Chairman)

Current membership in the Board of Directors

- 2004-present – Director, UFG Investors LP
- 2005-present – Member of the Board of Directors, PGI Plc
- 2006-present – Member of the Advisory Council, American-Russian Business Council
- 2007-present – Co-Founder and Main Partner, Almaz Capital Partners
- 2008-present – Member of the Advisory Commission, Capital Group International
- 2009-present – Member of the Board of Directors, Trans-Siberian Gold plc
- 2011-present – Director, World Affairs Council Philadelphia
- 2011-present – Member of the Board of Directors and Chairman of the Audit Committee, Yandex N.V.
- 2012-present – Member of the Advisory Board, Harvard University Global Advisory Council
- 2013-present – Co-Founder and Member of the Board of Directors, Liberty Energy Trust
- 2014-present – Member of the Board of Directors, Jensen Management I Limited
- 2016-present – Member of the Board of Directors, Acumatica
- 2016-present – Member of the Management Board, Northstar Industries, LLC
- 2018-present – Member of the Board of Directors, Ozon Holding LLC
- 2018-present – Chairman of the Board of Directors, PJSC "Magnit"
- 2018-present – Member of the Board of Directors, Acronis

1. As of 31.12.2018

Biography:

Charles Ryan's distinguished financial career combines top level expertise and deep knowledge of both Russian and international markets.

Mr. Ryan began his professional career in 1989 with CS First Boston, where he was a Financial Analyst. From 1991 to 1994, Mr. Ryan was an Associate and Principal Banker with the European Bank for Reconstruction and Development in London, where he played a crucial role in the city of St. Petersburg's privatization program for industry and real estate. In 1994, Mr. Ryan co-founded the United Financial Group, an independent investment bank in Moscow. United Financial Group was a founding member of such key market institutions as RTS (now part of the

Moscow Exchange) and Investor Protection Association. UFG Asset Management was founded as part of the United Financial Group in 1996.

In 2005, when Deutsche Bank acquired 100% of UFG's investment banking business, Charles Ryan was appointed as the Chief Country Officer and CEO of the Deutsche Bank Group in Russia. He stepped down as the CEO of Deutsche Bank in Russia in September 2008 and in October 2008 became the Chairman of UFG Asset Management. In addition to his role as the Chairman, Mr. Ryan is also responsible for the overall management of UFG's private equity business.

**Paul Foley***Deputy Chairman of the Board of Directors***Age 60¹****Current membership in the Board of Directors**

- 2012 – present / Foley Retail Consulting - Founder, Managing Partner
- 2014-present – Advisor to the Board of Directors, BelWillesden
- 2016-present – Member of the Board of Directors, Voli Trade D.O.O.
- 2017-present – Member of the Board of Directors, AHT Cooling Systems GmbH
- 2018-present – Member of the Board of Directors, PJSC “Magnit”

Biography

Paul Foley is the Founder and Managing Partner of Foley Retail Consulting GmbH in Europe. Paul is currently serving on the board at GIPPO Hypermarkets in Belarus, VOLI in Montenegro and AHT Cooling Systems in Austria. Paul has previous experience at board level with Iceland Foods UK, overseeing international expansion from 2012 to 2014 and at EKO Holdings Poland, a 300-store retail business.

The main bulk of his career was 23 years at Aldi Süd, a privately held, German-headquartered global retailer, with operations in 10 countries covering Europe, US and Australia ending in 2012. During his tenure, Paul served on Aldi Süd international management board. He was the CEO for the UK and Republic of Ireland from 1999-2009 as well as identifying and implementing new business opportunities, including entry into new geographies (including Australia).

Paul started his career with Bejam Frozen Foods in 1974 and has over 40 years of experience in retail. He is fluent in English, German and Bulgarian.

• 1. As of 31.12.2018



Gregor Mowat

Member of the Board of Directors

Age 47¹

Education:

- 1994 – Durham University (Bachelor of English Language and Literature);
- 1998 – Institute of Chartered Accountants of Scotland (Member of the Institute of Chartered Accountants of Scotland).

Current membership in the Board of Directors

- 2016-present – Co-Founder and CFO, Member of the Board of Directors, Nooli UK Ltd
- 2016-present – Member of the Board of Directors, LOQBOX Savings Limited
- 2016-present – Member of the Board of Directors, DDC Financial Solutions Limited
- 2016-present – Member of the Board of Directors, Credit Improver Limited
- 2017-present – Member of the Board of Directors, Nord Gold SE
- 2018-present – Member of the Board of Directors, PJSC “Magnit”
- 2018-present – Member of the Board of Directors, AK BARS BANK PJSC

Biography

Mr Mowat spent more than 20 years working in the audit and accounting profession, mainly with KPMG. With a principal focus on banking and financial services clients, he also covered other sectors including oil and gas and natural resources.

In 2011, Mr Mowat was appointed CFO of KPMG in Russia and CIS, a role he held until 2016 and which required him to take responsibility for all the support functions in a multi-jurisdictional professional services firm with 4,000 staff. In 2013, in addition to his CFO responsibilities, Mr Mowat was appointed Managing Partner of KPMG in Kazakhstan, growing the business significantly in a challenging economic environment.

After being part of the team that set up and implemented the corporate governance for KPMG in Russia and CIS, including being a founding member of the Board of Partners, in 2016, Mr Mowat joined his family in the UK where he co-founded LOQBOX, a FinTech that provides everyone with a completely free way to build a credit payment history and learn responsible financial management while they save. LOQBOX fixes financial exclusion for the large group of people globally who are locked out of the financial system either through no fault of their own or because they have made mistakes in the past.

• 1. As of 31.12.2018



James Simmons

Member of the Board of Directors

Age 41¹

Education:

- 2000 – Princeton University (Bachelor of Information Technology);
- 2007 – Harvard Business School (MBA, Baker Scholar).

Current membership in the Board of Directors:

- 2014-present – Member of the Board of Directors, White Star 2
- 2015-present – Managing Director, Mazovia Holdings LLC
- 2015-present – Member of the Board of Directors, Clear Check Global Holdings Inc.
- 2015-present – Member of the Board of Directors, Mazovia Capital sp.z.o.o
- 2016-present – Member of the Board of Directors, Clear Check Poland sp.z.o.o
- 2016-present – Member of the Board of Directors, NXT Ventures
- 2017-present – Chairman of the Board of Directors, Digital Care Holdings LLC
- 2017-present – Managing Director, Mazovia Partners LLC
- 2018-present – Director, Mazovia DCI Ltd.
- 2018-present – Member of the Board of Directors, PJSC “Magnit”
- 2018-present – Member of the Board of Directors, MDCI Investors Ltd

Biography

Mr. Simmons began his career at Goldman Sachs in New York, working in the Investment Banking Division. In 2002, Mr. Simmons joined TPG Capital, a leading global private equity fund, in London. He participated in investments throughout Western Europe in the retail, telecom and industrial sectors. In 2007, Mr. Simmons moved to Moscow where he eventually became the co-head of TPG’s Russia & CIS business. During his tenure, TPG invested in the financial services, retail and real estate sectors. From 2011-2013, Mr. Simmons served as Chief Investment Officer of Summa Group, a diversified private holding company with significant investments in port logistics, engineering, construction, telecommunications, and the oil and gas sector. In 2014, Mr. Simmons became a co-founding partner at Mazovia Capital, an investment firm focused on corporate and real estate private equity opportunities in Eastern Europe.

• 1. As of 31.12.2018



Alexander Prysyzhnyuk

Member of the Board of Directors

Age 46¹

Education:

- 1995 – Kuban State University (Engineering and Physics).

Current membership in the Board of Directors

- 2016-present – Member of the Board of Directors, LSR Group PJSC
- 2018-present – Member of the Board of Directors, PJSC “Magnit”

Biography:

Alexander Prysyzhnyuk held various positions at Tander and Magnit from 1997 to 2009. These included CFO at Tander and Magnit, General Director of Magnit Finance, and Director of Strategic Development at Tander. He was also a Director at Magnit, Tander and Magnit Nizhny Novgorod and Director at Dixy and M.video. Today, he serves as an Independent Director of LSR Group’s Board of Directors.

- 1. As of 31.12.2018



Alexey Makhnev

Member of the Board of Directors

Age 43¹

Education:

- 1998 – Saint Petersburg State University of Economics and Finance (Economics);
- 2001 – Saint Petersburg State University of Economics and Finance (Ph.D.).

Experience:

- 2009-present – Managing Director, Investment Banking Department, VTB Capital;
- 2018-present - Advisor to the First Deputy President – Chairman of the Management Board – Senior Vice President, VTB Bank (PJSC)

Current membership in the Board of Directors

- 2015-present – Member of the Board of Directors, LSR Group PJSC
- 2017-present – Member of the Board of Directors, M.video PJSC
- 2018-present – Member of the Board of Directors, VTB Real Estate LLC
- 2018-present – Member of the Board of Directors, PJSC “Magnit”

Biography

Mr. Makhnev has almost two decades of expertise and experience with the Russian consumer and retail sector. In 2006, Mr. Makhnev was a lead member of the Deutsche Bank investment banking team that conducted Magnit IPO. For six years from 2009 to 2015 Mr. Makhnev served on Magnit’s Board of Directors.

Over the past 17 years, Mr. Makhnev has worked on a large number of consumer and retail transactions in Russia and the CIS. Almost all Russian listed companies are among Mr. Makhnev’s clients including but not limited to Magnit, Lenta, Okey, Dixy, Mvideo, LSR, Etalon, PIK, and Rusagro.

- 1. As of 31.12.2018



Tim Demchenko
Member of the Board of Directors

Age 45¹

Education:

- 1999 – London Business School (Master of Finance);
- 2016 – Harvard Business School (Executive Education).

Current Employment: 2008 – present / VTB Capital plc - Global Head of Private Equity and Special Situations

Current membership in the Board of Directors:

- 2018-present – Member of the Board of Directors, PJSC “Magnit”

Biography

- Tim has over 20 years of private equity and corporate investment experience across multiple European markets and Russia. In 2008, Tim founded VTB Capital’s Private Equity and Special Situations business. As the Head and Managing Director of the business Tim has developed investment strategy and built an international investment team based both in London and Moscow. The business has invested over US\$2 billion of capital jointly with international co-investors, and achieved successful portfolio exits, including sales to strategic investors and IPO on the LSE and NYSE, with an average internal rate of return exceeding 40%.
- Tim has lead VTB Capital private equity’s investment in the Russian hypermarket chain Lenta and served as the Chairman of the Board from the initial investment until 2010 and as a member of the Board until Lenta’s IPO on the LSE in 2014.
- Prior to joining VTB Capital, Tim was responsible for the launch of Deutsche Bank’s Private Equity business in Russia and CIS. Previously Mr. Demchenko worked for global multinational corporations (IBM and Siemens) as a senior executive based in London where he managed multiple large scale corporate investment projects. Prior to that, Tim served as an investment officer at TD Capital private equity based in London and focused on investments in the TMT sector across Europe and the US.

None of the members of the Board of Directors own Magnit’s ordinary shares or depository receipts, nor did they carry out any transactions involving the acquisition or disposal of the Company’s shares in 2018.

1. As of 31.12.2018

Report of the Board of Directors

During the course of 2018, the entire composition of the Board of Directors was replaced. As a result, two separate sets of directors consecutively carried out the Board of Directors’ responsibilities

Members of the Board of Directors (elected at the Annual General Meeting, held on 8 June, 2017, and resigned on April 19, 2018) and their participation in meetings:¹

| <i>Name of the member of the Board of Directors</i> | <i>Age²</i> | <i>Status³</i> | <i>Number of meetings attended by the member of the Board of Directors⁴</i> |
|---|------------------------|---------------------------|--|
| Aslan Shkhachemukov | 56 | INED ⁵ | 4 of 4 |
| Alexey Pshenichny | 51 | INED | 4 of 4 |
| Alexander Alexandrov | 43 | INED | 4 of 4 |
| Sergey Galitsky | 51 | INED ⁶ | 4 of 4 |
| Vladimir Gordeychuk | 57 | INED | 4 of 4 |
| Dmitry Chenikov | 53 | INED | 4 of 4 |
| Khachatur Pombukhchan | 44 | Executive | 4 of 4 |

1. June 8, 2017 (unnumbered minutes dated June 8, 2017)

2. As of 31.12.2018

3. NED (non-executive director), INED (independent non-executive director)

4. the ratio (X/Y) indicates the number of meetings, in which the director participated (X), out of the total held (Y)

5. was a non-executive director in the period from 02/16/2018 to 04/19/2018 (in accordance with the definition recommended by the Corporate Governance Code)

6. was a non-executive director in the period from 02/16/2018 to 04/19/2018 (in accordance with the definition recommended by the Corporate Governance Code)

Members of the Board of Directors (elected at the Extraordinary General Meeting on April 19, 2018) and their participation in meetings:¹

| <i>Name of the member of the Board of Directors</i> | <i>Age²</i> | <i>Status³</i> | <i>Number of meetings attended, by the member of the Board of Directors⁴</i> |
|---|------------------------|---------------------------|---|
| Charles Ryan | 52 | INED | 13 of 14 |
| Paul Foley | 60 | INED | 13 of 14 |
| Gregor Mowat | 47 | INED | 13 of 14 |
| James Simmons | 41 | INED | 13 of 14 |
| Alexander Prsyazhnyuk | 46 | INED | 14 of 14 |
| Alexey Makhnev | 43 | NED | 13 of 14 |
| Tim Demchenko | 45 | NED | 14 of 14 |

At the Annual General Meeting of PJSC "Magnit" held on 21 June 2018, all existing directors were re-elected as members of the Board of Directors.⁵

The current Board of Directors includes five independent non-executive directors: Charles Emmitt Ryan, Gregor William Mowat, Pat James Simmons, Paul Michael Foley and Alexander Mikhailovich Prsyazhnyuk. Two other members are non-executive directors: Alexey Petrovich Makhnev and Tim Demchenko.

Charles Emmitt Ryan was elected Chairman of the Board of Directors at the first meeting after the Annual General Meeting of Shareholders⁶, and Paul Michael Foley was elected Deputy Chairman.

Over the course of 2018, the Company's Board of Directors carried out its activities in accordance with the Russian Law "On Joint-Stock Companies," the Company's Charter, the Regulations on the PJSC "Magnit" Board of Directors, and the Regulation on the Committees of the PJSC "Magnit" Board of Directors.

In 2018, the Board of Directors held 18 meetings.

As a rule, the Board of Directors meets in person or holds audio or video teleconferences. Members of the Board of Directors who attend meetings using audio or video conferencing facilities or other electronic means of communication are considered as personally present. In addition, members of the Board of Directors hold regular telephone conferences on operational issues.

1. unnumbered minutes dated April 19, 2018

2. As of 31.12.2018

3. NED (non-executive director), INED (independent non-executive director)

4. the ratio (X/Y) indicates the number of meetings, in which the director participated (X), out of the total held (Y)

5. Adopted on June 21, 2018 (unnumbered minutes dated June 21, 2018)

6. dated June 21, 2018 (unnumbered minutes dated June 21, 2018)

Key items considered by the Board of Directors in 2018:

| <i>Meeting date</i> | <i>Items considered</i> |
|---------------------|--|
| 02.02.2018 | The Board considered the proposed candidates and included them in the list for election to the Board of Directors at the Annual General Meeting of Shareholders. |
| 02.02.2018 | The Board considered a report evaluating the effectiveness of the Internal Control and Risk Management System in 2017. |
| 02.02.2018 | The Board adopted decisions on the approval of major transactions. |
| 16.02.2018 | The Board prematurely terminated the powers of the sole executive body (CEO) and the chairman of the collective executive body (the Management Board) of PJSC "Magnit" and elected a new sole executive body (CEO) and chairman of the collective executive body (the Management Board) of PJSC "Magnit". |
| 16.02.2018 | The Board considered a shareholder's request to convene an Extraordinary General Meeting of Shareholders and decided to convene the Extraordinary General Meeting of Shareholders. |
| 23.03.2018 | The Board considered proposals on the nomination of candidates to the PJSC "Magnit" Board of Directors for election at an Extraordinary General Meeting of Shareholders of PJSC "Magnit". |
| 23.03.2018 | The Board approved the list of candidates for election to the PJSC "Magnit" Board of Directors at an extraordinary General Meeting of the Company's Shareholders. |
| 23.03.2018 | The Board identified the priority businesses of PJSC "Magnit". |
| 23.03.2018 | The Board considered a report evaluating the effectiveness of the Internal Control and Risk Management System of PJSC "Magnit" and its subsidiaries for 2017. |
| 18.04.2018 | The Board tentatively approved the annual report of PJSC "Magnit". |
| 18.04.2018 | The Board considered the results of the performance evaluation of the PJSC "Magnit" Board of Directors. |
| 18.04.2018 | The Board approved a report on related party transactions concluded by PJSC "Magnit" in 2017. |
| 04.05.2018 | The Board elected the Chairman, Deputy Chairman, and Secretary of the PJSC "Magnit" Board of Directors. |
| 04.05.2018 | The Board approved a new version of the Regulation on the Committees of the PJSC "Magnit" Board of Directors. |
| 04.05.2018 | The Board formed the Audit Committee of the Board of Directors, the HR and Remuneration Committee of the Board of Directors, and the Strategy Committee of the Board of Directors and elected the committee chairmen. |
| 17.05.2018 | The Board identified the priorities and strategies of the activities of PJSC "Magnit". |
| 17.05.2018 | The Board approved recommendations for the General Meeting of Shareholders of PJSC "Magnit" on the distribution of the Company's profits and losses based on the results of the 2017 reporting year, including the amount of dividends for the Company's shares, the procedure for their payment, and the date as of which the persons entitled to receive dividends are determined. |
| 17.05.2018 | The Board decided to convene the Annual General Meeting of Shareholders of PJSC "Magnit". |
| 17.05.2018 | The Board approved lists of candidates for election to the Board of Directors and the Audit Commission of PJSC "Magnit" at the Company's Annual General Meeting of Shareholders. |
| 17.05.2018 | The Board determined the amount of payment for the services of the auditor of PJSC "Magnit". |
| 21.06.2018 | The Board elected the Chairman, Deputy Chairman, and Secretary of the PJSC "Magnit" Board of Directors. |
| 21.06.2018 | The Board formed the Audit Committee of the Board of Directors, the HR and Remuneration Committee of the Board of Directors, and the Strategy Committee of the Board of Directors and elected the committee chairmen. |
| 21.06.2018 | The Board prematurely terminated the powers of the sole executive body (CEO) and the chairman of the collective executive body (the Management Board) of PJSC "Magnit" and elected a new sole executive body (CEO) and chairman of the collective executive body (the Management Board) of PJSC "Magnit". |

| Meeting date | Items considered |
|--------------|---|
| 21.06.2018 | The Board determined the number of members of the collective executive body (the Management Board) of PJSC "Magnit", elected members of the Management Board, and approved a contract with members of the Management Board. |
| 19.07.2018 | The Board approved a contract with a member of the collective executive body (the Management Board) and the sole executive body (CEO) of PJSC "Magnit". |
| 25.07.2018 | The Board approved the work plan of the PJSC "Magnit" Board of Directors for 2018. |
| 25.07.2018 | The Board approved the new version of the Regulation on the Committees of the PJSC "Magnit" Board of Directors. |
| 25.07.2018 | The Board formed the Financial Markets Committee of the PJSC "Magnit" Board of Directors and elected the chairman of the Financial Markets Committee. |
| 25.07.2018 | The Board considered the logistics development strategy for cosmetics stores and pharmacies. |
| 25.07.2018 | The Board considered information on the short-term and long-term Incentive Program of the PJSC "Magnit" Group of Companies as well as the Key Performance Indicators (KPI) of the CEO and members of the PJSC "Magnit" Management Board. |
| 25.07.2018 | The Board considered the Delimitation of Powers Matrix for the management bodies and executive bodies of PJSC "Magnit" for the conclusion (approval) of transactions as well as the Delimitation of Powers Matrix of the PJSC "Magnit" Group of Companies on HR issues. |
| 25.07.2018 | The Board approved the budget of the PJSC "Magnit" Group of Companies for the second half of 2018. |
| 21.08.2018 | The Board elected the Secretary of the PJSC "Magnit" Board of Directors. |
| 21.08.2018 | The Board approved the Share Buyback Program of PJSC "Magnit" to ensure the implementation of the long-term Incentive Program of the PJSC "Magnit" Group of Companies. |
| 06.09.2018 | The Board decided to approve a major transaction. |
| 06.09.2018 | The Board approved the candidate for the head of the structural unit in charge of performing the internal audit. |
| 25.09.2018 | The Board approved the transformation strategy of PJSC "Magnit". |
| 25.09.2018 | The Board considered issues concerning the development of the Magnit Cosmetic and Pharmacies businesses. |
| 25.09.2018 | The Board approved the long-term Incentive Program of the PJSC "Magnit" Group of Companies and the list of Program participants. |
| 05.10.2018 | The Board considered issues related to the development of the Magnit Cosmetic and Pharmacies businesses. |
| 05.10.2018 | The Board approved changes to the Share Buyback Program of PJSC "Magnit". |
| 17.10.2018 | The Board prematurely terminated the powers of a member of the collective executive body (the Management Board) of PJSC "Magnit" and elected a new member of the collective executive body (the Management Board) of PJSC "Magnit". |
| 31.10.2018 | The Board approved the main principles of the investment and financial policy of PJSC "Magnit". |
| 31.10.2018 | The Board decided to convene an Extraordinary General Meeting of Shareholders. |
| 31.10.2018 | The Board approved recommendations for the Company's General Meeting of Shareholders on the amount of dividends for the shares of PJSC "Magnit" based on the results of the first 9 months of the 2018 reporting year, the procedure for their payment, and the date on which the persons entitled to receive dividends are determined. |
| 31.10.2018 | The Board approved the new version of the Regulation on the Internal Audit of PJSC "Magnit". |

| Meeting date | Items considered |
|--------------|---|
| 31.10.2018 | The Board considered the results of PJSC "Magnit" and its subsidiaries for the first 9 months of 2018 and the third quarter of 2018 in accordance with IFRS. |
| 27.11.2018 | The Board approved the Regulation on the Long-Term Remuneration Program for Key Employees of JSC "Tander". |
| 11.12.2018 | The Board approved the organizational structure and budget of the internal audit unit for 2019. |
| 11.12.2018 | The Board approved the key performance indicators for the head of the internal audit unit for 2019. |
| 11.12.2018 | The Board approved the operational plan of the internal audit unit for 2019. |
| 11.12.2018 | The Board determined the number of members of the PJSC "Magnit" Management Board and elected new members of the PJSC "Magnit" Management Board. |
| 11.12.2018 | The Board approved a short-term incentive program for the CEO and members of the PJSC "Magnit" Management Board for 2019 as well as key performance indicators (KPI) for the CEO and members of the PJSC "Magnit" Management Board. |

Performance evaluation of the Board of Directors

During the reporting period, the HR and Remuneration Committee of the Board of Directors conducted a performance evaluation of the current Board of Directors within the boundaries of its competence.

The Committee evaluated:

- The work of the Board of Directors:
 - suitability of the structure of the Board of Directors to the functions it performs;
 - the qualitative composition of the Board of Directors;
 - the internal dynamics (working process) of the Board of Directors;
 - performance of the Company's Secretary;
 - performance of the Board of Directors in executing its key responsibilities.
- Performance of the Chairman of the Board of Directors:
 - overall management of the Board of Directors;
 - developing the Board of Directors as the governance body of the Company;
 - managing meetings of the Board of Directors;
 - interacting with the Company's Management Board;
 - engaging with the Company's shareholders and investors;
 - personal qualities;
 - management skills;
 - communication skills;
 - quality of executing the role of the Chairman of the Board of Directors;
 - quality of executing the role of a member of the Board of Directors;
 - professional skills.
- The work of the Committees of the Board of Directors:

- suitability of the structure of the Committees to the functions they perform;
- the qualitative composition of the Committee;
- the internal dynamics (processes) of the Committee;
- performance by the Committee of its main functions;
- holding of meetings of the Committee.
- Conformity of the members of the Board of Directors who are recognized as independent to the independent director's criteria as defined by the Regulation on the PJSC "Magnit" Board of Directors, the Corporate Governance Code, and the Listing Rules of PJSC Moscow Exchange.

The committee analyzed the existing incentive system for members of the Board of Directors.

On March 20, 2019, the HR and Remuneration Committee of the Board of Directors also conducted an assessment of the work of the PJSC "Magnit" Board of Directors in 2018 based on the following criteria:

- suitability of the structure of the Board of Directors to the functions it performs;
- the qualitative composition of the Board of Directors;
- the internal dynamics (working process) of the Board of Directors;
- performance of the Company's Secretary;
- performance by the Board of Directors in executing its key responsibilities.

The assessment confirmed that the performance of the current members of the Board of Directors meets the scope and scale of the Company's activities, the requirements of the Company, and the interests of shareholders.

Committees of the Board of Directors

Per the provisions of corporate documents, the Board of Directors has established Committees to ensure it works efficiently and to make preparations on the most important issues.

The Committees of the Board of Directors were formed in accordance with the resolution of the Board of Directors dated June 21, 2018 (unnumbered minutes dated June 21, 2018) and July 25, 2019 (unnumbered minutes dated July 26, 2018). During the reporting period, all members of the relevant Committees participated in all meetings of the Committees of the Board of Directors.

In 2018, in addition to the existing Audit Committee and the HR and Remuneration Committee, the Strategy Committee and Capital Markets Committee were created for the first time.

The Committees are formed by the Board of Directors from among the members of the Board of Directors who have the relevant professional experience and knowledge.

When electing members of the Committees (including the chairmen of the Committees), the following aspects must be taken into account: the education and professional training of the candidates, their work experience within the Committee's area of focus, document handling skills as well as any other specialist knowledge, skills, and experience that are necessary for the Committee members to exercise their powers effectively and responsibly.

According to the Company's Regulation on the Committees of the Board of Directors, the Audit Committee and the HR and Remuneration Committee of the Board of Directors should consist of independent directors only, but if this is not possible for objective reasons, independent directors should make up the majority of the Committee members, while the other committee members may be members of the Board of Directors who are not the CEO or members of the Company's Management Board. Only an independent director may be the Chairman of the Committee.

Independent directors should make up the majority of the members of the Strategy Committee and the Financial Markets Committee, while the other members may be members of the Board of Directors who are not the CEO and/or members of the Company's Management Board.

Audit Committee of the Board of Directors

Key functions of the Committee:

- Verification and monitoring of the completeness of financial statements
- Verification of the internal control and risk management systems
- Monitoring the effectiveness of internal audits
- Monitoring relations with the external auditor, etc.

Committee members:

| Committee member and role | Status |
|---------------------------|------------------------------------|
| Gregor Mowat – Chairman | Independent Non-Executive Director |
| James Simmons | Independent Non-Executive Director |
| Alexander Prysyzhnyuk | Independent Non-Executive Director |

Committee's work in 2018

Issues considered by the Audit Committee of the Board of Directors in 2018 included the Regulation on Internal Audit, the nominations of candidates for the director of the internal audit unit, and the key performance indicators of the director of the internal audit unit.

HR and Remuneration Committee of the Board of Directors

Key functions of the Committee:

- Drafting and monitoring the remuneration policy (long-term/short-term incentive)
- Endorsement and monitoring of senior management hiring (CEO-1/CEO-2 levels)
- Drafting of a talent management strategy
- Annual evaluation of the Board of Directors and management performance
- Other matters within its competence

Committee members:

| Committee member and role | Status |
|---------------------------|------------------------------------|
| James Simmons – Chairman | Independent Non-Executive Director |
| Paul Foley | Independent Non-Executive Director |
| Alexander Prysyzhnyuk | Independent Non-Executive Director |

Committee's work in 2018

Over the course of 2018, the HR and Remuneration Committee of the Board of Directors conducted a compliance assessment of the members of the Board of Directors to determine whether they have the necessary experience and skills; comply with independence criteria set out in the Company's policies on evaluation of candidates for the Company's Management Board; and also tentatively considered the conditions of long-term incentive programs for management and key employees of the Company and other matters within its competence.

Strategy Committee of the Board of Directors

Key functions of the Committee:

- Strategic and investment planning
- Identification of priority areas of focus
- Endorsement and verification of the business plan/budget
- Other matters within its competence

Verification of mergers and acquisitions, large investment projects, etc.

Committee members:

| Committee member and role | Status |
|---------------------------|------------------------------------|
| Paul Foley – Chairman | Independent Non-Executive Director |
| Alexey Makhnev | Non-Executive Director |
| James Simmons | Independent Non-Executive Director |

Committee's work in 2018

In 2018, the Strategy Committee of the Board of Directors considered the main principles of the Company's investment policy, approved the business transformation strategy, and considered certain issues concerning the pharmaceutical development strategy.

Capital Markets Committee of the Board of Directors

Key functions of the Committee:

- Development and strengthening of corporate governance systems
- Preparation, development, and introduction of investor relations strategies
- Evaluation of the dividend policy and recommendations for the Board
- Other matters within its competence

Committee members:

| Committee member and role | Status |
|---------------------------|------------------------------------|
| Paul Foley – Chairman | Independent Non-Executive Director |
| Alexey Makhnev | Non-Executive Director |
| Charles Ryan | Independent Non-Executive Director |

Committee's work in 2018

The Capital Markets Committee of the Board of Directors was formed in August 2018. From the time it was formed until the end of the reporting year, the Committee tentatively considered a change in the Regulations on the Company's Board of Directors and other matters within its competence.

Corporate secretary

The Corporate Secretary function and responsibilities are performed by the Corporate Governance Department.

The Corporate Governance Department is a structural unit that performs the functions of a corporate secretary, constituted in accordance with the recommendations of the Corporate Governance Code and the requirements of the Listing Rules of PJSC Moscow Exchange to assist the company to effectively interact with shareholders, coordinate the Company's actions to protect shareholder rights and interests, and to support the effective work of the Board of Directors in accordance. The Department is headed by the Corporate Governance Director, who is an officer of the Company.

The main functions of the Corporate Governance Department are:

- involvement in improving the Company's corporate governance system and practices;
- involvement in preparing for and holding the Company's General Meetings of Shareholders;
- supporting the work of the Board of Directors and the Committees of the Board of Directors;
- taking part in implementing the Company's disclosure policy and ensuring the storage of the Company's corporate documents;
- supporting the Company's interaction with its shareholders and involvement in the prevention of corporate conflicts;
- supporting the Company's interaction with regulatory bodies, trade organizers, the registrar, and other securities market professionals within the purview assigned to the Corporate Governance Department;
- immediately notifying the Company's Board of Directors about all violations of the law that are identified as well as the provisions of the Company's internal documents for which the Corporate Governance Department is responsible for compliance;
- ensuring the implementation of procedures prescribed by the law and the Company's internal documents to support the exercising of the rights and legitimate interests of shareholders and monitoring their execution.

On May 27, 2016, the PJSC "Magnit" Board of Directors approved a resolution on the Regulation on the PJSC "Magnit" Corporate Governance Department and appointed Ekaterina Kister to the position of Corporate Governance Director.

Biographical information:

Full name: Ekaterina Kister.

Year of birth: 1978.

Education: Higher – graduated from Kuban State University with a degree in law in 2000.

Information about primary work place:

- Corporate Governance Director of PJSC "Magnit".

Executive bodies

Management Board

The Management Board is the collegial executive body of PJSC "Magnit," which, along with the CEO (Chairman of the Company's Management Board), manages its day-to-day activities. The Management Board reports to the General Meeting of Shareholders and the Board of Directors.

The Management Board acts on the basis of the Russian legislation, the Charter, and the Regulation on the Management Board, which is approved by a resolution of the General Meeting of Shareholders.

The Board of Directors makes decisions on its size and membership as well as the election and early termination of the powers of its members each year at its first meeting after the Annual General Meeting of Shareholders.

The Company's CEO is a member of the Management Board by virtue of his/her position and serves as the Chairman of the Management Board. The powers of the Chairman of the Management Board are terminated once his/her powers as the Company's CEO cease.

The Management Board handles the day-to-day management of the Company's activities, except for matters that fall within the purview of the General Meeting of Shareholders and the Board of Directors. In those instances, the Management Board organizes the implementation of their resolutions. The Company's Charter and the Regulation on the PJSC "Magnit" Management Board contain more detailed information on the powers of the Management Board.

CEO

In accordance with the Charter of PJSC "Magnit," the Company's CEO is granted all the necessary powers to carry out the operational management of the Company's day-to-day activities and resolve relevant issues that do not fall within the purview of the Company's General Meeting of Shareholders, Board of Directors, or Management Board.

The Company's CEO manages the Company's activities in accordance with the provisions of the Company's Charter, the requirements of the legislation of the Russian Federation, and the Company's internal documents.

Per the resolution of the Board of Directors dated June 21, 2018, Olga Naumova was elected CEO of PJSC "Magnit" on June 22, 2018 for a term of 3 years.

Olga Naumova's biography is given in the "Management Board Members" section.

Members of the Management Board ¹



Olga Naumova Chairman of the Management Board

Date of birth: June 30, 1972

Education:

- Higher education. 1994 – Faculty of Sociology of Moscow State University (Marketing).

Experience

Olga Naumova started her career as the Head of ALT consulting company's Moscow branch from 1993 to 1994 (headquarters in St. Petersburg). From 1994 to 2000 Olga worked in the IBS group of companies as the Head of Marketing at the "D-Line" company followed by the position of General Director of the "Computer Depo" company. In 2000 and 2001 Olga was the Commercial Director of Russian Product company. In 2001, she joined Cherepovets Steel Plant of PJSC "Severstal" as the Business Development Director and in 2002-2006 she was its General Director. In 2003-2003 Ms. Naumova was the Head of OJSC "Oryol Steel Fabrication Plant" of PJSC "Severstal". In 2004 she was the Head of the "Severstal-metiz" Group and later – the Head of JSC "Severstal-metiz".

In 2009, Olga Naumova served as the Director for Long Products at Novolipetsk Steel and in December 2009 she became the General Director of the newly established NLMK-Long Products, LLC. From 2010 to 2013 Olga served as the General Director of Rimera the oilfield services division of Chelyabinsk Pipe-Rolling Plant.

In May 2013, Olga Naumova was appointed the General Director of the "Pyaterochka" format at X5 Retail Group and she stepped down from this position in April 2018.

On May 16th, 2018 Olga joined Magnit as an Executive Director. From June 22, 2018 and until present she occupies the position of the Chief Executive Officer and the Chairman of the Management Board of PJSC "Magnit".

Participatory interest in the Company's charter capital:
Does not own any interest

Participatory interest in the Company's charter capital:
Does not own any interest

Percentage of the Company's ordinary shares owned by this person: Does not own any interest

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: the person did not conclude any transactions to acquire/dispose of the Company's shares during the reporting period.

1. as of 12/31/2018



Elena Milinova

Member of the Management Board

Date of birth: December 25, 1976

Education:

- Higher education. 2000 – International Academy of Business and Banking (Economics).
- 2002 – Association of Certified Accountants (ACCA), London (Certified Accountant).

Experience

In 2000-2004, Elena Milinova worked at the Russian office of PricewaterhouseCoopers, an international audit company, in 2004-2007 she was employed with at Geotransgaz and Sollers ST.

In 2007-2014, Elena headed the financial unit of KAMAZ PJSC as the deputy general director and member of the group's board, in 2014-2016, she worked as the general financial director of X5 Retail Group.

In August 2017, Elena Milinova became a financial director of Mega Farm pharmacy chain (member of Marathon Group), and in December, she was appointed the director for economy and finance of Marathon Group.

From April 2018 until present occupies a position of the Chief Financial Officer of PJSC "Magnit". Elena was appointed a member of the Management Board of PJSC "Magnit" on June 22, 2018.

Participatory interest in the Company's charter capital: 0.000599%.

Percentage of the Company's ordinary shares owned by this person: 0.000599%.

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: the person did not conclude any transactions to acquire/dispose of the Company's shares during the reporting period.



Tatyana Knyazeva

Member of the Management Board

Date of birth: December 13, 1973

Education:

- Higher education. 1996 – Lomonosov Moscow State University (Mathematics)

Experience

During the period of 1998 to 2002, Tatyana Knyazeva headed the HR department of the East Line Company. From 2002 to 2008, she held various senior HR positions at "Rosgosstrakh". From 2009 to 2011, she was employed by Oranta Eureko as the Director of HR, during the years of 2013 to 2014, she worked as HR Director of "Domodedovo" airport. From 2014 to 2017, Ms. Knyazeva worked as HR Director of "Pyaterochka" retail chain.

In May 2018 Tatyana Knyazeva was appointed a Head of HR Directorate. Tatyana is a member of the Management board of PJSC "Magnit" from June 22, 2018.

Participatory interest in the Company's charter capital: 0.000098%.

Percentage of the Company's ordinary shares owned by this person: 0.000098%.

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period:

- November 12, 2018 – Acquisition of ordinary registered shares (39 shares)
- November 12, 2018 – Acquisition of ordinary registered shares (41 shares)
- November 12, 2018 – Acquisition of ordinary registered shares (10 shares)
- November 12, 2018 – Acquisition of ordinary registered shares (10 shares)



Elena Zhavoronkova
Member of the Management Board

Date of birth: December 10, 1970

Education:

- Higher education. 2002 – Moscow State Law Academy (Law).

Experience

Elena Zhavoronkova joined Magnit in June 2018 as a Director for Legal Affairs and Corporate Governance. On June 22, 2018 she was appointed a Member of the Management Board. Previously, she served as a Vice President for Legal Affairs in Polyus Gold. In 2010-2014 Elena held a similar position in Evraz. From 2008 to 2010 Elena headed the legal department in United Industrial Corporation. In 2000-2008 worked her way from legal consultant to the head of legal department in TMK.

Participatory interest in the Company's charter capital: 0.001472%.

Percentage of the Company's ordinary shares owned by this person: 0.001472%.

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: the person did not conclude any transactions to acquire/dispose of the Company's shares during the reporting period.



Artyom Smolensky
Member of the Management Board

Date of birth: April 27, 1970

Education:

- Higher education; 1997 – Academy of Labor and Social Relations (Moscow) (Economics);
- 2006 – Nizhny Novgorod Institute of Management and Business (MBA Master of Business Administration);
- 2006 – ISPS Center for Social and Pedagogical Education RAO (Management);
- 2011 – Volga-Vyatka Academy of Public Administration (State and Municipal Administration. Psychology of Management).

Experience

In 2000, Artyom Smolenskiy started his career in retail at Polaris Computing Center chain. Then he worked at Dixy Group for five years as the Head of Sales. In 2010-2011, Mr. Smolenskiy was the Head of FMCG "Raytsentr" chain in Nizhny Novgorod. From 2011 to 2014, he was Managing Partner in Noretex Group. During the period of February, 2014 to May, 2018, Mr. Smolenskiy held various senior positions in operational management at the "Pyaterochka" retail chain.

On May 16, 2018 Artyom Smolenskiy was appointed a Deputy Chief Executive Director, Operations. He is a member of the Management Board of PJSC "Magnit" from June 22, 2018.

Participatory interest in the Company's charter capital: 0.003098%.

Percentage of the Company's ordinary shares owned by this person: 0.003098%

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: the person did not conclude any transactions to acquire/dispose of the Company's shares during the reporting period.



Evgeny Melnikov

Member of the Management Board

Date of birth: May 21, 1980

Education:

- Higher education. 2002 – Krasnodar Military Institute (Information Protection Organization and Technology).

Experience

In 2007-2019 Evgeny made his way from a specialist to the Director of Information Security in Magnit. In 2018 headed the IT and Information Security Directorate. On October 17, 2018 Evgeny was appointed a member of the Management Board of PJSC "Magnit".

Participatory interest in the Company's charter capital:
Does not own any interest

Percentage of the Company's ordinary shares owned by this person: Does not own any interest

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: the person did not conclude any transactions to acquire/dispose of the Company's shares during the reporting period.

Changes to the Management Board

In early 2019, the Board of Directors approved the enlargement of the Management Board to ten members as part of its efforts to support the effective delivery of the operational and financial goals of the Company. The following new members were elected to the Management Board:

- Vladimir Sorokin took over as Deputy CEO and Commercial Director on January 16.
- Jan Dunning took over as President (Member of the Management Board) on January 29.
- Jyrki Talvitie took over as Director of Strategic Communications on February 4.
- Maria Dei took over as Supply Chain Director on February 13.



Jan Dunning

President (Member of the Management Board)

Date of birth: December 5, 1959

Education:

- Higher education. 1983 – University of Groningen (Bachelor's Degree);
- 1989 – University of Amsterdam;
- 2007 – London Business School;
- 2008 – Insead Marketing Program

Experience

Jan Dunning was Operations Director of Metro Cash & Carry Russia and then General Manager of Metro Cash & Carry Ukraine. Jan's previous experience also includes three years as General Manager of the Lukas Klamer wholesale business, a subsidiary of the Metro Group in the Netherlands, and over ten years with Aldi North. Over the last 25 years, he has worked in a broad range of retail functions including leadership roles in operations, development, sales, marketing, purchasing and finance.

In 2011-2018, Jan worked as a Chief Executive Officer of Lenta.

In January 2019 Jan was appointed a President of PJSC "Magnit" and a member of the Management Board.

Participatory interest in the Company's charter capital:
Does not own any interest

Percentage of the Company's ordinary shares owned by this person: Does not own any interest

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: N/A as he was not a member of the PJSC "Magnit" Management Board during the reporting period



Vladimir Sorokin

Member of the Management Board

Date of birth: April 1, 1971

Education:

- Higher education. 1994 – St. Petersburg State University of Trade and Economics (Engineering);
- 2005 – Higher School of Economics (Finance).

Experience

From 1994 to 2000 Vladimir Sorokin worked in the "Gillette" company, having passed the way from the sales manager to the Sales Director of the European part of Russia and Belarus. In 2000-2003 he continued working in the FMCG sector as the Sales Director of Sun Interbrew. From 2003 to 2011 he headed the business unit of the SK "AlfaStrakhovanie", he was the CEO of "AlfaStrakhovanie – Life". In 2010-2012 Mr. Sorokin worked as the CEO of OJSC "Masshtab". In 2013 he joined X5 Retail Group as the Deputy Commercial Director. In June of the same year he became the Category Management Director of Pyaterochka Retail Chain. From September 2014 to June 2018 he was the Head of CJSC "TD "Perekrestok".

On January 15, 2019 Vladimir joined Magnit management team as a Deputy Chief Executive Officer - Commercial Director, and a member of the Management Board of PJSC "Magnit".

Participatory interest in the Company's charter capital: 0.001962%

Percentage of the Company's ordinary shares owned by this person: 0.001962%

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: N/A as he was not a member of the PJSC "Magnit" Management Board during the reporting period



Jyrki Talvitie

Member of the Management Board

Date of birth: April 2, 1966

Education:

- Higher education. 1991 – Helsinki University (Master of Law);
- 2002 – London Business School (MBA)

Experience

Jyrki Talvitie held managerial positions in some of the largest Western banks: Bank of New York, Nordea Bank and BNP Paribas. Over the past 20 years he focused on the Russian and ex CIS markets. From 2003 to 2005 Jyrki was responsible for the International Business of Uralsib Financial Corporation. During the period of 2005-2010 he headed the Russian office of East Capital investment company. From 2010 to 2014 he held a position of senior vice president at VTB Bank and was responsible for investor relations. In 2014-2016, Mr. Talvitie was responsible for strategic communications at the Russian Direct Investment Fund. In 2016-2018, he continued working in relations with strategic partners and investors area in Sberbank as Vice president. Since 2018, he has been a member of the Supervisory Board of Georgia Capital.

Jyrki joined Magnit in February 2019 as a Director for Strategic Communications and a member of the Management Board.

Participatory interest in the Company's charter capital: Does not own any interest

Percentage of the Company's ordinary shares owned by this person: Does not own any interest

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: N/A as he was not a member of the PJSC "Magnit" Management Board during the reporting period



Maria Dei

Member of the Management Board

Date of birth: October 26, 1983

Education:

- Higher education. 2005 – All-Russian State Tax Academy of the Ministry of Taxation and Fees of the Russian Federation (Economics)

Experience

From 2008 to 2016 Ms. Dei occupied different managerial positions of supply and sales planning departments in such companies as Unilever Rus LLC, CAMPARI RUS LLC, Bacardi Rus LLC.

From 2017 to 2018 Ms. Dei served as Operational Planning Director in Central Office of Pyaterochka store network (X5 Retail Group).

Maria Dei joined Magnit in June 2018 and currently occupies a position of a Supply Chain Director and a Member of the Management Board of PJSC "Magnit".

Participatory interest in the Company's charter capital:

Does not own any interest

Percentage of the Company's ordinary shares owned by this person: Does not own any interest

Information about transactions to acquire/dispose of the Company's shares concluded by a person serving as a member of the Management Board over the reporting period: N/A as she was not a member of the PJSC "Magnit" Management Board during the reporting period

Internal control, risks, and audit

Control

The Company has developed its Internal Control System that aims to ensure full confidence in achieving the following goals:

- supporting the efficiency and productivity of the Company's activities and the safeguarding of its assets;
- compliance with the requirements of all applicable legislation and in-house policies and procedures, including when engaging in business operations and maintaining accounting records;
- ensuring the reliability and timeliness of financial and other reporting.

The Company's Internal Control System consists of a set of internal control processes that function based on the existing organizational structure, in-house policies and regulations as well as the internal control and risk management procedures and methods which the Company applies at all levels of management and within all functional areas.

The Audit Commission and the Internal Audit Department monitor the Company's financial and economic activities.

The internal control and risk management system is integrated into respective levels of management taking into account the role of the appropriate stages in the process of developing, approving, applying, and evaluating the internal control and risk management system:

- *Strategic level – the Company's Board of Directors and Audit Committee of the Board of Directors.*

The strategic level approves the strategic framework for the establishment and operation of the internal control and risk management system and its goals at the Company and supports the integration of this system into all the Company's organizational processes, including the drafting of policies, and the process of managing changes. The Company's Board of Directors and the Audit Committee of the Board of Directors determine the perception of the internal control and risk management system by employees;

- *Operational level – the Company's executive bodies.*

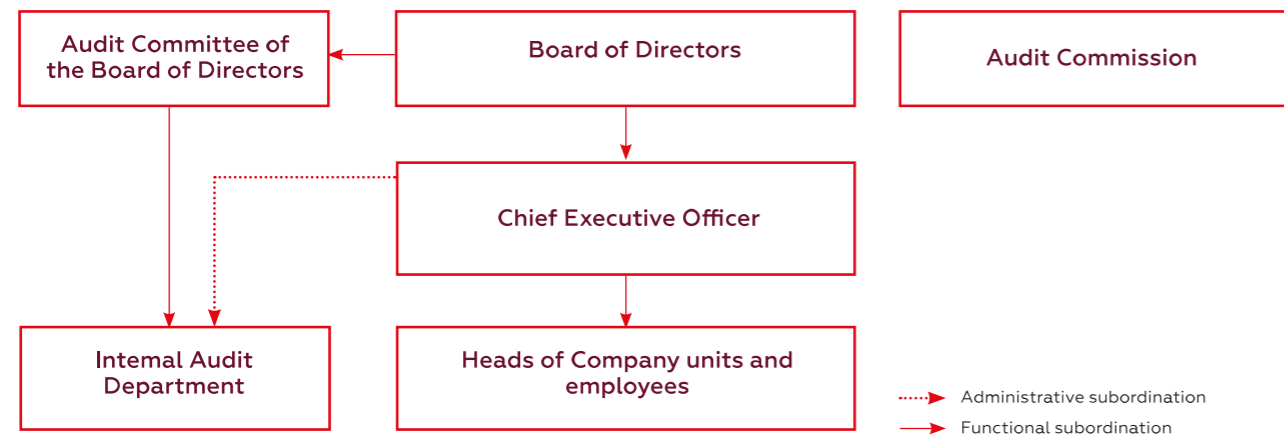
This level ensures the effective organization of the operation and continuous monitoring of the effectiveness of the internal control and risk management system;

- *Control level – the Company's Audit Commission and Internal Audit Department as well as the department heads and employees responsible for the operation of the internal control and risk management system.*

This level ensures the implementation of control procedures and risk management measures and monitors their productivity. The Company's Internal Audit Department conducts a systematic independent assessment of the adequacy, reliability, and effectiveness of the internal control and risk management system and corporate governance.

All the subjects of the internal control and risk management system are responsible within their own purview for compliance with risk management approaches and standards and also for the proper implementation of control procedures in their areas of activity.

Structure of the Company's internal control bodies:



The internal control system is based on the principles of the COSO concept recommended by the Corporate Governance Code (Recommended for use by Letter No. 06-243 of the Bank of Russia dated April 10, 2014 "On the Corporate Governance Code").

In accordance with the COSO model, the Company has established a controlled environment, employs a risk assessment system, systematically introduces control procedures and evaluates the effectiveness of their implementation, and monitors changes in its organizational structure and business processes.

The Company's information systems serve as the basis for communication between the agents involved in the internal control and risk management system and decision-making on matters concerning internal control and risk management. The relevant information is determined, recorded, and transmitted in such form and within a timeframe that enable employees to perform their functional duties while not violating the principle of separation of powers. This principle is part of the division of functions between the Company's independent structural units in order to ensure operational efficiency and avoid any compromise in risk assessment by these units.

The internal control and risk management system is adapted to the Company's goals as they are at the time, factors in the external and internal environments, and standard business practice. The risk management process is carried out on an ongoing basis and is cyclical due to the continuous nature of decision-making concerning risk management.

Internal audit

The purpose of an internal audit is to assist the Board of Directors and executive bodies in enhancing the efficiency of the Company's management and in improving its financial and economic activities by using a systematic and consistent approach to the analysis and assessment of the risk management and internal control systems, as well as corporate governance, as tools to provide reasonable assurance that the Company will achieve the goals it has set.

In 2018, the Company established the Internal Audit Department (formerly the Internal Audit Division), whose main task is to provide the Board of Directors,¹ the CEO, and the Management Board with independent, objective, reasonable, and substantiated analysis and advice that aim to improve the Company's operations.

The Internal Audit Department is administratively subordinate to the Company's CEO and functionally subordinate to the Company's Board of Directors.²

In October 2018, the Board of Directors approved a new version of the Internal Audit Regulation of PJSC "Magnit," which defines the goals, objectives, powers, responsibilities, and status of the PJSC "Magnit" Internal Audit Department.

Per this regulation, the main objectives of the Internal Audit Department are:

- To provide support to all of the Company's structural units and employees, management, the Audit Committee of the Board of Directors, and the Board of Directors by conducting audits, analyses, and evaluations, providing consultations, and drafting recommendations to improve the Company's internal control and risk management system and its business processes.
- To provide assistance in the timely identification and analysis of risks that affect the reliability of financial and management information, the safeguarding of assets, compliance with legislation and in-house policies and procedures, the execution of financial and business plans, and the effective use of resources.

To perform its tasks, the Internal Audit Department performs the following key functions:

- Preparing an annual internal audit plan on the core of a risk-based approach and conducting internal audits in accordance with the approved plan;
- Tracking major changes within the Company in order to update the audit plan, identify risk areas, and inform management of any problems that may arise in a timely manner.
- Preparing and conducting training presentations and sessions on the internal control and risk management system;
- Maintaining a high level of knowledge and skills in matters concerning internal audit among department employees for the effective performance of the functions specified in this document.
- Providing methodological support in the organization of the internal control and risk management system.
- Organizing a monitoring system to introduce the recommendations of the Internal Audit Department and monitor their implementation.
- Providing assistance in the selection of external auditors and consultants as well as preparing and presenting the selection results for review by the Company's management and Audit Committee.
- Interacting with external auditors and consultants on matters concerning internal audit, the provision of audit-related services, and consulting services;
- Preparing reports on the results of the Department's work on a monthly, quarterly, and annual basis and regularly submitting to the Company's management, Board of Directors, and Audit Committee to discuss the results and recommendations. Notifying the Audit Committee and Board of Directors in a timely manner about any disputes or difficulties that arise in the process of implementing the internal audit plan;
- Preparing information for the Company's management, Audit Committee, or Board of Directors based on special requests, including unscheduled performance evaluations and recommendations on ways to improve individual components of the internal control and risk

management system.

The Director of the Internal Audit Department regularly reports to the Chairman of the Audit Committee and takes part in meetings of the Audit Committee to present the results of the work conducted by the internal audit system upon conclusion of internal audits. The Audit Committee regularly analyzes and discusses the effectiveness of internal audits jointly with the Director of the Internal Audit Department.

In 2018, the Internal Audit Department primarily focused its efforts on updating the methodological framework for conducting scheduled audits and providing consulting services that aim to improve the Company's business.

The Company also continued to implement a set of measures in 2018 to improve the efficiency of the business process internal control system.

Efficiency assessment

The Internal Audit Division (whose functions were subsequently transferred to the Internal Audit Department) conducted an assessment of the effectiveness of the internal control and risk management system at PJSC "Magnit" and its subsidiaries for 2017 based on the principles of the Corporate Governance Code and the relevant international concepts and standards, Information No. PZ-11/2013 of the Ministry of Finance of the Russian Federation "Organization and Implementation by an Economic Entity of the Internal Control of Business Operation Items, Accounting, and the Preparation of Accounting (Financial) Statements," the COSO concept of "Internal Control – Integrated Model," and the COSO concept of "Organizational Risk Management – Integrated Model."

The assessment was carried out through a breakdown of the components of internal control and risk management processes: internal (control) environment, goal-setting, event definition, risk assessment, risk response, means of control, information, communications, and monitoring. The assessment highlights the parameters of the components of internal control and risk management process and identifies the current state of the parameters describing the level of organization and functioning of the internal control and risk management system.

Based on the assessment results, the current level of organization and functioning of the internal control and risk management system is recognized as well-established and consistent with the Company's needs.

The report on the assessment of the effectiveness of the internal control and risk management system of PJSC "Magnit" and its subsidiaries for 2017, which contains the results of the assessment, was reviewed by the Company's Board of Directors at a meeting on March 23, 2018. After reviewing the report, the Board of Directors endorsed the results of the assessment of the effectiveness of the system and the measures proposed for its improvement.

1. via the Audit Committee of the Board of Directors

2. via the Audit Committee of the Board of Directors

In December 2018, the Board of Directors approved the action plan for the Internal Audit Department for 2019.

Remuneration in 2018

| Type of remuneration | Amount, RUB mln |
|---|-----------------|
| Remuneration for participation in the work of the management body | |
| Salary | 8.6 |
| Bonus | 3.2 |
| TOTAL | 11.9 |

External audit

To verify and confirm the reliability of its annual financial statements, each year the Company hires a professional audit organization that has no connection to the Company or its shareholders through property interests, chosen from among the major international audit companies. The Company's auditor is approved by the General Meeting of Shareholders based on a proposal from the Board of Directors. The Audit Committee conducts a preliminary assessment of the audit firm candidates.

IFRS auditor

Ernst & Young Limited Liability Company (TIN 7709383532), legal address; Russian Federation, Moscow, 77 Sadovnicheskaya Embankment, building 1, which is a member of the Russian Union of Auditors (Association) Self-Regulatory Organization of Auditors (RUA SRO) (Certificate dated October 20, 2016, Resolution No. 274 dated October 20, 2016, ORNZ 11603050648) and one of the global leaders in the provision of professional services, was approved at the Annual General Meeting of PJSC "Magnit" Shareholders on June 21, 2018 as the auditor of the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards.

Ernst & Young LLC is part of Ernst & Young Global Limited.

Ernst & Young Global Limited has received international recognition and numerous awards for its high quality of services and unique corporate culture.

The auditor audited the 2018 consolidated financial statements of PJSC "Magnit" and its subsidiaries in accordance with IFRS in the reporting year.

Based on the results of the audit, the auditor expressed an opinion on the reliability of the 2018 consolidated financial statements prepared in accordance with IFRS.

The auditor's remuneration in 2018 amounted to RUB 65 million (excluding VAT). The auditor did not provide any non-audit services during the reporting year.

RAS audit

The audit firm Faber Lex Limited Liability Company, location: Krasnodar, 144/2 Krasnykh Partizan Street, was approved at the Annual General Meeting of PJSC "Magnit" Shareholders on June 21, 2018 as the auditor of the Company's accounting (financial) statements for 2018 prepared in accordance with Russian Accounting Standards.

AF Faber Lex LLC is a member of the Russian Union of Auditors (Association) Self-Regulatory Organization of Auditors (RUA SRO) with the main registration number entry (ORNZ) 10203002910 and a Certificate of Membership in the SRO RSA dated August 3, 2016.

Based on the results of the audit of PJSC "Magnit," the auditor expressed an opinion on the reliable reflection of the Company's financial standing in the accounting (financial) statements in all its material aspects.

The auditor's remuneration in 2018 amounted to RUB 301,600.00 (excluding VAT). The auditor did not provide any non-audit services during the reporting year.

Audit Commission

Audit Commission of PJSC "Magnit" is a permanent elected internal control body. The Commission reports to the General Meeting of Shareholders and acts in the interests of the shareholders.

The main job of the Audit Commission is to verify compliance with legislative and other acts governing the Company's activities and the legality of transactions. The three-member Audit Commission is elected at the Annual General Meeting of Shareholders of PJSC "Magnit", which determines its members for the period until the next Annual General Meeting of Shareholders.

The Company's Audit Commission performs the following actions in matters concerning internal control and risk management:

- timely communicates the results of checks (audits) in the form of an opinion or statement to the Company's General Meeting of Shareholders, Board of Directors, and executive bodies;
- provides an assessment of the reliability of the data comprising the Company's annual report contained in the Company's annual financial statements;
- requests the convocation of meetings of the Board of Directors, meetings of the Management Board, or an Extraordinary General Meeting of the Company's Shareholders in cases when violations found in financial and economic activities or a real threat to the Company's interests require the resolution of issues that fall within the purview of these management bodies of the Company;
- records violations of regulatory legal acts or the Company's charter, regulations, rules, or instructions by the Company's employees and officials;

- conducts an audit of the Company's financial and economic activities based on the Company's activities for the year and also at any time based on the initiative of the persons cited in the Federal Law "On Joint-Stock Companies", the charter, or the Regulation on the Company's Audit Commission.

The following members of the Audit Commission were elected at the Annual General Meeting of the Company's Shareholders on June 21, 2018:

- Roman Efimenko;
- Irina Tsyplenkova;
- Alexey Neronov.

The members of the Audit Commission were not paid remuneration and did not have any expenses reimbursed in 2018.

Audit Committee of the Board of Directors

The Audit Committee plays an important role in monitoring the completeness, accuracy, and reliability of financial reporting, the effectiveness of the risk management and internal control systems, and ensuring the independence of internal and external audits.

The Committee is a collective advisory body that operates under the Board of Directors. The Committee's main task is to facilitate the effective performance of the functions of the Board of Directors in matters concerning the monitoring of the Company's financial and economic activities.

The functions and members of the Audit Committee of the Board of Directors are published on page 76 of this report.

Anti-corruption

One of the key components of the internal control system is a set of measures that aim to prevent corruption and minimize reputational risks and the risk of penalties being imposed against the Company for bribing officials.

The Company has an Anti-Corruption Policy that was approved by the PJSC "Magnit" Board of Directors. The Company fully precludes members of the Company's management bodies, all its employees as well as other persons acting on behalf of the Company and/or in its interests (persons associated with the Company) from having any direct or indirect participation in any activities that may lead to corruption or are directly corrupt.

The Company has adopted a Business Ethics Code in order to form a positive culture among its employees and clearly and effectively regulate relations between the Company's employees and government authorities, counterparties, competitors, or other third parties. The Business Ethics Code stipulates the obligations of all the Company's employees and representatives to comply with ethical standards of conduct and corporate standards, including:

- the inadmissibility of offering, paying, extorting, or accepting bribes and illegal incentives in any form, directly or indirectly;
- supporting the Company's positive image and reputation when establishing long-term relations with customers and suppliers;
- preventing illegal payments to the authorities and business partners;
- preventing conflicts between personal interests and the Company's interests. All cases involving the failure by employees to comply with this policy are analyzed, and disciplinary measures, up to and including dismissal, may be imposed based on the results of such an analysis.

One of the most important objectives of the Business Ethics Code is to limit the influence of an employee's private or personal interests on the job functions they perform and the business decisions they make. The document specifies the procedure for disclosing and resolving conflicts of interest in various situations.

A safe environment has been created to provide internal and external parties with the opportunity to communicate their doubts and questions in matters concerning anti-corruption, fraud, violations of business ethics, and other violations in the workplace, and also make proposals to improve anti-corruption procedures and control mechanisms. The Company has a dedicated whistleblower hotline for this purpose. The form for sending messages to the Ethics and Anti-Corruption Hotline is located in the Ethics and Anti-Corruption Compliance section of the Company's corporate website. People who provide information using these communication channels are protected from any form of pressure (including dismissal, harassment, or any form of discrimination).

The Audit Committee and the Board of Directors regularly analyze the organization of the Ethics and Anti-Corruption Hotline.

Confidential hotline for employees, customers, contractors, and partners:

- telephone 8-800-6000-477
- email ethics@magnit.ru
- feedback form on the website <http://magnit-info.ru/about/ethics/>

KPI system and remuneration of governing and executive bodies

Remuneration for members of the Board of Directors

In 2018, the policy on remuneration and reimbursement of expenses to members of the Board of Directors was governed by the following documents:

| No. | Document name | Status |
|-----|---|----------|
| 1 | Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Annual General Meeting of Shareholders dated June 4, 2015 (unnumbered minutes dated June 5, 2015). | inactive |
| 2 | Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Annual General Meeting of Shareholders dated June 21, 2018 (unnumbered minutes dated June 21, 2018). | inactive |
| 3 | Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Extraordinary General Meeting of Shareholders dated December 5, 2018 (unnumbered minutes dated December 6, 2018). | active |

1. Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Annual General Meeting of Shareholders dated June 4, 2015 (unnumbered minutes dated June 5, 2015).

In accordance with the Regulation on the PJSC "Magnit" Board of Directors approved by the resolution of the Annual General Meeting of Shareholders dated June 4, 2015 (unnumbered minutes dated June 5, 2015), remuneration is paid to members of the Board of Directors based on a resolution of the General Meeting of Shareholders for their participation in the work of the Board of Directors and based on the results of their work.

Remuneration for participation in the work of the Board of Directors amounts to RUB 120,000 (one hundred twenty thousand) per month.

Remuneration for an independent director for participation in the work of the Board of Directors amounts to USD 30,000 (thirty thousand) per year, plus

- USD 2,000 (two thousand) for personally attending each in-person meeting of the Board of Directors;
- USD 500 (five hundred) for sending a written opinion to each in-person meeting of the Board of Directors or for participation in each meeting of the Board of Directors held in absentia.

In addition to remuneration, members of the Board of Directors may be paid remuneration based on the results for the year. The specific amount of remuneration for the annual results is paid to members of the Board of Directors after relevant annual financial statements are approved by a resolution of the Company's General Meeting of Shareholders.

The Company compensates expenses of members of the Board of Directors directly related to the performance of their functions, including:

- expenses associated with travel to the meeting place of the Board of Directors;
- expenses associated with accommodation during meetings of the Board of Directors;
- entertainment expenses;
- costs associated with obtaining professional advice from specialists on issues considered at meetings of the Board of Directors as well as the translation of documents/materials that are submitted for members of the Board of Directors to study.

The amount of such expenses must be previously agreed with the Chairman of the Board of Directors and the Chairman of the Audit Commission. Expenses are reimbursed through the Company's cashier upon request of a member of the Board of Directors for the reimbursement of expenses. The request must be accompanied by original documents confirming the actual costs incurred (tickets, invoices, receipts, etc.). The Board of Directors may decide at a meeting to deny a member of the Board of Directors compensation for expenses incurred via a majority vote by elected members if it determines that the actions of this member of the Board of Directors run counter to the Company's interests.

2. Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Annual General Meeting of Shareholders dated June 21, 2018 (unnumbered minutes dated June 21, 2018).

In accordance with the Regulation on the PJSC "Magnit" Board of Directors approved by the resolution of the Annual General Meeting of Shareholders dated June 21, 2018 (unnumbered minutes dated June 21, 2018), members of the Board of Directors are paid the following types of remuneration (collectively referred to as Remuneration) for the period during which they performed their duties:

- Base remuneration
- Additional remuneration.

Base remuneration for participation in the work of the Board of Directors amounts to EUR 150,000 (one hundred fifty thousand) per year for each member of the Board of Directors (including for participation in Committees of the Board of Directors).

Additional remuneration is paid in addition to base remuneration to the Chairman of the Board of Directors and the Chairmen of the Committees:

- Chairman of the Board of Directors – EUR 200,000 (two hundred thousand) per year;
- Chairman of the Audit Committee of the Board of Directors – EUR 100,000 (one hundred thousand) per year;
- Chairman of the HR and Remuneration Committee of the Board of Directors – EUR 75,000 (seventy-five thousand) per year;
- Chairman of the Strategy Committee of the Board of Directors – EUR 100,000 (one hundred thousand) per year.

In addition to the remuneration paid during the period when the members of the Board of Directors are performing their duties, the Company compensates the members of the Board of Directors for the following expenses:

- expenses associated with traveling to the meeting place of the Board of Directors and from the meeting place to their destination as well as accommodation while located at the meeting place;
- expenses associated with participating in a meeting of the Board of Directors via telephone or a teleconference system, sending a written opinion, or conducting absentee voting;
- expenses associated with members of the Board of Directors performing their functions in the periods between meetings;
- expenses associated with hiring consultants and experts and obtaining relevant opinions on issues concerning the activities of the Board of Directors.

The maximum amount of compensation for expenses per year for each member of the Board of Directors is EUR 50,000 (hereinafter the Compensation Limit).

Expenses are reimbursed on a quarterly basis no later than 30 days after the end of the quarter. The total amount of compensation per year for each member of the Board of Directors may not exceed the Compensation Limit.

If the expenses of a member of the Board of Directors for the year exceed the Compensation Limit, the issue of compensating the amount of expenses exceeding the Compensation Limit is submitted to the General Meeting of Shareholders for consideration.

3. Regulation on the of PJSC "Magnit" Board of Directors approved by a resolution of the Extraordinary General Meeting of Shareholders dated December 5, 2018 (unnumbered minutes dated December 6, 2018).

In accordance with the Regulation on the PJSC "Magnit" Board of Directors approved by the resolution of the Extraordinary General Meeting of Shareholders dated December 5, 2017 (unnumbered minutes dated December 6, 2017), members of the Board of Directors are paid remuneration based on a resolution of the General Meeting of Shareholders for participation in the work of the Board of Directors and based on the results of their work.

Members of the Board of Directors are paid the following types of remuneration (collectively referred to as Remuneration) for the period during which they performed their duties:

- Base remuneration,
- Additional remuneration,
- Special remuneration.

Base remuneration for participation in the work of the Board of Directors amounts to EUR 150,000 (one hundred fifty thousand) per year for each member of the Board of Directors (including for participation in Committees of the Board of Directors).

Additional remuneration is paid in addition to base remuneration to the Chairman of the Board of Directors and the Chairmen of the Committees:

- Chairman of the Board of Directors – EUR 200,000 (two hundred thousand) per year;
- Chairman of the Audit Committee of the Board of Directors – EUR 100,000 (one hundred thousand) per year;
- Chairman of the HR and Remuneration Committee of the Board of Directors – EUR 75,000 (seventy-five thousand) per year;
- Chairman of the Strategy Committee of the Board of Directors – EUR 100,000 (one hundred thousand) per year.
- Chairman of the Capital Markets Committee of the Board of Directors – EUR 100,000 (one hundred thousand) per year.

In addition to base and additional remuneration, special one-off remuneration is paid to a member of the Board of Directors who served as the Chairman of the Strategy Committee in 2018 in the amount of EUR 375,000 (three hundred seventy-five thousand).

If remuneration is paid in rubles, the euro exchange rate is determined based on the rate of the Central Bank of the Russian Federation on the date preceding the payment date.

In addition to remuneration paid during the period when members of the Board of Directors perform their duties, the Company compensates members of the Board of Directors for the following expenses:

- expenses associated with traveling to the meeting place of the Board of Directors and from the meeting place to their destination as well as accommodation while located at the meeting place;
- expenses associated with participating in a meeting of the Board of Directors via telephone or a teleconference system, sending a written opinion, or conducting absentee voting;
- expenses associated with members of the Board of Directors performing their functions in the periods between meetings;
- expenses associated with hiring consultants and experts and obtaining relevant opinions on issues concerning the activities of the Board of Directors.

The maximum amount of compensation for expenses per year for each member of the Board of Directors is EUR 50,000 (hereinafter the Compensation Limit).

Expenses are reimbursed on a quarterly basis no later than 30 days after the end of the quarter. The total amount of compensation per year for each member of the Board of Directors may not exceed the Compensation Limit.

If the expenses of a member of the Board of Directors for the year exceed the Compensation Limit, the issue of compensating the amount of expenses exceeding the Compensation Limit is submitted to the General Meeting of Shareholders for consideration.

Decision to pay remuneration

On June 21, 2018, the General Meeting of Shareholders adopted the following resolutions:

- to pay remuneration to members of the Board of Directors for participation in the work of the Board of Directors for the period from January 1, 2017 to June 21, 2018 in the amount and manner prescribed by the Regulation on the Company's Board of Directors, which was approved by the resolution of the Annual General Meeting of Shareholders dated June 4, 2015 (unnumbered minutes dated June 5, 2015);
- not to pay remuneration to the members of the Board of Directors based on the Company's work results for the year (unnumbered minutes dated June 21, 2018);
- to reimburse members of the Board of Directors for expenses directly related to the performance of their functions for the period from January 1, 2017 to June 21, 2018 in the amount of documented expenses that were actually incurred and did not exceed RUB 1,000,000 (one million) for each member of the Company's Board of Directors in the manner prescribed by the Regulation on the Company's Board of Directors, which was approved by the resolution of the Annual General Meeting of Shareholders dated June 4, 2015 (unnumbered minutes dated June 5, 2015).

Remuneration paid to members of the Board of Directors in 2018

Measurement unit: RUB mln

| Indicator | 2018 |
|---|------|
| Remuneration for participation in the work of a management body | 59.1 |

Reimbursement paid to members of the Board of Directors in 2018

Measurement unit: RUB mln

| Name of management body | 2018 |
|-------------------------|------|
| Board of Directors | 1.8 |

Remuneration for the CEO

In accordance with Article 6 of the Regulation "On the Sole Executive Body of PJSC "Magnit," which was approved by the resolution of the Annual General Meeting of Shareholders dated June 24, 2010 (minutes dated June 28, 2010 and in earlier versions), salary and other payments made to the CEO are established by the employment contract concluded with the CEO.

Remuneration for members of the Management Board

In 2018, the policy of remuneration and reimbursement for members of the collegial executive body was governed by the following documents:

- Regulation on the Collective Executive Body (Management Board) of PJSC "Magnit" approved by the Annual General Meeting of Shareholders of PJSC "Magnit" on June 24, 2010 (unnumbered minutes dated June 28, 2010);
- Regulation on the Collective Executive Body (Management Board) of PJSC "Magnit" approved by the Annual General Meeting of Shareholders of PJSC "Magnit" on June 21, 2018 (unnumbered minutes dated June 21, 2018).

In accordance with the Regulation on the Collective Executive Body (Management Board) of PJSC "Magnit" (approved by the Annual General Meeting of Shareholders of PJSC "Magnit" on June 24, 2010; unnumbered minutes dated June 28, 2010), remuneration for a member of the Management Board consists of remuneration in accordance with the employment contract or an additional agreement thereto.

Remuneration for members of the Management Board may be paid annually from the Company's net profit according to the annual financial statements. The conditions and procedure for the payment of remuneration to members of the Management Board are determined by the Board of Directors.

Salary for participation in the work of the Management Board amounts to RUB 50,000 per month in accordance with the employment contract.

The Company's remuneration and reimbursement policy does not envisage compensation for expenses by members of the Company's Management Board associated with the performance of their functions as members of the Company's Management Board.

Changes to the remuneration policy for members of the Management Board

In accordance with the Regulation on the Collective Executive Body (Management Board) of PJSC "Magnit" (approved by the Annual General Meeting of Shareholders of PJSC "Magnit" on June 21, 2018; unnumbered minutes dated June 21, 2018), remuneration for a member of the Management Board consists of remuneration in accordance with the employment contract or an additional agreement thereto.

1. This amount does not include remuneration for the CEO, who is the Chairman of the Management Board.

Remuneration for members of the Management Board may be paid annually from the Company's net profit according to the annual financial statements. The conditions and procedure for the payment of remuneration to members of the Management Board are determined by the Board of Directors.

Salary for participation in the work of the Management Board amounts to RUB 30,000 per month in accordance with the employment contract.

The Company's management bodies did not adopt decisions to compensate members of the Management Board for expenses associated with the performance of their functions as members of the Management Board or the payment of remuneration to members of the Management Board based on the results of the Company's work.

Remuneration paid to members of the collective executive body¹ in 2018: Salary – RUB 86,104,428.15. No compensation was paid to members of the collective executive body in 2018.

No compensation was paid to members of the collective executive body in 2018.

Shareholder and investor engagement

Authorized and share capital

As of December 31, 2018, the authorized capital of Public Joint-Stock Company "Magnit" amounted to RUB 1,019,113.55 and consisted of 101,911,355 ordinary registered uncertified shares¹ with par value of RUB 0.01 each.

In addition to its outstanding shares, the Company had the right to place 98,938,645 ordinary registered shares with par value RUB 0.01 each (declared shares).

As of December 31, 2018, 25 entities were registered in the share register, including 22 individuals, two legal entities, one nominal holder (National Settlement Depository).

PJSC "Magnit" has none of its own shares at its own disposal. As of December 31, 2018, organizations controlled by the Company owned 3,217,294 voting shares in PJSC "Magnit," which amounts to 3.156953% of the total number of ordinary registered shares. PJSC "Magnit" shares belonging to organizations controlled by PJSC "Magnit" were not used to participate in voting at general meetings of shareholders in 2018.

Changes in the share capital structure²

| Date of change | Name | Ownership type | Prior to date of change in proportion | | After date of change in proportion | |
|----------------|------------------------------------|---|---------------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| | | | Number of shares | Percentage of authorized capital, % | Number of shares | Percentage of authorized capital, % |
| 14.03.2018 | Sergey Galitsky | indirect (through controlled entities), independent | 32,760,132 | 32.15% | 3,103,932 | 3.05% |
| 14.03.2018 | LLC VTB Infrastructure Investments | direct, independent | 0 | 0.00% | 29,656,200 | 29.10% |
| 14.03.2018 | PJSC VTB Bank | indirectly (through controlled entities – LLC VTB Infrastructure Investments) | 0 | 0.00% | 29,656,200 | 29.10% |
| 06.08.2018 | OppenheimerFunds, Inc. | indirectly, together with other entities | 5,356,183 | 5.26% | 4,875,693 | 4.78% |
| 28.09.2018 | LLC VTB Infrastructure Investments | direct, independent | 29,656,200 | 29.10% | 7,868,427 | 7.72% |
| 28.09.2018 | PJSC VTB Bank | direct, independent | 908,000 | 0.89% | 18,517,412 | 18.17% |

1. State Registration Number: 1-01-60525-P dated March 4, 2004

2. Information is provided based on notifications received by PJSC "Magnit" from the indicated entities in accordance with the article 30 of the Federal Law No. 39-FZ "On the securities market" as of 22.04.1996

Structure of share capital¹

| Name | Number of registered entities | Proportion of authorized capital, % |
|------------------------------------|-------------------------------|-------------------------------------|
| National Settlement Depository | 1 | 95.54 |
| Including: | | |
| PJSC VTB Bank | | 18.34 ² |
| LLC VTB Infrastructure Investments | | 7.72 ³ |
| Legal entities and individuals | 24 | 4.46 |
| Total: | 25 | 100 |

Share listing

Listing of shares on the Moscow Exchange

The Company's shares have been listed on the Moscow Stock Exchange since April 24, 2006 (MGNT ticker) and are included in the first quotation list.

The shares are included in the following indices: Stock Subindex, MOEX Index, MOEX Index 10, Blue Chip Index, Broad Market Index, Consumer Sector Index / Consumer Sector Index, RTS Consumer Sector Index, RTS Index, and Broad Market RTS Index, among others.

1. Shareholding structure is provided in accordance with the list of shareholders registered in the register of PJSC "Magnit" shareholders as of 31.12.2018

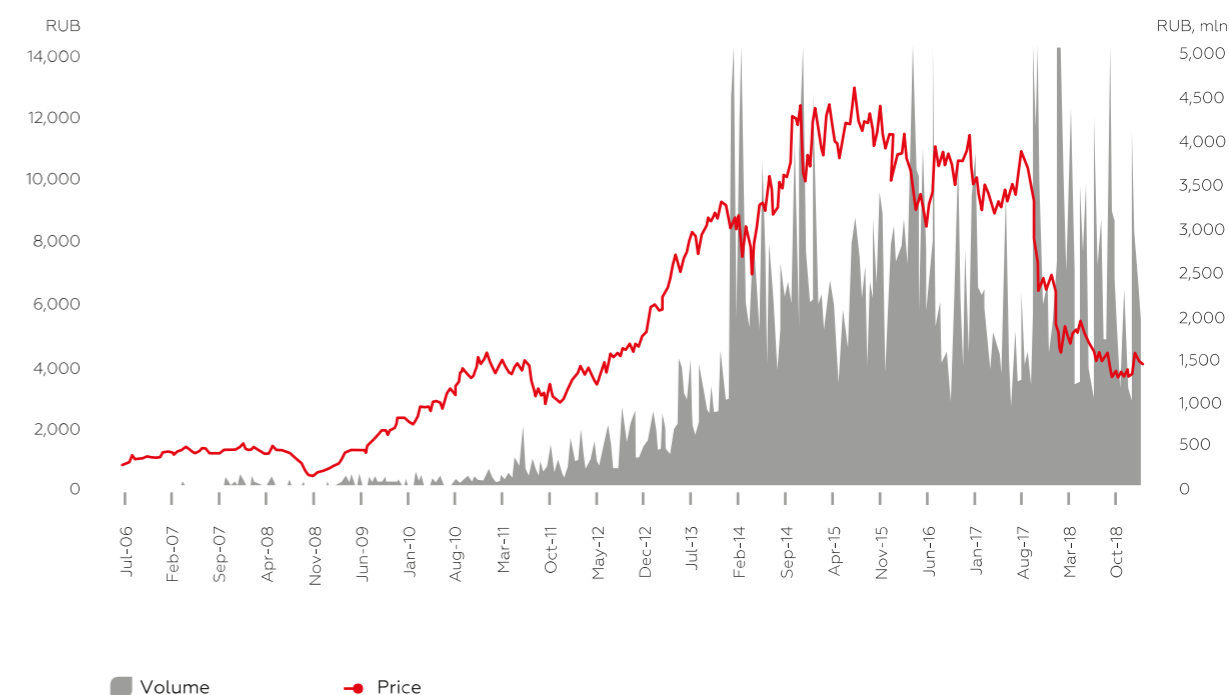
2. Information is provided as of 12.11.2018 based on the list of shareholders entitled to participate in the general shareholders meeting of PJSC "Magnit"

3. Information is provided as of 12.11.2018 based on the list of shareholders entitled to participate in the general shareholders meeting of PJSC "Magnit"

Weight of shares in indices

| Ticker | Index name | Weight in index, % |
|----------|---|--------------------|
| RDXUSD | Russian Depositary Index USD | 2.85 |
| RDX | Russian Depositary Index EUR | 2.85 |
| NU137529 | MSCI EM IMI (VRS Taxes) Net Return USD Index | 0.09 |
| RIOB | FTSE Russia IOB Index | 3.75 |
| RXEUR | RDX Extended EUR Index | 5.00 |
| RXUSD | RDX Extended USD Index | 5.00 |
| M1CXBMOD | MSCI Emerging Markets Select Quality Yield USD NR Index | 0.39 |
| WTEMHY | WisdomTree Emerging Markets High Dividend Index | 0.50 |
| WTGDHY | Wisdomtree Global High Dividend Index | 0.05 |
| EED | Invesco BRIC ETF INAV Index | 0.53 |
| M1WDOEP | MSCI ACWI ex Australia Preliminary USD Net Total Return Index | 0.01 |
| VIEQX | Vident Core International Equity Index | 0.17 |
| BKRUS | Bank of New York Mellon Russia Select DR Index | 4.33 |
| NU722809 | MSCI TRS on EM Net Return USD Index | 0.10 |
| PXHIV | Invesco FTSE RAFI Emerging Markets ETF INAV Index | 0.31 |
| MXCXMTBA | MSCI EM DR Capped | 0.91 |
| MXCXNJDB | MSCI IR and SD ACWI ex US (NJD) USD Price Return Index | 0.02 |
| MXCXSTI | MSCI STICHTING TIMEOS EM Price Return USD Index | 0.10 |
| DEMIV | WisdomTree Emerging Markets Equity Income Fund IOPV | 0.49 |
| WTEMI | WisdomTree Emerging Markets Dividend Index | 0.22 |
| WTGDIV | WT Global Dividend | 0.02 |
| WTGDG | WisdomTree Global Quality Dividend Growth Index | 0.07 |
| GSECRUBW | GSECRUBW | 7.06 |
| LROAMX | Hartford Risk-Optimized Multifactor Emerging Markets TR Index | 0.38 |
| MGMUEMR | MSCI EM Emerging Markets SMID Growth USD | 0.38 |
| MXCXKICU | MSCI ACWI ex SEL CO SPL WGT 2 W/ B-SERIES TAX Price Return USD Index | 0.01 |
| DEWIV | WisdomTree Global Equity Income Fund IOPV | 0.05 |
| EWEMIV | Invesco MSCI Emerging Markets Equal Country Weight ETF INAV Index | 0.12 |
| N50EMPRT | BRICs Nifty 50 Emerging Market Tradable Index Price | 0.73 |
| MXCXMTBB | MSCI BRIC+ZA DR 6% CP HD | 0.24 |
| MXCXMTBC | MSCI EN ex FIN ex Sec Div (MTB) USD Price Return Index | 1.18 |
| MXCXNRTA | MSCI Northern Trust ESG Index on MSCI EM USD STRD | 0.11 |
| MXCXNPSH | MSCI EM ex CHINA ex KOREA ex GREECE ex EGYPT Price Return USD (NPS) Index | 0.18 |
| VYMIIV | Vanguard International High Dividend Yield Index Fund iNAV | 0.01 |
| WTEMIC | WisdomTree Emerging Markets Dividend Index CAD | 0.22 |
| M8CXSTI | MSCI STICHTING TIMEOS EM Gross Return EUR Index | 0.10 |
| M1CXSTI | MSCI STICHTING TIMEOS EM Net Total Return USD Index | 0.10 |
| M7CXSTI | MSCI STICHTING TIMEOS EM Net Return EUR Index | 0.10 |
| M2CXSTI | MSCI STICHTING TIMEOS EM Gross Total Return USD Index | 0.10 |
| M9CXSTI | MSCI STICHTING TIMEOS EM Price Return EUR Index | 0.10 |
| MXCXGPC | MSCI EM ex SELECT SUB-INDUSTR SP TAX Price Return USD Index | 0.10 |
| PBEEIV | Invesco PureBetaSM FTSE Emerging Markets ETF INAV Index | 0.10 |
| ISEMIV | Invesco Strategic Emerging Markets ETF iNAV Index | 0.16 |

Share quotes on the Moscow Exchange



Share price and trading volume on the Moscow Exchange

| Period | Share price, RUB | | | Volume, shares | Capitalization at end of period, RUB bln |
|--------|------------------|----------|------------------|----------------|--|
| | Min | Max | At end of period | | |
| 2014 | 6,631.7 | 12,229.4 | 9,854.0 | 50,696,207 | 931,808 |
| 2015 | 9,645.3 | 12,744.4 | 11,126.0 | 33,193,883 | 1,052,090 |
| 2016 | 8,232.5 | 11,434.0 | 10,908.0 | 38,491,954 | 1,031,475 |
| 2017 | 6,134.6 | 11,281.9 | 6,237.0 | 41,510,279 | 598,290 |
| 2018 | 3,439.5 | 6,724.0 | 3,519.0 | 101,396,747 | 358,626 |
| Q1 | 4,251.0 | 6,724.0 | 4,666.0 | 39,115,884 | 475,518 |
| Q2 | 4,484.0 | 5,265.0 | 4,600.0 | 18,518,957 | 468,792 |
| Q3 | 3,835.0 | 4,630.0 | 3,823.0 | 21,122,563 | 389,607 |
| Q4 | 3,439.5 | 3,852.0 | 3,519.0 | 22,639,343 | 358,626 |

Source: Company estimates based on Moscow Exchange quotes.

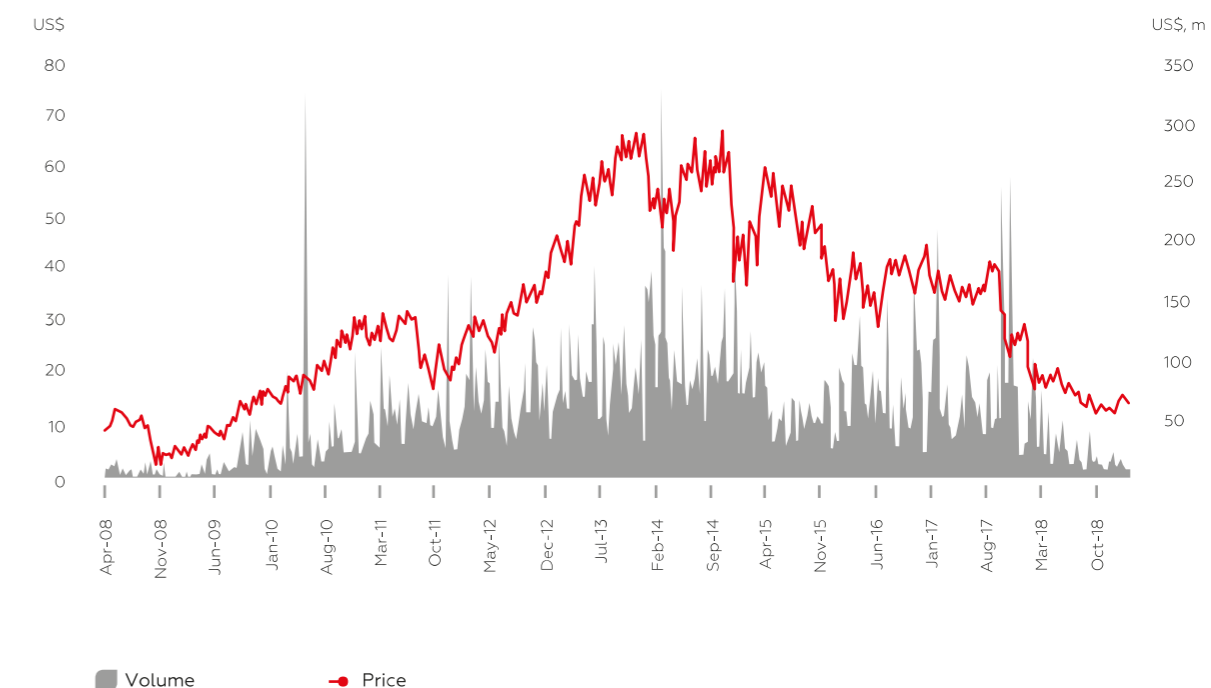
GDR listing

On April 22, 2008, the Company launched trading of its global depositary receipts (GDR) on the main market of the London Stock Exchange with the ticker MGNT. One share represents five depositary receipts. As of December 31, 2017, 27.78% of the Company's total shares were listed on the London Stock Exchange in the form of GDRs.

Weight of GDR in indices

| Ticker | Index name | Weight in index |
|-----------|--|-----------------|
| BWORLD | Bloomberg World Index | 0.01% |
| CRTX | OTOB Russian Traded Index CRTX | 2.40% |
| BWORLDDEU | Bloomberg EMEA -World Index | 0.05% |
| FQEACTR | FTSE Emerging Markets All Cap China A Inclusion Index - Total Return | 0.06% |
| FQE | FTSE Emerging Markets China A Inclusion Index | 0.09% |
| FRAW3GH | FTSE RAFI All World 3000 Hedged to GBP Total Return Index | 0.02% |
| BWFOOD | Bloomberg World Food Index | 0.34% |
| SOEMLCUN | Solactive Emerging Markets Large Cap USD Index NTR | 0.07% |
| AWEMEAU | FTSE EMEA INDEX USD | 0.04% |
| AWXGRUCU | FTSE All World ex Greece Index USD | 0.01% |
| BIRETFEP | BI Europe Food Retailers Valuation Peers | 2.24% |
| AWXNAMU | FTSE All-World ex North America Index USD | 0.02% |
| FTRUSN1 | FTSE Russia RIC Capped Net Tax Index | 2.55% |
| BIGFDRTP | BI Global Food Retailers Valuation Peers | 1.38% |
| BEUCNCY | Bloomberg Europe Consumer Non-cyclical Index | 0.18% |
| EGAXCEMP | Beta Thematic Emerging Markets ex-China Index (PR) | 0.12% |
| BWCNCY | Bloomberg World Consumer Non Cyclical Index | 0.05% |
| FTRUSPR1 | FTSE Russia RIC Capped Price Return Index | 2.55% |
| IVANSIB | Sberbank CIB Ivanov Index | 2.54% |
| FQETR | FTSE Emerging Markets China A Inclusion Index - Total Return | 0.06% |
| SOLGLEMP | Solactive Most Favored Nations Emerging Markets Index | 0.14% |
| FIDGLIMP | Fidelity Global ex. U.S. Index PR | 0.02% |
| BIRETFRC | BI EM Food Retailers Competitive Peers | 1.94% |
| BIRETFEC | BI Europe Food Retailers Competitive Peers | 1.14% |
| BEUFOOD | Bloomberg EMEA Food Index | 0.85% |
| AWEUXGU | FTSE All World Europe ex Greece Index USD | 0.05% |
| BIEURSCP | BI Europe Retail Staples Competitive Peers | 1.15% |
| BIGLRSCP | BI Global Retail Staples Competitive Peers | 0.41% |
| BIEUFRCP | BI Europe Emerging Market Food Retailers Competitive Peers | 4.71% |
| BWRLDEU1 | Bloomberg EMEA -World Level 1 Index | 0.05% |

GDR quotes on London stock exchange



GDR price and trading volume on LSE

| Period | GDR price, USD | | | |
|--------|----------------|-------|---------------|----------------|
| | Min | Max | End of period | Volume, shares |
| 2014 | 38.1 | 67.0 | 45.4 | 308,471,115 |
| 2015 | 37.4 | 60.2 | 40.2 | 189,793,906 |
| 2016 | 29.2 | 44.15 | 44.2 | 253,499,818 |
| 2017 | 23.4 | 44.8 | 27.4 | 270,587,065 |
| 2018 | 12.0 | 29.8 | 12.7 | 203,385,604 |
| Q1 | 17.3 | 29.8 | 18.4 | 82,200,536 |
| Q2 | 16.5 | 21.0 | 18.0 | 51,587,616 |
| Q3 | 13.8 | 18.02 | 14.2 | 36,224,430 |
| Q4 | 12.0 | 14.2 | 12.7 | 33,373,022 |

Source: Bloomberg

Capitalization¹

| Period | Capitalization at end of period, RUB bln |
|--------|--|
| 2014 | 931,808 |
| 2015 | 1,052,090 |
| 2016 | 1,031,475 |
| 2017 | 598,290 |
| 2018 | 358,626 |

Company's capitalization on Moscow Exchange, RUB bln



Free-float

As of December 31, 2018, the proportion of shares in free-float is 71%²

Share trading

In April 2006, PJSC "Magnit" shares began trading on Russian stock exchanges.

On April 14, 2006, PJSC "Magnit" shares were listed in the section of securities accepted for trading but not included in quotation lists of the Russian Trading System Stock Exchange.

On April 24, 2006, the shares of PJSC "Magnit" started being traded in the list of non-listed securities of Closed Joint Stock Company "MICEX Stock Exchange."

1. Per Moscow Exchange data. Market capitalization is calculated as the product of the number of shares of the relevant category (type) and the market price of one share as disclosed by the trade organizer.

2. The number of shares in free-float is determined based on an analysis of the ownership structure of share capital by deducting the number of shares not in free-float from the total number of the Issuer's shares. The number is calculated in accordance with the Listing Rules of PJSC "Moscow Exchange" and the approved Methodologies for Calculating the Free-Float Ratio.

On April 28, 2006, the Company completed the procedure for the initial public offering of PJSC "Magnit" shares in the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX).

During the placement on the RTS and on the MICEX, the price of one share of PJSC "Magnit" was set at USD 27 for the entire package of 18.94% of the Company's authorized capital, and a total of USD 368.355 million was raised. The IPO was organized by Deutsche UFG and foreign investors were able to take part in the placement by purchasing Magnit securities according to the "S" rule.

Starting on December 11, 2007, PJSC "Magnit" shares were included in the "B" Quotation List of the OJSC Russian Trading System Stock Exchange. On December 13, 2007, PJSC "Magnit" shares were accepted for trading in the corresponding list.

On December 21, 2007, PJSC "Magnit" shares were included in the "B" Quotation List of CJSC "MICEX Stock Exchange" and accepted for trading in the corresponding list.

On February 13, 2008, PJSC "Magnit" announced a secondary placement of shares in which it offered an additional issue of 11,300,000 shares (including shares placed with preemptive rights for the Company's existing shareholders) as well as previously placed shares owned by the selling shareholder.

The offer price was USD 42.50 per share. In the course of ruble settlements for the shares, the offer price was calculated based on an exchange rate of RUB 23.4450 per dollar.

A total of 11,245,660 ordinary shares were placed, including 9,719,638 shares that were distributed among international institutional investors. In the course of the placement, the selling shareholder offered the joint book managers an option to additionally place up to 506,586 shares at the placement price. This option was fully utilized.

On April 16, 2008, conditional trading with global depositary receipts ("GDR") began (1 share represented by 5 depositary receipts) on the London Stock Exchange. On April 22, 2008, the GDR of PJSC "Magnit" were included in the official list of the UK Listing Authority.

Proceeds from the secondary share placement amounted to approximately USD 480.25 million and were used to finance the development of the Magnit supermarket chain as well as to further expand the convenience store format and to strengthen the Company's internal logistics base.

Since July 22, 2009, PJSC "Magnit" shares have been included in the second-tier "A" Quotation List of the OJSC "RTS."

On August 7, 2009, PJSC "Magnit" shares were included in the second-tier "A" quotation list of CJSC MICEX Stock Exchange and accepted for trading in the corresponding list.

On September 2, 2009, PJSC "Magnit" announced another public offering of securities in the amount of 11,154,918 ordinary shares.

The offering price was USD 65 per ordinary share and USD 13 per GDR.

A total of 5,729,413 ordinary shares were placed. A total of 5,680,000 ordinary shares from the additional issue were distributed among international institutional investors in the form of GDR, which resulted in the free-float amounting to 46.51% of the Company's total share capital as of December 31, 2009.

Total proceeds from the additional share placement amounted to approximately USD 369.2 million and were spent on developing the hypermarket format, the further expansion of the convenience store format as well as strengthening the Company's internal logistics base.

Starting from November 14, 2010, PJSC "Magnit" shares have been included in (transferred to) the first-tier "A" Quotation List of OJSC "RTS."

Per Order No. 1387-r of CJSC "MICEX Stock Exchange" dated December 29, 2010, the shares of PJSC "Magnit" were included in (transferred to) to the first-tier "A" Quotation List of CJSC "MICEX Stock Exchange."

On November 30, 2011, PJSC "Magnit" announced its intention to conduct an accelerated bookbuild offering among Russian and international institutional investors.

As part of the offering, the Company registered an additional issue of 10,813,516 new shares for public offering with the Russian Federal Financial Markets Service.

The offer price was set at USD 85 per new share. If payment for the shares was made in rubles, the offer price was calculated based on the exchange rate of USD 1 = RUB 30.8486.

The Company placed 5,586,282 ordinary shares, of which 4,117,648 shares were distributed among investors. As a result of the placement, the free-float proportion amounted to 53.83% of the Company's total share capital as of December 31, 2011.

Total proceeds from the additional share placement amounted to approximately USD 475 million and were used to finance the investment program with the aim of further expanding the Company's operations in the hypermarket and convenience store formats as well as further developing the Company's internal logistics base.

On December 19, 2011, the ordinary shares of PJSC "Magnit" were excluded from the first-tier "A" Quotation List of OJSC "RTS Stock Exchange" as a result of the latter's reorganization through a merger with CJSC MICEX.

Since June 18, 2013, the Company's shares have been included in the MICEX Blue Chip Index calculation base. The Moscow Exchange Blue Chips Index is a market indicator for the most liquid stocks of Russian companies, or blue chips. The index is calculated based on the transaction prices and quotes of the most liquid shares of the Russian stock market and is based on ruble-denominated stock prices.

On June 6, 2014, the ordinary registered shares of PJSC "Magnit" were included in the securities listing on OJSC Saint Petersburg Stock Exchange.

2017

On November 15, 2017, the Board of Directors of PJSC "Magnit" decided to increase the Company's authorized capital by placing 7,350,000 additional shares. The placement price was set at RUB 6,185 per share. The public offering was completed on January 15, 2018.

Based on the trading results on PJSC "Moscow Exchange" (formerly CJSC "MICEX Stock Exchange") from January 3, 2017 through December 29, 2017, the weighted average share transaction price ranged from a minimum of RUB 6,274 (15.11.2017) to a maximum of RUB 11,316 rubles (03.01.2017).

The market capitalization of PJSC "Magnit" amounted to RUB 598,298,693,085.00 as of December 29, 2017 according to the data of PJSC "Moscow Exchange" (previously CJSC "MICEX Stock Exchange").

Based on LSE trading results from January 4, 2017 to December 29, 2017, the transaction price for the Company's GDR at the time of closure varied from a minimum of USD 23.39 (15.11.2017) to a maximum of USD 44.80 (01.01.2017).

2018-2019: buyback and a transaction with "SIA Group"

Based on the LSE trading results from January 4, 2018 to December 31, 2018, the transaction price for the Company's GDR at the time of closure varied from a minimum of USD 12.03 (26.10.2018) to a maximum of USD 29.80 (08.01.2018).

On August 21, 2018, the Board approved the total amount of funds allocated for the buyback of shares as follows and for the following purposes (taking into account the changes approved by the Board of Directors on October 4, 2018):

- up to RUB 16,500,000,000 for the implementation of a long-term incentive program.
- up to RUB 5,700,000,000 for payment as part of a transaction related to the acquisition of the "SIA Group."

The Buyback Program has been launched on September 5, 2018 and ended on March 1, 2019. LLC "Renaissance Broker" served as a broker and bought back Magnit's ordinary shares on the Moscow Exchange.

On November 29, 2018, JSC "Tander" concluded a shareholder agreement with Serengate Advisors Limited, under which the latter received 1,513,601 shares, which amounts to 1.485213% of the total shares of PJSC "Magnit," as payment for the transaction related to the acquisition of the "SIA Group."

The company bought back a total of 5,897,776 shares under the Buyback Program (including the shares transferred for the acquisition of the "SIA Group").

As a result, as of March 2, 2019, PJSC "Magnit" owned 4,384,175 ordinary shares, which amounts to 4.30% of the Company's authorized capital.

The value of the package of shares that were bought back amounted to RUB 22,199,822,191 based on the average price at which JSC "Tander" (a subsidiary of PJSC "Magnit") purchased shares from LLC "Renaissance Broker").

| | Number of shares | Proportion of shareholder capital, % |
|---------------------|------------------|--------------------------------------|
| Buyback program | 5,897,776 | 5.79% |
| Transferred for SIA | (1,513,601) | 1.49% |
| Total | 4,384,175 | 4.30% |

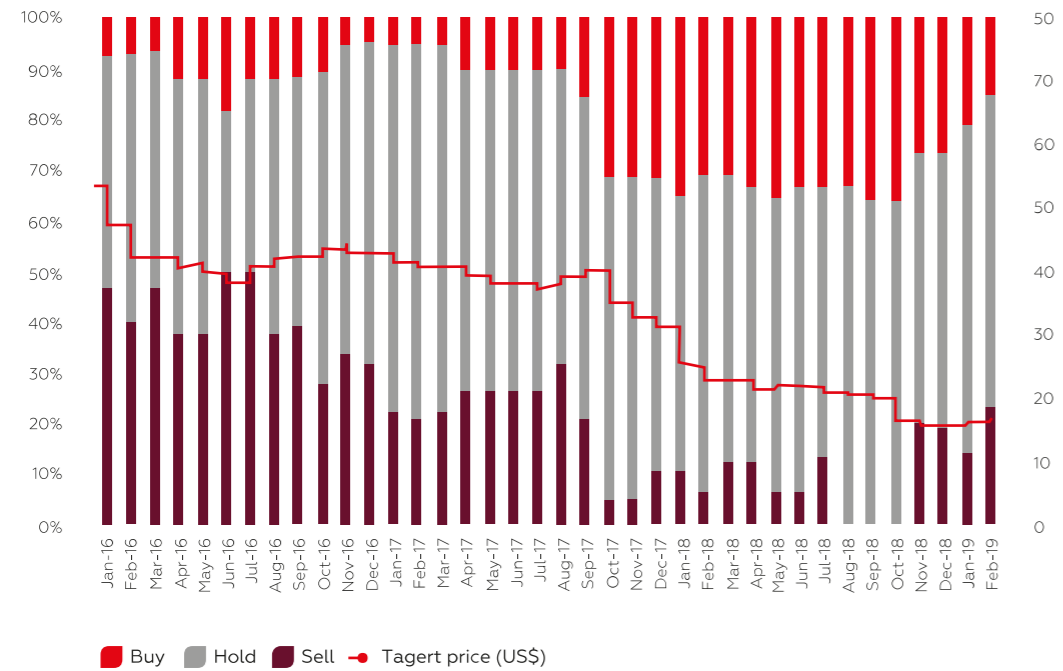
Analysts and consensus forecast

List of analysts

As of the end of the year, coverage of the Company was handled by:

| # | Bank | Analyst | Contact info | Email |
|----|---------------------|---------------------|--------------------|--------------------------------|
| 1 | ALFA BANK | Evgeny Kipnis | +7 (495) 795 37 42 | EKipnis@alfabank.ru |
| 2 | ATON | Victor Dima | +7 (495) 213 03 44 | Victor.Dima@aton.ru |
| 3 | BAML | Ilya Ogorodnikov | +7 (495) 662 60 73 | Ilya.Ogorodnikov@baml.com |
| 4 | BCS | Dmitry Skryabin | +7 (495) 785 53 36 | DSkryabin@bcsgm.com |
| 5 | CITI | Michael Klahr | | Michael.Klahr@citi.com |
| 6 | GAZPROMBANK | Marat Ibragimov | +7 (495) 980 41 87 | Marat.Ibragimov@gazprombank.ru |
| 7 | GOLDMAN SACHS | Yulia Gerasimova | +7 (495) 645 42 97 | Yulia.Gerasimova@gs.com |
| 8 | JP MORGAN | Elena Jouronova | +7 (495) 967 38 88 | Elena.Jouronova@jpmorgan.com |
| 9 | RENAISSANCE CAPITAL | David Ferguson | +7 (495) 641 41 89 | DFerguson@rencap.com |
| 10 | SBERBANK CIB | Mikhail Krasnoperov | +7 (495) 933 98 38 | Mikhail_Krasnoperov@troika.ru |
| 11 | SOVA CAPITAL | Mikhail Terentiev | +7 (495) 213 18 34 | Mikhail.Terentiev@otkritie.com |
| 12 | UBS | Ulyana Lenvalskaya | +7 (495) 648 23 69 | Ulyana.Lenvalskaya@ubs.com |
| 13 | WOOD&CO | Lukasz Wachelko | | Lukasz.Wachelko@wood.com |

Analyst recommendations and target price



Source: Bloomberg

Analyst forecasts

| | Revenue and growth rates | | | | EBITDA and margin | | | | Net profit and margin | | | |
|--------------------|--------------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|-----------------------|-------------|-------------|-------------|
| | 2018 (fact) | 2018 (plan) | 2019 (plan) | 2020 (plan) | 2018 (fact) | 2018 (plan) | 2019 (plan) | 2020 (plan) | 2018 (fact) | 2018 (plan) | 2019 (plan) | 2020 (plan) |
| Consensus (median) | 1,237.0 | 1,235.5 | 1,390.5 | 1,556.5 | 89.9 | 89.6 | 101.6 | 117.1 | 33.9 | 34.6 | 40.3 | 47.3 |
| year-on-year, % | 8.2% | 8.1% | 12.6% | 11.9% | 7.3% | 7.3% | 7.3% | 7.5% | 2.7% | 2.8% | 2.9% | 3.0% |

Debt management

Approach and characteristics

The financial policy of PJSC "Magnit" aims to ensure comfortable conditions for the Company in its work on loan agreements with banks.

The main criteria for the financial policy include restrictions on a comfortable margin for financial covenants, net debt/EBITDA, revenue, net assets, requirements for the available limit on loan agreements, and conditions for raising new loans.

Some of the key features of Magnit's loan portfolio and history include

- The Company's impeccable credit history
- Cooperation with major banks
- Low debt load: net debt/EBITDA ratio – 1.5
- No currency risk: 100% of debt is denominated in rubles, which corresponds to the revenue currency
- Minor changes in interest rate risk: interest is mainly paid at fixed interest rates

Key debt portfolio indicators:

| Debt, RUB mln | 2016 | 2017 | 2018 |
|----------------------------------|---------|---------|---------|
| Total debt | 127,606 | 126,460 | 164,573 |
| Proportion of short-term debt, % | 39.3% | 31.7% | 43.0% |
| Short-term debt | 50,106 | 40,122 | 70,837 |
| Long-term debt | 77,500 | 86,338 | 93,736 |
| Net debt | 111,047 | 108,123 | 137,826 |
| Credit indicators | 2016 | 2017 | 2018 |
| EBITDA/Financial expenses | 8.1 | 7.1 | 9.8 |
| Net debt/LTM EBITDA | 1.0 | 1.2 | 1.5 |

Bonds

The Company uses bonded loans as a form of debt financing for its business that is primarily raised by issuing exchange bonds.

In 2018, PJSC "Magnit" had 2 outstanding issues of exchange bonds (BO-001R-02 and BO-001R-03) with a total nominal volume of RUB 20 billion (the volume in circulation at the end of the reporting year was RUB 0 billion).

Parameters of the BO-001R-02 series bonded loan of PJSC "Magnit":

| | |
|--|--|
| Issue identification number and assignment date | No. 4B02-02-60525-P-001P dated February 24, 2016 |
| Volume of issue | RUB 10,000,000,000 |
| Number of securities | 10,000,000 |
| Nominal value of each security | RUB 1,000 |
| Placement price | 100% of nominal value |
| Placement date | February 29, 2016 |
| Placement method | public placement |
| Maturity date | 728 days from the placement date (February 26, 2018) |
| Number of coupons | 4 |
| Trading code | RU000A0JW662 |
| ISIN code | RU000A0JW662 |
| Coupon interest rate at auction | 11.20% |
| Interest rate for coupon 1 | 11.20% |
| Interest rate for coupon 2 | 11.20% |
| Interest rate for coupon 3 | 11.20% |
| Interest rate for coupon 4 | 11.20% |

The fourth coupon yield on the BO-001P-02 series Exchange Bonds was paid on February 26, 2018. Total income paid on the fourth coupon amounted to RUB 558.5 million; income per one bond on the fourth coupon amounted to RUB 55.85.

PJSC "Magnit" fulfilled its obligations to bondholders and redeemed the par value of the BO-001R-02 series bonds on time and in full on February 26, 2018.

Parameters of the BO-001R-03 series bonded loan of PJSC "Magnit":

| | |
|--|---|
| Issue identification number and assignment date | No. 4B02-03-60525-P-001P dated April 4, 2016 |
| Volume of issue | RUB 10,000,000,000 |
| Number of securities | 10,000,000 |
| Nominal value of each security | RUB 1,000 |
| Placement price | 100% of nominal value |
| Placement date | April 12, 2016 |
| Placement method | public placement |
| Maturity date | 728 days from the placement date (April 10, 2018) |
| Number of coupons | 4 |
| Trading code | RU000A0JWCF4 |
| ISIN code | RU000A0JWCF4 |
| Coupon interest rate at auction | 10.60% |
| Interest rate for coupon 1 | 10.60% |
| Interest rate for coupon 2 | 10.60% |
| Interest rate for coupon 3 | 10.60% |
| Interest rate for coupon 4 | 10.60% |

The fourth coupon yield on the BO-001P-03 series Exchange Bonds was paid on April 10, 2018. Total income paid on the fourth coupon amounted to RUB 528.5 million; income per one bond on the fourth coupon amounted to RUB 52.85.

PJSC "Magnit" fulfilled its obligations to bondholders and redeemed the par value of the BO-001R-03 series bonds on time and in full on April 10, 2018.

In order to ensure the ability to raise debt financing by issuing local bonds of PJSC "Magnit," three Exchange Bond Programs are available with an undrawn limit of a combined RUB 110 billion. The bond programs are perpetual, which will enable the Company to promptly organize the issuance(s) of exchange bonds should the need arise to finance its operations.

Credit ratings
S&P

April 24, 2017 "BB+" with a stable outlook

December 15, 2017 "BB" with a stable outlook

December 20, 2018 "BB" with a stable outlook

RA EX

September 28, 2018 "ruAA-" with a positive outlook

Dividends

The Company's dividend policy aims to improve shareholder returns and ensure growth in the Company's capitalization.

The Company views growth in capitalization as the main driver to meet its shareholders' property interests in generating income from the Company's shares. The dividend policy entails optimizing the proportions between the consumed and capitalized portions of the profit generated by the Company in order to increase the market value of its shares.

The Company's dividend policy is based on the following core principles:

- the principle of transparency, which means identifying and disclosing information about the duties and responsibilities of the parties involved in carrying out the dividend policy, including the procedure and conditions for deciding on the payment and amount of dividends;
- the principle of timeliness, which means establishing time limits for dividend payments;
- the principle of justifiability, which means that the decision on the payment and the amount of dividends may only be made if the Company achieves a positive financial result taking into account development plans and its investment programs;

- the principle of fairness, which means providing shareholders with equal rights to receive information about the decisions made concerning the payment, amount, and procedure for paying dividends;
- the principle of consistency, which means the strict implementation of the procedures and principles of the dividend policy;
- the principle of development, which means continuous improvement in the dividend policy as part of enhancing corporate governance procedures and revising its provisions due to changes in the Company's strategic goals;
- the principle of sustainability, which means the Company's commitment to ensuring a stable level of dividend payments.

The Annual General Meeting of Shareholders on June 21, 2018 (minutes dated June 21, 2018) decided to pay dividends on the ordinary registered shares of PJSC "Magnit" based on the results of the 2017 reporting year.

The Extraordinary General Meeting of Shareholders on December 5, 2018 (minutes dated December 6, 2018) decided to pay dividends on the ordinary registered shares of PJSC "Magnit" based on the results of the first nine months of the 2018 reporting year.

Report on accrued and paid dividends:

| Period | Dividend per share (RUB) | Total dividends declared (RUB) | Dividend amount / IFRS net income, % |
|---------------|--------------------------|--------------------------------|--------------------------------------|
| Total 2008 | 1.46 | 121,538,664 | 3 |
| Total 2009 | 14.82 | 1,291,338,576 | 15 |
| Total 2010 | 6.57 | 584,566,230 | 6 |
| Total 2011 | 22.93 | 2,142,203,933 | 17 |
| Total 2012 | 81.35 | 7,701,566,229 | 31 |
| Total 2013 | 135.21 | 12,785,640,810 | 36 |
| Total 2014 | 362.94 | 34,320,098,184 | 72 |
| Total 2015 | 310.47 | 29,358,463,887 | 68 |
| Total 2016 | 278.13 | 26,300,349,666 | 48 |
| 6 months 2017 | 115.51 | 10,922,782,116 | 53 |
| FY 2017 | 135.50 | 13,808,988,603 | 93 |
| Total 2017 | 251.01 | 24,731,770,719 | 70 |
| 9 months 2018 | 137.38 | 14,000,581,950 | 55 |

Shareholder and investor engagement

In 2018, Magnit's IR team was substantially overhauled, and in 2019 it was headed by Jyrki Talvitie, who began developing a strategy and principles for investor engagement. Also in 2019, Jan Dunning was appointed as the Company's president, whose job function also involves significantly contributing to investor engagement.

Over the course of 2018, Magnit's management and IR team met with investors at five road shows in London, New York, and San Francisco. In September 2018, Magnit hosted an Investor and Analyst Day, which was attended by 133 participants.

Publication calendar¹

| | |
|-------------------|--|
| January 26, 2018 | Conference call on unaudited financial results for 2017 |
| March 23, 2018 | Audited financial statements for 2017 |
| April 20, 2018 | Conference call on unaudited results for Q1 2018 |
| July 26, 2018 | Conference call on unaudited results for H1 2018 |
| August 20, 2018 | Conference call on revised results for H1 2018 |
| October 22, 2018 | Conference call on unaudited results for Q3 2018 |
| February 07, 2019 | Conference call for unaudited financial results for 2018 |
| March 15, 2019 | Audited financial statements for 2018 |

1. <http://ir.magnit.com/ru/tsentr-aktsionera/kalendar-investora/>

In the first quarter of 2019, the Magnit Board of Directors formulated and approved a strategy for investor communications.



05.
APPENDICES

Independent auditor's report on the consolidated financial statements for 2018

Independent auditor's report

To the Shareholders and Board of Directors of
PJSC "Magnit"

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of PJSC "Magnit" and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|------------------|--|
|------------------|--|

Recognition of vendors allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. We considered this matter to be of most significance in our audit because the recognition of vendor allowance requires judgement from management in the assessment of the level of fulfilment of the Group's obligations under the vendor agreements and because these allowances are a substantial part of cost of sales and inventories. Information about accounting policy for vendor allowances is disclosed in Note 3 to the financial statements.

We compared a sample of accruals of volume and other rebates, recorded based on management assumptions, to supporting documents from vendors and supplier agreements. We also compared the outstanding allowances receivable to the direct confirmations from suppliers. We tested cut-off of vendor allowances recorded during a period shortly before and after year-end to supporting documents from vendors.

Valuation of goods for resale

The Group has significant balance of goods for resale. In accordance with IAS 2 *Inventories*, inventories are recorded at the lower of cost and net realizable value. In estimating the carrying amount of goods for resale, the Group's management uses judgments to estimate the net realizable value of goods for resale and the amount of handling costs to be included in the carrying amount of goods for resale. In 2018, the Group revised its accounting policy and started to include handling costs in cost of purchased goods for resale. Previously, the Group recorded such costs within general and administrative expenses. The Group disclosed changes in the accounting policies on retrospective basis. The information about this change is disclosed in Note 3 to consolidated financial statements. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Notes 3 and 10 to the consolidated financial statements.

We assessed the assumptions used by the Group's management in the valuation of goods for resale. We assessed the Group's methodology in respect of valuation of net realizable value, analysed the dynamics of goods for resale turnover ratios taking into consideration seasonality and other applicable factors. We compared carrying values of goods for resale with subsequent sales proceeds by certain type of goods. We analysed individually significant transactions related to inventory items used and also compared monthly movements of goods for resale during the period with the historical information and industry trends, we verified the mathematical accuracy of goods for resale net realisable value calculation. We assessed the process of allocation of handling costs to the carrying amount of goods for resale. We analysed the structure of costs included in the value of goods for resale. We compared the amount of costs with supporting documents received from suppliers and the Group's internal documents.

Other information included in The Group's 2018 Annual Report

Other information consists of the information included in the Annual report of PJSC "Magnit" for 2018, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual report of PJSC "Magnit" for 2018 is expected to be available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Alexander Grebeniuk.

A.Y. Grebeniuk
Partner
Ernst & Young LLC

14 March 2019

Details of the audited entity

Name: PJSC "Magnit"
Record made in the State Register of Legal Entities on 12 November 2003, certificate series 23 No. 001807969,
State Registration Number 1032304945947.
Address: Russia 350072, Krasnodar, Solnechnaya street, 15/5.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PJSC "Magnit" Consolidated statement of financial position as at 31 December 2018

(In thousands of Russian rubles)

| | Notes | 31 December 2018 | 31 December 2017(Notes 3)* |
|--|-------|--------------------|----------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 350,331,456 | 329,826,903 |
| Investment property | | – | 600,000 |
| Land lease rights | 8 | 2,196,180 | 2,373,022 |
| Intangible assets | 9 | 3,442,439 | 2,267,960 |
| Goodwill | 6, 9 | 24,091,508 | 1,367,493 |
| Long-term financial assets | | 150,552 | 350,645 |
| Deferred tax asset | 27 | 2,687,401 | – |
| | | 382,899,536 | 336,786,023 |
| Current assets | | | |
| Inventories | 10 | 187,778,882 | 162,204,502 |
| Trade and other receivables | 11 | 6,961,003 | 1,399,186 |
| Advances paid | 12 | 5,654,981 | 4,990,444 |
| Taxes receivable | | 66,747 | 598,270 |
| Prepaid expenses | | 522,021 | 640,440 |
| Short-term financial assets | | 488,996 | 215,308 |
| Income tax receivable | | 467,769 | 1,153,657 |
| Cash and cash equivalents | 13 | 26,747,754 | 18,337,417 |
| | | 228,688,153 | 189,539,224 |
| Total assets | | 611,587,689 | 526,325,247 |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 14 | 1,020 | 1,020 |
| Share premium | 14 | 87,257,340 | 87,635,960 |
| Treasury shares | | (12,051,463) | – |
| Retained earnings | | 178,097,010 | 171,670,459 |
| Total equity | | 253,303,907 | 259,307,439 |
| Non-current liabilities | | | |
| Long-term borrowings and loans | 19 | 93,736,140 | 86,338,130 |
| Long-term advances received | | 408,734 | – |
| Government grants | 20 | 2,975,361 | 1,100,568 |
| Deferred tax liability | 27 | 25,550,550 | 21,521,720 |
| | | 122,670,785 | 108,960,418 |

| | Notes | 31 December 2018 | 31 December 2017(Notes 3)* |
|-------------------------------------|-------|--------------------|----------------------------|
| Current liabilities | | | |
| Trade and other payables | 16 | 131,173,426 | 99,142,151 |
| Accrued expenses | 17 | 13,006,035 | 11,574,953 |
| Taxes payable | 18 | 4,791,836 | 6,283,720 |
| Dividends payable | 15 | 13,629,822 | 831 |
| Short-term advances received | | 665,285 | 562,691 |
| Contract liabilities | | 1,447,052 | 315,696 |
| Government grants | 20 | 62,340 | 55,423 |
| Short-term borrowings and loans | 19 | 70,837,201 | 40,121,925 |
| | | 235,612,997 | 158,057,390 |
| Total liabilities | | 358,283,782 | 267,017,808 |
| Total equity and liabilities | | 611,587,689 | 526,325,247 |

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 3.

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

The accompanying notes on pages 12-67 are an integral part of these consolidated financial statements.

PJSC "Magnit" Consolidated statement of comprehensive income for the year ended 31 December 2018

(In thousands of Russian rubles)

| | Notes | 2018 | 2017(Note 3)* |
|---|-------|--------------------|--------------------|
| Revenue from contracts with customers | 21 | 1,237,015,457 | 1,143,314,405 |
| Cost of sales | 22 | (940,568,293) | (853,816,856) |
| Gross profit | | 296,447,164 | 289,497,549 |
| Selling expenses | 23 | (16,069,946) | (15,629,200) |
| General and administrative expenses | 24 | (234,766,774) | (222,963,876) |
| Investment income | | 210,316 | 340,714 |
| Finance costs | 25 | (9,136,262) | (12,978,882) |
| Other income | 26 | 8,710,355 | 7,759,273 |
| Other expenses | | (907,548) | (735,488) |
| Foreign exchange (loss)/gain | | (1,415,310) | 133,680 |
| Profit before income tax | | 43,071,995 | 45,423,770 |
| Income tax expense | 27 | (9,207,471) | (9,884,798) |
| Profit for the year | | 33,864,524 | 35,538,972 |
| Total comprehensive income for the year, net of tax | | 33,864,524 | 35,538,972 |
| Profit for the year | | | |
| Attributable to: | | | |
| Equity holders of the Parent | | 33,864,524 | 35,538,972 |
| | | 33,864,524 | 35,538,972 |
| Total comprehensive income for the year, net of tax | | | |
| Attributable to: | | | |
| Equity holders of the Parent | | 33,864,524 | 35,538,972 |
| | | 33,864,524 | 35,538,972 |
| Earnings per share (in RUB per share) | | | |
| - basic and diluted, for profit for the year attributable to equity holders of the parent | 28 | 334.81 | 373.68 |

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 3.

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

The accompanying notes on pages 12-67 are an integral part of these consolidated financial statements

PJSC "Magnit" Consolidated statement of cash flows for the year ended 31 December 2018

(In thousands of Russian rubles)

| | Notes | 2018 | 2017 (Note 3)* |
|--|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 43,071,995 | 45,423,770 |
| <i>Adjustments for:</i> | | | |
| Depreciation | 7 | 35,521,322 | 32,947,360 |
| Amortization including land lease rights | 24 | 996,116 | 768,342 |
| Loss from disposal of property, plant and equipment | | 549,026 | 464,016 |
| Loss from disposal of intangible assets | | 27,278 | - |
| Loss from disposal of land lease rights | 8 | 25,789 | 24,697 |
| Gain from disposal of investment property | | (1,180) | - |
| (Reversal) of expected credit losses / accrual of bad debt provision | 24 | (97,118) | 129,225 |
| Foreign exchange loss/(gain) | | 1,415,310 | (133,680) |
| Finance costs | 25 | 9,136,262 | 12,978,882 |
| Investment income | | (210,316) | (340,714) |
| Operating cash flows before working capital changes | | 90,434,484 | 92,261,898 |
| Increase in trade and other receivables | | (1,213,236) | (684,289) |
| (increase)/decrease in advances paid | | (663,651) | 217,829 |
| Increase in advances received | | 511,328 | 375,292 |
| Decrease/(increase) in taxes receivable | | 1,145,281 | (150,461) |
| Decrease/(increase) in prepaid expenses | | 118,695 | (181,674) |
| Increase in inventories | | (23,424,016) | (27,260,045) |
| Increase in trade and other payables | | 10,247,625 | 15,353,763 |
| Increase in accrued expenses | | 511,124 | 926,667 |
| Decrease in taxes payable | | (1,827,166) | (2,527,243) |
| Increase in contract liabilities | | 1,131,356 | 189,020 |
| Increase in government grants | 20 | 1,858,968 | 355,296 |
| Cash generated from operations | | 78,830,792 | 78,876,053 |
| Income tax paid | | (4,433,235) | (4,876,235) |
| Interest paid | | (9,860,959) | (13,334,900) |
| Interest received | | 200,720 | 343,376 |
| Net cash from operating activities | | 64,737,318 | 61,008,294 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (51,603,538) | (73,528,262) |
| Purchase of intangible assets | 9 | (2,154,557) | (1,560,744) |
| Purchase of land lease rights | 8 | (847) | (63,023) |
| Cash received from business combination | 6 | 187,758 | - |
| Proceeds from sale of property, plant and equipment | | 1,079,628 | 459,417 |
| Proceeds from sale of investment property | | 601,180 | - |
| Loans provided | | (1,507,414) | (1,855,287) |
| Loans repaid | | 166,756 | 1,552,549 |
| Proceeds from government grants | 20 | 22,742 | 800,695 |
| Net cash used in investing activities | | (53,208,292) | (74,194,655) |
| Cash flows from financing activities | | | |
| Proceeds from loans and borrowings | 30 | 600,693,859 | 688,243,578 |
| Repayment of loans and borrowings | 30 | (572,272,534) | (689,033,285) |
| Dividends paid | 30 | (13,808,982) | (29,233,198) |
| Repayment of obligations under finance leases | | (3,345) | (1,250) |
| Proceeds from additional issue of shares | 14 | - | 44,988,662 |

| | Notes | 2018 | 2017 (Note 3)* |
|---|-------|--------------------|-------------------|
| Purchase of treasury shares | 14 | (17,727,687) | – |
| Net cash (used in) / generated from financing activities | | (3,118,689) | 14,964,507 |
| Net increase in cash and cash equivalents | | 8,410,337 | 1,778,146 |
| Cash and cash equivalents at the beginning of the year | 13 | 18,337,417 | 16,559,271 |
| Cash and cash equivalents at the end of the year | 13 | 26,747,754 | 18,337,417 |

* Certain amounts shown here do not correspond to the financial statements for the year ended 31 December 2017 and reflect adjustments described in Note 3.

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

The accompanying notes on pages 12-67 are an integral part of these consolidated financial statements

PJSC "Magnit" Consolidated statement of changes in equity for the year ended 31 December 2018

(In thousands of Russian rubles)

| | Share capital | Share premium | Treasury shares | Retained earnings | Attributable to equity holders of the parent |
|--|---------------|-------------------|---------------------|--------------------|---|
| | | | | | Equity attributable to equity holders of the parent |
| Balance at 1 January 2017 | 946 | 42,647,372 | – | 153,428,650 | 196,076,968 |
| Profit for the year | – | – | – | 35,538,972 | 35,538,972 |
| Total comprehensive income for the year | – | – | – | 35,538,972 | 35,538,972 |
| Dividends declared (Note 15) | – | – | – | (17,297,163) | (17,297,163) |
| Additional issue of shares (Note 14) | 74 | 44,988,588 | – | – | 44,988,662 |
| Balance at 31 December 2017 | 1,020 | 87,635,960 | – | 171,670,459 | 259,307,439 |
| Balance at 1 January 2018 | 1,020 | 87,635,960 | – | 171,670,459 | 259,307,439 |
| Profit for the year | – | – | – | 33,864,524 | 33,864,524 |
| Total comprehensive income for the year | – | – | – | 33,864,524 | 33,864,524 |
| Dividends declared (Note 15) | – | – | – | (27,437,973) | (27,437,973) |
| Purchase of treasury shares (Note 14) | – | – | (17,727,687) | – | (17,727,687) |
| Business combination (Note 6, 14) | – | (378,620) | 5,676,224 | – | 5,297,604 |
| Balance at 31 December 2018 | 1,020 | 87,257,340 | (12,051,463) | 178,097,010 | 253,303,907 |

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

The accompanying notes on pages 12-67 are an integral part of these consolidated financial statements.

PJSC "Magnit" Notes to the consolidated financial statements for the year ended 31 December 2018

(In thousands of Russian rubles)

Corporate information

Close Joint Stock Company "Magnit" ("Magnit") was incorporated in Krasnodar, the Russian Federation, in November 2003.

In January 2006, Magnit changed its legal form to Open Joint Stock Company "Magnit". There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company. In 2014 Magnit changed its legal form to Public Joint Stock Company (the "Company" or PJSC "Magnit") in accordance with changes in legislation.

PJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The Group's retail operations are operated through convenience stores, cosmetic stores, supermarkets and other.

All of the Group's operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/5 Solnechnaya str., 350072, Krasnodar, the Russian Federation.

The principal activities of the Group's subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

| Company name | Principal activity | Ownership interest 2018 | Ownership interest 2017 |
|---|---|-------------------------|-------------------------|
| JSC "Tander" | Food retail and wholesale | 100% | 100% |
| LLC "Retail Import" | Import operations | 100% | 100% |
| LLC "BestTorg" | Food retail in Moscow and the Moscow region | 100% | 100% |
| LLC "MFK" | Other activities | 100% | 100% |
| LLC "Selta" | Transportation services for the Group | 100% | 100% |
| LLC "TK Zelenaya Liniya" | Greenhouse complex | 100% | 100% |
| LLC "Tandem" | Rent operations | 100% | 100% |
| LLC "Alkotrading" | Other operations | 100% | 100% |
| LLC "ITM" | IT operations | 100% | 100% |
| LLC "Logistika Alternativa" | Import operations | 100% | 100% |
| LLC "Zvezda" | Assets holder, maintenance services for the Group | 100% | 100% |
| LLC "TD-holding" | Production and processing of food for the Group | 100% | 100% |
| LLC "MagnitEnergo" | Buyer of electric power for the Group | 100% | 100% |
| LLC "Management Company "Industrial Park Krasnodar" | Management of production assets | 100% | 100% |
| LLC "Kuban Confectioner" | Production of food for the Group | 100% | 100% |
| LLC "Kuban Factory of Bakery Products" | Production of food for the Group | 100% | 100% |
| LLC "Volshebnyaya svezhest" | Production of household chemicals for the Group | 100% | 100% |
| LLC "Moroznye pripasy" | Production of food for the Group | 100% | 100% |
| LLC "Moskva na Donu" | Production of agricultural products for the Group | 100% | 100% |
| LLC "Magnit Pharma" | Pharmaceutical license holder | 100% | - |

| Company name | Principal activity | Ownership interest 2018 | Ownership interest 2017 |
|---|--|-------------------------|-------------------------|
| LLC "TH SIA Group" | Pharmaceutical wholesale | 100% | - |
| LLC "MF-SIA" | Management activities | 100% | - |
| JSC "SIA International Ltd" | Pharmaceutical wholesale | 100% | - |
| CJSC "Rink" | Production of medical devices | 100% | - |
| LLC "MC SIA Group" | Management activities | 100% | - |
| CJSC "SIA International – Krasnodar" | Commission trade of medicines and medical products | 80% | - |
| LLC "SIA International – Arkhangelsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Astrakhan" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Barnaul" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Belgorod" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Blagoveshchensk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Velikiy Novgorod" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Vladivostok" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Penza" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Tambov" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Omsk" | Commission trade of medicines and medical products | 85% | - |
| LLC "SIA International – Vladimir" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Volgograd" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Voronezh" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Ekaterinburg" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Irkutsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Kazan" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Kamchatka" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Kemerovo" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Kirov" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Krasnoyarsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Murmansk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Nizhniy Novgorod" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Novosibirsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Orenburg" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Perm" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Rostov-on-Don" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Samara" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Saint Petersburg" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Saratov" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Smolensk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Stavropol" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Tula" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Tyumen" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Ufa" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Khabarovsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Chelyabinsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Chernozechie" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Yuzhno-Sakhalinsk" | Commission trade of medicines and medical products | 100% | - |
| LLC "SIA International – Yaroslavl" | Commission trade of medicines and medical products | 100% | - |

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for release by the Chief Executive Officer of PJSC "Magnit" on 14 March 2019.

Basis of preparation of the financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of accounting

The Group's entities maintain their accounting records in Russian roubles ("RUB") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The statutory financial statements have been adjusted to present these consolidated financial statements in accordance with IFRS.

The financial statements have been prepared on a historical cost basis except for certain cases that are additionally disclosed in separate paragraphs of the Group's significant accounting policies (Note 3).

The functional currency of each of the Group's entities and the presentation currency of the consolidated financial statements is the Russian rouble ("RUB").

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Summary of significant accounting policies

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Group; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;

- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;

- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures non-financial assets, represented by investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Revenue from contracts with customers

The greater part of revenue from contracts with customers is retail sales.

The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centres and retail stores. Retail sales are in cash and through bank cards. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

For sales promotion purposes and stimulation of client loyalty the Group provides loyalty programs, which allow to accumulate points and exchange them for goods hereafter. The loyalty program offered by the Group gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty programme based on relative stand-alone selling price and recognizes a contract liability.

Expenses related to the loyalty programs are recognised in selling expenses and classified as advertising expenses.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Historical cost information was not available in relation to buildings purchased prior to transition date to IFRS (1 January 2004). Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value as of the date of transition to IFRS and deemed those values as cost.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern on a perspective basis as a change in an accounting estimate.

The estimated useful economic lives of the related assets are as follows:

| | Useful life in years |
|-------------------------|-------------------------|
| Buildings | 30 |
| Machinery and equipment | 3-14 |
| Other fixed assets | 3-10 |

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Construction in progress is reviewed regularly to determine whether its carrying value is recoverable and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Government grants

A government grant is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

If grants provided to financing of definite expenses, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. If grants provided to financing of an asset, government grants shall be recognised in profit or loss as equal shares over the expected useful life of this asset.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is recognized at fair value. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and cash received.

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Land lease rights

Landlease rights acquired as part of hypermarket development projects are separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

When the Group constructs a building on land that is leased under an operating lease, the operating lease costs (including amortization of land lease rights) that are incurred during the construction are capitalised as part of the construction cost of the building.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives.

Lease rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, lease rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortization:

| Description | Useful life in years |
|-----------------------------------|-------------------------|
| Licenses | 1-25 |
| Lease rights (convenience stores) | 1-21 |
| Software | 1-25 |
| Trade marks | 1-10 |
| Other | 1-7 |

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-current and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss.

The following asset has specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost comprises the direct cost of goods, transportation, handling costs and is decreased by the amount of rebates and promotional bonuses received from suppliers, related to these goods. Cost of goods for resale is calculated using the weighted average method, cost of materials and supplies is calculated using cost per unit method, cost of fuel and lubricants calculated using the average cost method. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Vendor allowances

The Group receives various types of allowances from vendors in the form of volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and reduce cost of goods sold in the period the products are sold.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with Russian law.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated profit and loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Retirement benefit costs

The operating entities of the Group contribute to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognized in the profit and loss as incurred.

Share-based payments

Certain employees (senior executives) of the Group receive remuneration in the form of share-based payments. Employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions.

Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

For the measurement of the fair value of equity-settled transactions with employees, the Group uses a Monte-Carlo simulation model for the Share Option Plan.

Segment reporting

The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores, cosmetic stores, hypermarkets and others, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Seasonality

The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are expensed in the period they occur.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade and other receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Financial assets

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI (fair value through other comprehensive income);
- FVPL (fair value through profit or loss).

Before 1 January 2018, the Group classified its financial assets as loans and receivables (amortised cost).

Loans and receivables

Before 1 January 2018, trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market were classified as loans and receivables and were measured at amortised cost using the effective interest rate method.

From 1 January 2018, the Group only measures amounts of loans and receivables at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The solely payment of principal and interest test (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

Before 1 January 2018, financial assets were assessed for indicators of impairment at each reporting date. Financial assets were impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset was reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount was reduced through the use of an allowance account. When a trade receivable was uncollectible, it was written off against the allowance account. Subsequent recoveries of amounts previously written off were credited against the allowance account. Changes in the carrying amount of the allowance account were recognised in the profit and loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through the profit and loss to the extent that the carrying amount of the investment at the date the impairment was reversed did not exceed what the amortised cost would have been had the impairment not been recognised.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for all debt instruments not held at fair value through profit or loss. The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For financial exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade and other receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's cash and cash equivalents have been assigned low credit risk based on the external credit ratings of the respective banks and financial institutions.

Derecognition of financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either
- (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities and equity instruments issued by the Group

Treasury shares

If the Group reacquires its own equity instruments, those instruments (“treasury shares”) are recognised as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain and loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. On disposal the cost of treasury shares is written off using weighted average method. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

Share premium

Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Also the difference between the cost of purchased shares and the fair value of the consideration transferred as part of a business combination is recognised in share premium.

Earnings per share

Earnings per share have been determined using the weighted average number of the Group’s shares outstanding during 12 months ended 31 December 2018 and 2017. The Group does not have any potentially dilutive equity instruments.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised using an effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Changes in accounting policies

In 2018, the Group revised its accounting policies and started to include handling costs in cost of purchased inventories. Previously, the Group recorded such costs within general and administrative expenses. The Group disclosed changes in the accounting policies on retrospective basis. Accordingly, as a result of recalculation of comparative amounts for 12 months of 2017, the cost of sales increased by the amount of the expenses:

| | 2017 |
|-----------------------------------|-------------------|
| Payroll and payroll related taxes | 12,249,836 |
| Rent and utilities | 1,290,694 |
| Packaging and materials costs | 993,161 |
| Other operating expenses | 834,057 |
| | 15,367,748 |

The listed above costs represent the cost of handling goods.

There was no effect on basic and diluted earnings per share.

Changes in the accounting policy did not affect the consolidated statement of financial position and consolidated statement of cash flows.

In 2018, the Group changed its approach to the classification of depreciation of production fixed assets, which is now included in general and administrative expenses. Previously, the Group recorded such costs within cost of sales. As a result of the recalculation of comparative information for the 12 months ended 31 December 2017, cost of sales decreased by RUB 222,403 thousand and general and administrative expenses increased by the same amount. Changes in the classification did not affect the consolidated statement of financial position and consolidated statement of cash flows.

After the restatement of comparative information for the 12 months ended 31 December 2017, cost of sales amounted to RUB 853,816,856 thousand and general and administrative expenses amounted to RUB 238,593,076 thousand.

Except for the changes mentioned above and adoption of new standards effective as of 1 January 2018, the accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2018 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

The Group first applied IFRS 9 *Financial Instruments*. The Group concluded that the standard does not have a significant effect on the consolidated financial statements.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

For the periods starting 1 January 2018, the Group changed its accounting policy relating to classification and measurement of financial assets and liabilities in accordance with the core principles of the standard. As a result, of the change in accounting policy financial assets were classified as those to be measured subsequently at amortised cost and with no need for the retrospective adjustments due to absence of changes in classification of assets measured at amortised cost.

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The provision under IFRS 9 did not differ significantly from the provision assessed under previous accounting policy and the Group did not make retrospective adjustments.

For other debt financial assets the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

As a result of adoption of IFRS 9, the Group did not make any changes to the consolidated financial statements, including comparative historical information, as no significant adjustments were required as a result of the application of the standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transition provisions of IFRS 15 the Group has elected full retrospective method of adoption. There is no significant changes from application of IFRS 15 except for the following reclassifications of deferred revenue and advances received from customers to contract liabilities described below.

The table below shows changes within lines of consolidated financial statements, which were recognised due to reclassification referred to above as a result of IFRS 15 adoption.

| Interim condensed consolidated statement of financial position | 31 December 2017as originally presented | IFRS 15 Reclassification adjustment | 31 December 2017as restated |
|---|--|--|------------------------------------|
| Deferred revenue | 188,359 | (188,359) | – |
| Advances received | 690,028 | (127,337) | 562,691 |
| Short-term contract liabilities | – | 315,696 | 315,696 |

| Condensed consolidated interim statement of cash flows | 2017 as originally presented | IFRS 15 Reclassification adjustment | 2017 as restated |
|---|-------------------------------------|--|-------------------------|
| Decrease in advances received | 375,953 | (661) | 375,292 |
| Decrease in deferred revenue | 188,359 | (188,359) | – |
| Increase in contract liabilities | – | 189,020 | 189,020 |

The Group is in the retail and wholesale business and sells goods both through its stores and distribution centres. The revenue recognised by the Group meets the definition of revenue from contracts with customers as per IFRS 15. The Group recognises revenue when control of the asset is transferred to the customer, generally for the retail customers it is occurred in the stores at the point of sale. Payment of the transaction price is due immediately when the customer purchases goods. The customers have right of return, which is regulated by Russian legislation and is possible within up to 14 days since the purchase with the exception for certain categories of goods.

Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group operates loyalty points programs, which allow customers to accumulate points when they purchase products in the Group's retail stores. The points can be redeemed for free gifts, subject to a minimum number of points obtained. Prior to adoption of IFRS 15, the loyalty programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programmes is insignificantly different from the previous accounting policy. The deferred revenue related to these loyalty points programs was reclassified to contract liabilities.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which:

- The investment entity associate or joint venture is initially recognised;
- The associate or joint venture becomes an investment entity; and

(c) The investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

At the commencement date of a lease, the Group will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The Group will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

The Group will make a transition to IFRS 16 using the full retrospective approach. Under this approach the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented will be adjusted retrospectively as if the new standard had always been applied. Lease liabilities and right-of-use assets will be recognised at the date of lease commenced.

The Group has elected to use the following practical expedients proposed by the standard:

- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component;
- Lease payments for contracts with a duration of 12 months or less for the classes of underlying assets other than land and buildings will continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term.

IFRS 16 will have a material effect on components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations of the Group. The standard will impact a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group. During the current reporting period, progress has been made in the collation of the additional lease data required to support IFRS 16 calculations, establishing systems and processes required for accounting and reporting under IFRS 16 and in determining the appropriate discount rates to apply to lease payments. During the next financial year, the Group will finalise this work and set out accounting policies and procedures for leases. Until the impact assessment is completed, it is not practical to provide a reasonable estimate of the financial effect of IFRS 16.

Annual operating lease expenses and associated non-lease charges, which would have been recognised under existing accounting standards, will be replaced by depreciation and interest expense, which is higher on an initial stage of a lease decreasing over its term, so that a material impact on profit before tax is expected in the year of transition.

As disclosed in Note 29 at 31 December 2018 the Group's outstanding short and long-term lease agreements were cancellable. IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17). A comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applied to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The interpretation addressed the accounting for income taxes when tax treatment involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levied outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addressed the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for the annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

Since the Group operates in a complex tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments do not have any impact on the Group's consolidated financial statements

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on the Group's consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not expected to have any impact on the Group's consolidated financial statement.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

The amendments are effective from 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. The amendments are effective from 1 January 2019, with early application permitted. The Group does not expect any effect on its consolidated financial statements.

Amendments to IFRS 3 Business Combinations – Definition of a Business

The IASB issued amendments to the definition of a business in *IFRS 3 Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted and must be disclosed. These amendments are currently not applicable to the Group.

Amendments to IAS 1 and IAS 8 – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on an Group's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

Significant accounting judgements and estimates

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Matters of accounting methodology requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products.

Due to their subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

Useful economic life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Useful life of leasehold improvements

The Group's leasehold improvements in convenience stores used under operating leases are depreciated using the straight-line method over their estimated useful life beyond the legal expiry dates of operating lease agreements assuming leases will be renewed. Based on the history of the successful renewals of these agreements (all agreements that management wanted to prolong were successfully prolonged) and pre-emptive rights for the prolongation of the lease agreements, the Group's management assumes a thirty year depreciation period for these leasehold improvements.

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

Provision for expected credit losses of trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the food manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 11.

Balances and transactions with related parties

The Group enters into transactions with related parties in the ordinary course of business. The Group purchases food products, materials for construction and equipment from related parties, provides and receives loans and acquires construction services. Related parties of the Group are represented by shareholders and companies, which are the members of the same group with the shareholders, and counterparties that are affiliated with the Group through key management (other related parties). Transactions with related parties are made on terms not necessarily available to third parties.

In February 2018, Galitskiy S.N. entered into an agreement with "VTB Infrastructure Investments" LLC on sale of 29.1% shares of PJSC "Magnit" owned by him. The transfer of shares' ownership title to the "VTB Infrastructure Investments" was registered on 14 March 2018. "VTB Infrastructure Investments" LLC has a significant influence on Group's operations from that moment. Consequently, the structure of related parties of the Group has changed. Related parties of the Group include all companies of the VTB Group.

No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

The Group entered into a number of agreements with related parties for long-term borrowings with limit amounting to RUB 60,000,000 thousand with maturity dates in May 2023.

Related party balances as at 31 December 2018 and 2017 consisted of the following:

| | Shareholders | | Other related parties | |
|-----------------------------|--------------|------|-----------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Loans received (Note 19) | 28,200,000 | – | – | 5,646,527 |
| Other payables (Note 16) | 2,633 | – | 93,288 | 58,603 |
| Advances received | 1,967 | – | 298 | – |
| Other receivables (Note 11) | 190 | – | 24,933 | 80,647 |
| Short-term loans receivable | – | – | 181,196 | 113,910 |
| Long-term financial assets | – | – | 50,000 | 50,000 |
| Advances paid (Note 12) | – | – | 24,364 | 159,046 |
| Trade payables (Note 16) | – | – | – | 31,565 |

The Group's transactions with related parties for the years ended at 31 December 2018 and 2017 consisted of the following:

| | Shareholders | | Other related parties | |
|--|--------------|------------|-----------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Loans received | 28,200,000 | 50,433,500 | 1,333,881 | 10,564,200 |
| Loans received repayment | 898,389 | 50,645,472 | 1,169,174 | 4,981,181 |
| Interest expense | 898,389 | 60,463 | 71,473 | 63,508 |
| Other expense | 45,599 | – | 109,053 | 171,763 |
| Interest income | 17,117 | 12,700 | 9,024 | 22,183 |
| Loans given repayment | 16,542 | 162,204 | 67,595 | 1,424,404 |
| Rent and utilities income | 15,931 | – | 30,909 | 135,059 |
| Other income | 8,052 | – | 819,223 | 234,943 |
| Purchases of inventory | – | – | 3,608,331 | 9,960,169 |
| Loans given | – | – | 125,857 | 1,450,920 |
| Purchases of property, plant and equipment | – | – | 117,922 | 73,006 |
| Purchase of intangible assets | – | – | 38,777 | 110 |
| Rent expense | – | – | 16,709 | 4,376 |
| Wholesale | – | – | 68 | 235 |

All employee benefits of Group management and members of the Board of Directors of the Group for 2018 were RUB 908,822 thousand (2017: RUB 1,535,881 thousand). All employee benefits include the remuneration under labour contract, social contributions and repayments to the board of director's members.

Business combination

Acquisition of "MF-SIA" LLC

On 27 November 2018, the Group acquired 100% of shares of "MF-SIA" LLC, and obtained control over the group of companies SIA (hereafter "SIA Group"). All legal entities of the SIA Group are based in Russian Federation, the companies of the SIA Group are non-listed.

SIA Group is one of the largest distributors of pharmaceutical products and medical goods. The Group has special licenses that allow it to perform pharmaceutical activities and also it has contracts with many of the largest producers of pharmaceutical products and medical goods in Russia and globally.

Assets acquired and liabilities assumed

The assets and liabilities of the SIA Group, recognized in the financial statements, were based on a provisional assessment of their fair value. As at the reporting date, the Group did not finalize the valuation and allocation of purchase price. The Group plans to finalize the valuation of the fair value of assets and liabilities of the SIA Group no later than November 2019. As at the reporting date, the Group has been preparing an independent valuation of the property and intangible assets owned by SIA Group. The valuation had not been completed by the date when the 2018 financial statements were approved for issue by the Board of Directors. Also the Group has not finalized the valuation of fair value of some assets (including deferred tax asset) and liabilities (related to contingent liabilities and provisions) as the Group has not received yet all comprehensive information about the facts and circumstances as at the valuation date.

The information about provisional fair values of the identifiable assets and liabilities of SIA Group at the date of acquisition is disclosed below:

| | Provisional fair value recognized on acquisition |
|--|--|
| Assets | |
| Property, plant and equipment (Note 7) | 5,942,407 |
| Intangible assets (Note 9) | 12,776 |
| Deferred tax asset (Note 27) | 2,649,636 |
| Inventory | 2,150,364 |
| Trade and other receivables | 4,251,463 |
| Cash and cash equivalents | 187,758 |
| Taxes receivable | 712,732 |
| Advances paid | 886 |
| | 15,908,022 |
| Liabilities | |
| Short-term borrowings | 11,691,781 |
| Trade and other payables | 20,387,412 |
| Accrued expenses | 920,195 |
| Taxes payables | 335,045 |
| | 33,334,433 |
| Total identifiable net assets at fair value | (17,426,411) |
| Goodwill arising on acquisition (Note 9) | 22,724,015 |
| Purchase consideration transferred | 5,297,604 |

The gross amount of trade receivables is RUB 4,251,463 thousand. The fair value of the trade receivables is approximately equal to the gross amount of trade receivables. Trade receivables are not impaired and it is expected that the full contractual amounts will be collected.

The deferred tax asset of RUB 1,220,511 thousand relates to losses carried forward as of the date of acquisition. It is expected that this asset will be refund against taxable profit in the future. The remaining amount of deferred tax asset is represented by temporary tax differences related to accrued provisions.

The goodwill of RUB 22,724,015 thousand is attributable to expected synergies arising from the acquisition. The total amount of goodwill is allocated to Group activities under the following formats "Magnit Cosmetic" and "Magnit Pharmacy", including related stores and warehouses. None of the recognized goodwill is expected to be deductible for income tax purposes.

From the date of acquisition, SIA Group contributed RUB 2,009,308 thousand of revenue and RUB 150,723 thousand to profit before tax from continuing operations of the Group.

Before the business combination the SIA Group did not prepare financial statements under the IFRS accounting policy of the Group, therefore the assessment of the impact on revenue and profit before tax of the Group as if the combination had taken place at the beginning of the year is practically impossible.

In 2018, the Group purchased 1,513,601 of its own shares from the open market with the aim of transferring them as a **purchase consideration for the 100% of shares of SIA Group**. The fair value of the shares is calculated with reference to their quoted price. Under the business combination the fair value of the consideration was calculated as the multiplication of the quantity of equity instruments to be transferred under the contract and the share price of one voting non-documentary registered share in the share capital of PJSC "Magnit" defined in accordance with market quotes at the date of acquisition of "MF-SIA" LLC. The share price of one share at the date of acquisition amounted to 3,500 rubles. The fair value of the consideration given comprised RUB 5,297,604 thousand. The Group transferred its own shares as the consideration for acquisition of "MF-SIA" LLC.

Transaction costs of 259,504 thousand RUB were expensed and are included in administrative expenses.

Cash and cash equivalents of the SIA Group at the acquisition date are included in the investments activities cash flows in the consolidated statement of cash flows.

Property, plant and equipment

Property, plant and equipment as at 31 December 2018 consisted of the following:

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|--|-------------------|---------------------|-------------------------|---------------------|---------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2018 | 16,040,282 | 267,229,195 | 104,253,052 | 40,221,686 | 21,650,557 | 449,394,772 |
| Business combination (Note 6) | 518,323 | 5,271,403 | 57,199 | 86,124 | 9,358 | 5,942,407 |
| Additions | 49,661 | 153,250 | 14,693,139 | 5,446,876 | 31,261,392 | 51,604,318 |
| Transfers | – | 29,472,659 | – | – | (29,472,659) | – |
| Disposals | (507,371) | (4,212,633) | (4,901,835) | (2,570,002) | (326,082) | (12,517,923) |
| Transfer from land lease right | 107,804 | – | – | – | – | 107,804 |
| At 31 December 2018 | 16,208,699 | 297,913,874 | 114,101,555 | 43,184,684 | 23,122,566 | 494,531,378 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 January 2018 | – | (40,344,375) | (60,350,243) | (18,873,251) | – | (119,567,869) |
| Charge for the year | – | (15,026,930) | (15,176,110) | (5,318,282) | – | (35,521,322) |
| Disposals | – | 4,474,661 | 4,323,283 | 2,091,325 | – | 10,889,269 |
| At 31 December 2018 | – | (50,896,644) | (71,203,070) | (22,100,208) | – | (144,199,922) |
| Net book value | | | | | | |
| At 1 January 2018 | 16,040,282 | 226,884,820 | 43,902,809 | 21,348,435 | 21,650,557 | 329,826,903 |
| At 31 December 2018 | 16,208,699 | 247,017,230 | 42,898,485 | 21,084,476 | 23,122,566 | 350,331,456 |

Property, plant and equipment as at 31 December 2017 consisted of the following:

| | Land | Buildings | Machinery and equipment | Other assets | Assets under construction | Total |
|--|-------------------|---------------------|-------------------------|---------------------|---------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2017 | 14,989,340 | 233,361,003 | 88,734,450 | 34,849,491 | 17,628,645 | 389,562,929 |
| Additions | 801,677 | 192,252 | 20,355,439 | 7,927,982 | 44,253,522 | 73,530,872 |
| Transfers | – | 40,036,277 | – | – | (40,036,277) | – |
| Disposals | (961) | (6,360,337) | (4,836,837) | (2,555,787) | (195,333) | (13,949,255) |
| Transfer from land lease right | 250,226 | – | – | – | – | 250,226 |
| At 31 December 2017 | 16,040,282 | 267,229,195 | 104,253,052 | 40,221,686 | 21,650,557 | 449,394,772 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 January 2017 | – | (31,806,293) | (50,796,984) | (17,014,305) | – | (99,617,582) |
| Charge for the year | – | (14,906,594) | (13,835,432) | (4,234,083) | – | (32,976,109) |
| Disposals | – | 6,368,512 | 4,282,173 | 2,375,137 | – | 13,025,822 |
| At 31 December 2017 | – | (40,344,375) | (60,350,243) | (18,873,251) | – | (119,567,869) |
| Net book value | | | | | | |
| At 1 January 2017 | 14,989,340 | 201,554,710 | 37,937,466 | 17,835,186 | 17,628,645 | 289,945,347 |
| At 31 December 2017 | 16,040,282 | 226,884,820 | 43,902,809 | 21,348,435 | 21,650,557 | 329,826,903 |

In 2018, the weighted average capitalisation rate on funds borrowed is 7.81% per annum (2017: 9.49%), the information on interest expenses, included in the cost of qualifying assets, is disclosed in Note 25.

Land lease rights

Land lease rights as at 31 December 2018 consisted of the following:

| | Land lease rights |
|--|-------------------|
| Cost | |
| At 1 January 2018 | 2,819,831 |
| Additions | 847 |
| Disposals | (28,774) |
| Transfer to PPE | (107,804) |
| At 31 December 2018 | 2,684,100 |
| Accumulated amortization and impairment | |
| At 1 January 2018 | (446,809) |
| Charge for the year | (44,096) |
| Disposals | 2,985 |
| At 31 December 2018 | (487,920) |
| Net book value | |
| At 1 January 2018 | 2,373,022 |
| At 31 December 2018 | 2,196,180 |

Land lease rights as at 31 December 2017 consisted of the following:

| | Land lease rights |
|--|-------------------|
| Cost | |
| At 1 January 2017 | 3,033,439 |
| Additions | 63,023 |
| Disposals | (26,405) |
| Transfer to PPE | (250,226) |
| At 31 December 2017 | 2,819,831 |
| Accumulated amortization and impairment | |
| At 1 January 2017 | (393,987) |
| Charge for the year | (54,530) |
| Disposals | 1,708 |
| At 31 December 2017 | (446,809) |
| Net book value | |
| At 1 January 2017 | 2,639,452 |
| At 31 December 2017 | 2,373,022 |

In 2018, amortization charge of land lease rights was capitalised to cost of property, plant and equipment in the amount of RUB 780 thousand (2017: RUB 2,610 thousand).

Intangible assets

Intangible assets as at 31 December 2018 consisted of the following:

| | Licenses | Lease rights | Software | Trade mark | Other | Total |
|--|------------------|------------------|--------------------|----------------|-----------------|--------------------|
| Cost | | | | | | |
| At 1 January 2018 | 266,432 | 838,516 | 2,383,011 | 29,706 | 113,238 | 3,630,903 |
| Business combination (Note 6) | – | – | 12,776 | – | – | 12,776 |
| Additions | 83,765 | 1,184,184 | 792,353 | 2,130 | 79,349 | 2,141,781 |
| Disposals | (67,651) | (19,893) | (551,544) | (115) | (70,570) | (709,773) |
| At 31 December 2018 | 282,546 | 2,002,807 | 2,636,596 | 31,721 | 122,017 | 5,075,687 |
| Accumulated amortization and impairment | | | | | | |
| At 1 January 2018 | (134,425) | (87,012) | (1,081,804) | (2,963) | (56,739) | (1,362,943) |
| Charge for the year | (62,161) | (153,874) | (666,968) | (3,090) | (66,707) | (952,800) |
| Disposals | 58,025 | 3,369 | 551,544 | 115 | 69,442 | 682,495 |
| At 31 December 2018 | (138,561) | (237,517) | (1,197,228) | (5,938) | (54,004) | (1,633,248) |
| Net book value | | | | | | |
| At 1 January 2018 | 132,007 | 751,504 | 1,301,207 | 26,743 | 56,499 | 2,267,960 |
| At 31 December 2018 | 143,985 | 1,765,290 | 1,439,368 | 25,783 | 68,013 | 3,442,439 |

Intangible assets as at 31 December 2017 consisted of the following:

| | Licenses | Lease rights | Software | Trade mark | Other | Total |
|--|------------------|-----------------|--------------------|----------------|-----------------|--------------------|
| Cost | | | | | | |
| At 1 January 2017 | 249,150 | 160,096 | 1,940,162 | 4,955 | 110,065 | 2,464,428 |
| Additions | 44,686 | 692,139 | 726,338 | 24,847 | 72,734 | 1,560,744 |
| Disposals | (27,404) | (13,719) | (283,489) | (96) | (69,561) | (394,269) |
| At 31 December 2017 | 266,432 | 838,516 | 2,383,011 | 29,706 | 113,238 | 3,630,903 |
| Accumulated amortization and impairment | | | | | | |
| At 1 January 2017 | (102,119) | (66,097) | (802,124) | (1,681) | (68,769) | (1,040,790) |
| Charge for the year | (59,710) | (34,634) | (563,169) | (1,378) | (57,531) | (716,422) |
| Disposals | 27,404 | 13,719 | 283,489 | 96 | 69,561 | 394,269 |
| At 31 December 2017 | (134,425) | (87,012) | (1,081,804) | (2,963) | (56,739) | (1,362,943) |
| Net book value | | | | | | |
| At 1 January 2017 | 147,031 | 93,999 | 1,138,038 | 3,274 | 41,296 | 1,423,638 |
| At 31 December 2017 | 132,007 | 751,504 | 1,301,207 | 26,743 | 56,499 | 2,267,960 |

Amortization expense is included in general and administrative expenses (Note 24).

Goodwill as at 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|---|-------------------|------------------|
| Goodwill as at beginning of the year | 1,367,493 | 1,367,493 |
| Goodwill arising on acquisition (Note 6) | 22,724,015 | – |
| Goodwill impairment | – | – |
| Goodwill as at the end of the year | 24,091,508 | 1,367,493 |

Goodwill impairment test

The Company performed its annual goodwill impairment test for goodwill related to acquisition of "TD-holding" LLC as of 31 December of each year. In assessing whether goodwill has been impaired, the current value of generating unit was compared with its estimated value in use.

Value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for ten years, approved by the management of the Group, taking into account inflation, the demand for goods produced by "TD-holding" LLC, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 16% (12.6% in 2017).

The impairment test did not reveal impairment of goodwill.

The Company performed its annual goodwill impairment test arising from the acquisition of the SIA Group, value in use was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows for five years, approved by the management of the Group, taking into account inflation (5%), expected synergies from acquisitions, existing long-term contracts with suppliers of pharmaceutical and medical goods, as well as other macroeconomic assumptions. The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 16%.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for acquisition of SIA Group business is most sensitive to the following assumptions:

- Gross margin;
- Discount rate;
- Revenue growth.

Gross margin

The gross margin included in the forecast of Group's activities under the formats "Magnit Cosmetic" and "Magnit Pharmacy", including related stores and warehouses, is in the range from 33.2% to 40.6%, in accordance with the approved strategic development plan and expected efficiency of sales. A decrease in buyers' demand may lead to a decrease in gross margin. The decrease of gross margin by 5% would result in decrease in expected operating cash flows, but would not cause impairment losses.

Discount rate

The discount rate calculation is based on the specific circumstances applicable to the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

An increase in the pre-tax discount rate to 19% (i.e. + 3%) would reduce the expected discounted cash flows, but would not cause impairment losses.

Revenue growth

One of the most significant assumptions used in the testing model is revenue growth for the forecast period, being in the range from 5% to 26%. The forecast is based on Group's activities under the formats "Magnit Cosmetic" and "Magnit Pharmacy", including related stores and warehouses. The Group forecast of the expected volume of sales is based on the approved strategic development plan for the forecast period, as well as indicators of the expected consumer price index. The expected consumer price index is 5%. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge. Decreased demand can lead to a decrease in sales volume. A decrease in revenue by 5% would result a decrease in expected operating cash flows, but would not cause any impairment losses.

The impairment test did not reveal impairment of goodwill.

Inventories

Inventory as at 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Goods for resale (at lower of cost and net realisable value) | 178,092,712 | 151,723,919 |
| Materials and supplies | 9,686,170 | 10,480,583 |
| | 187,778,882 | 162,204,502 |

Materials and supplies are represented by spare parts, packaging materials and other materials used in hypermarkets, stores and warehouses, as well as semi-finished goods of own production.

Trade and other receivables

Trade and other receivables as at 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--|------------------|------------------|
| Trade receivables – third parties | 4,242,813 | 30,980 |
| Other receivables – third parties | 3,349,862 | 2,041,472 |
| Other receivables – related parties (Note 5) | 25,123 | 80,647 |
| Expected credit losses of accounts receivable (bad debt provision) | (656,795) | (753,913) |
| | 6,961,003 | 1,399,186 |

Other receivables are mainly represented by receivables related to bonuses from vendors.

Trade receivables are non-interest bearing and are generally repaid up to 90 days.

Trade receivables are mainly represented by accounts receivable from customers of the SIA Group, which was acquired in November 2018. At the date of acquisition, the Group estimated the fair value of accounts receivable and recognized it as identifiable asset (Note 6).

The Group uses a provision matrix to calculate expected credit losses (hereafter “ECL”) for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group’s historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the food manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group’s trade and other receivables as at 31 December 2018 using a provision matrix:

| | Current | Overdue less than 90 days | Overdue 90-180 days | Overdue 180-360 days | Overdue more than 360 days | Total |
|--|-----------|---------------------------|---------------------|----------------------|----------------------------|-----------|
| 2018 | | | | | | |
| Expected credit loss rate | 0.1%-1.5% | 3-5% | 10-20% | 50% | 100% | |
| Estimated total gross carrying amount at default | 6,100,163 | 662,920 | 216,945 | 115,020 | 522,750 | 7,617,798 |
| Expected credit loss | 12,200 | 20,946 | 43,389 | 57,510 | 522,750 | 656,795 |

Ageing of trade and other receivables that were past due but not impaired as at 31 December 2017:

| Carrying amount | Not impaired or overdue as at 31 December 2018 | Neither past due nor impaired | | | Total |
|-----------------|--|-------------------------------|----------------------|----------------------------|--------|
| | | Overdue 90-180 days | Overdue 180-360 days | Overdue more than 360 days | |
| 2017 | 1,399,186 | 1,160,259 | 57,865 | 88,210 | 92,852 |

Advances paid

Advances paid as at 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--|------------------|------------------|
| Advances to third party suppliers | 4,873,493 | 4,353,038 |
| Advances for customs duties | 710,629 | 430,435 |
| Other advances | 46,495 | 47,925 |
| Advances to related party suppliers (Note 5) | 24,364 | 159,046 |
| | 5,654,981 | 4,990,444 |

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Petty cash, in RUB | 2,255,279 | 2,098,404 |
| Cash in banks, in RUB | 4,795,522 | 6,770,745 |
| Cash in banks, in foreign currency | 20,765 | 15,135 |
| Cash in transit, in RUB | 8,746,776 | 9,453,133 |
| Cash placed on accounts with minimum account balance, in RUB | 9,540,000 | – |
| Short-term deposits, in foreign currency | 1,389,412 | – |
| | 26,747,754 | 18,337,417 |

Cash in transit represents cash collected by banks from the Group’s stores and not deposited in bank accounts and bank card payments being processed as at 31 December 2018 and 2017.

As at 31 December 2018 cash was placed on deposits in US Dollars in amount of RUB 1,389,412 thousand, also cash in rubles was placed on accounts with minimum account balance in amount of RUB 9,540,000 thousand, maturing in January 2019. The amount of interest accrued as at 31 December 2018 is not significant.

Share capital, share premium and treasury shares

| | 2018 No. ('000) | 2017 No. ('000) |
|---|--------------------|--------------------|
| Authorized share capital (ordinary shares with a par value of RUB 0.01) | 200,850 | 200,850 |
| Issued and fully paid (par value of RUB 0.01) | 101,911 | 101,911 |

| | 2018 | 2017 |
|-------------------------------------|-------------------|-------------------|
| Share premium at 1 January | 87,635,960 | 42,647,372 |
| Sale of treasury shares | (378,620) | – |
| Additional issue of shares | – | 44,988,588 |
| Share premium at 31 December | 87,257,340 | 87,635,960 |

| | 2018 No. ('000) | 2017 No. ('000) |
|---|--------------------|--------------------|
| Balance of shares outstanding at beginning of financial year | 101,911 | 94,561 |
| Issue of shares | – | 7,350 |
| Sale of treasury shares | 1,514 | – |
| Purchase of treasury shares | (4,760) | – |
| Balance of shares outstanding at the end of financial year | 98,665 | 101,911 |

In 2018, the Group transferred 1,513,601 of its own shares purchased from the open market as a reward for acquiring a business (Note 6). The fair value of the consideration transferred was RUB 5,297,604 thousand. The difference between the fair value of the shares and their book value was recorded as a decrease in share premium in the amount of RUB 378,620 thousand.

In 2018, the Group purchased 4,760,089 of own ordinary shares from the open market, the treasury shares cost amounted to RUB 17,727,687 thousand.

Dividends declared

During the year ended 31 December 2018 the Group declared dividends to shareholders relating to 2017 and the 9 months of 2018:

| | 2018 |
|---|-------------------|
| Dividends declared for 2017 (135.5 RUB for 1 share) | 13,808,989 |
| Dividends declared for the 9 months of 2018 (137.38 RUB for 1 share) | 13,628,984 |

During the year ended 31 December 2017 the Group declared dividends to shareholders relating to 2016 and the first half of 2017:

| | 2017 |
|--|------------|
| Dividends declared for 2016 (67.41 RUB for 1 share) | 6,374,381 |
| Dividends declared for the first half of 2017 (115.51 RUB for 1 share) | 10,922,782 |

As at 31 December 2018 the amount of liability for unpaid dividends is RUB 13,629,822 thousand (at 31 December 2017: RUB 831 thousand).

Trade and other payables

Trade and other payables as at 31 December 2018 and 2017 consisted of the following:

| | 31 December 2018 | 31 December 2017 |
|--|--------------------|-------------------|
| Trade payables to third parties | 122,585,005 | 93,574,862 |
| Other payables to third parties | 8,492,500 | 5,477,121 |
| Other payables to related parties (Note 5) | 95,921 | 58,603 |
| Trade payables to related parties (Note 5) | – | 31,565 |
| | 131,173,426 | 99,142,151 |

The average credit period for purchases was 41 days in 2018 and 37 days in 2017. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

Accrued expenses

Accrued expenses as at 31 December 2018 and 2017 consisted of the following:

| | 31 December 2018 | 31 December 2017 |
|----------------------------|-------------------|-------------------|
| Accrued salaries and wages | 7,235,456 | 7,183,464 |
| Other accrued expenses | 5,770,579 | 4,391,489 |
| | 13,006,035 | 11,574,953 |

Taxes payables

Taxes payables as at 31 December 2018 and 2017 consisted of the following:

| | 31 December 2018 | 31 December 2017 |
|---------------------------------|------------------|------------------|
| Social insurance contributions | 2,105,510 | 2,208,386 |
| Employee income tax withholding | 1,100,611 | 1,042,411 |
| Property tax | 822,291 | 761,474 |
| Value added tax | 763,424 | 2,220,432 |
| Other taxes | – | 51,017 |
| | 4,791,836 | 6,283,720 |

Borrowings and loans

Long-term and short-term borrowings and loans as at 31 December 2018 and 2017 consisted of the following:

| | Year of maturity | Weighted average interest rate | 31 December 2018 | Weighted average interest rate | 31 December 2017 |
|---|------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| Long-term borrowings and loans | | | | | |
| Unsecured bank loans | 2020-2025 | 8.57% | 65,837,515 | 8.17% | 13,543,612 |
| Unsecured bank loans from related parties (Note 5) | 2021-2022 | 8.25% | 28,200,000 | – | – |
| Unsecured bank loans | 2019 | – | – | 8.23% | 72,831,616 |
| Less: current portion of long-term borrowings and loans | | | (301,375) | | (37,098) |
| Total long-term borrowings and loans | | | 93,736,140 | | 86,338,130 |
| Short-term borrowings and loans | | | | | |
| Unsecured bank loans | 2019 | 7.7% | 70,535,826 | – | – |
| Unsecured bonds | 2018 | – | – | 10.91% | 20,619,115 |
| Unsecured bank loans | 2018 | – | – | 7.76% | 13,819,185 |
| Unsecured borrowings from related parties (Note 5) | 2018 | – | – | 7.4% | 5,646,527 |
| Current portion of long-term borrowings and loans | | | 301,375 | | 37,098 |
| Total short-term borrowings and loans | | | 70,837,201 | | 40,121,925 |

All loans are denominated in Russian rubles.

Government grants

| | 2018 | 2017 |
|---------------------------------|------------------|------------------|
| At 1 January | 1,155,991 | – |
| Received during the year | 1,967,114 | 1,258,873 |
| Recognized in profit or loss | (85,404) | (102,882) |
| At 31 December | 3,037,701 | 1,155,991 |
| Short-term | 62,340 | 55,423 |
| Long-term | 2,975,361 | 1,100,568 |

The Government grants were received to recover a part of the direct costs incurred for construction and modernization of fixed assets. The government grants were received in cash and as a benefit of the loan at a below-market rate of interest.

Revenue from contracts with customers

Revenue from contracts with customers for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|-----------|----------------------|----------------------|
| Retail | 1,216,851,273 | 1,131,113,105 |
| Wholesale | 20,164,184 | 12,201,300 |
| | 1,237,015,457 | 1,143,314,405 |

Cost of sales

Cost of sales for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|-------------------------|--------------------|--------------------|
| Cost of goods sold | 906,357,321 | 823,797,268 |
| Transportation expenses | 34,210,972 | 30,019,588 |
| | 940,568,293 | 853,816,856 |

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold contains the amount of losses due to inventory shortages.

In 2018, payroll in amount of RUB 22,015,986 thousand (2017: RUB 22,039,524 thousand) was included in cost of sales.

In 2018, handling cost in the amount of RUB 2,068,304 thousand (2017: RUB 3,117,912 thousand) were included in cost of sales.

Selling expenses

Selling expenses for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|-----------------------------|-------------------|-------------------|
| Advertising | 8,601,093 | 8,431,919 |
| Packaging and raw materials | 3,531,063 | 3,443,421 |
| Depreciation | 3,937,790 | 3,753,860 |
| | 16,069,946 | 15,629,200 |

General and administrative expenses

General and administrative expenses for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Payroll | 83,622,350 | 83,737,179 |
| Rent and utilities | 72,482,523 | 64,914,040 |
| Depreciation | 31,583,532 | 29,193,500 |
| Payroll related taxes | 24,210,938 | 24,068,867 |
| Bank services | 6,058,852 | 4,466,211 |
| Repair and maintenance | 4,420,757 | 5,040,869 |
| Taxes, other than income tax | 3,804,346 | 3,399,198 |
| Security | 1,551,342 | 1,278,960 |
| Amortization | 996,116 | 768,342 |
| Provision for unused vacation | 600,813 | 34,843 |
| (Reversal) of expected credit losses / accrual of bad debt provision | (97,118) | 129,225 |
| Other expenses | 5,532,323 | 5,932,642 |
| | 234,766,774 | 222,963,876 |

Contracts with participants of the Share-based Payment Program were signed on 29 December 2018, the date is considered as the grant date. The costs of services are not significant, since the period of rendering services in 2018 is 1 day.

Finance costs

Finance costs for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|---|------------------|-------------------|
| Interest on loans | 8,955,433 | 9,918,532 |
| Interest on bonds | 469,054 | 3,943,377 |
| Total interest expense for financial liabilities | 9,424,487 | 13,861,909 |
| Less: amounts included in the cost of qualifying assets | (288,225) | (883,027) |
| | 9,136,262 | 12,978,882 |

Other income

Other income for the years ended 31 December 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|--------------------|------------------|------------------|
| Sale of packing | 3,702,421 | 3,586,323 |
| Advertising income | 2,400,370 | 2,219,566 |
| Penalties | 1,759,906 | 1,496,535 |
| Government grants | 85,404 | 102,882 |
| Other | 762,254 | 353,967 |
| | 8,710,355 | 7,759,273 |

Income tax

The Group's income tax expense for the years ended 31 December 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| Consolidated statement of comprehensive income | | |
| Current tax | 5,216,406 | 3,962,310 |
| Deferred tax | 3,991,065 | 5,922,488 |
| Income tax expense reported in the consolidated statement of comprehensive income | 9,207,471 | 9,884,798 |

The movements for the years ended 2018 and 2017 in the Group's deferred tax position are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Liability at the beginning of the year | 21,521,720 | 15,599,232 |
| Charge for the year | 4,028,830 | 5,922,488 |
| Deferred tax liability at the end of the year | 25,550,550 | 21,521,720 |

| | 2018 | 2017 |
|--|--------------------|----------|
| Asset at the beginning of the year | - | - |
| Charge for the year | (37,765) | - |
| Acquired in business combination (Note 6) | (2,649,636) | - |
| Deferred tax asset at the end of the year | (2,687,401) | - |

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2018 is as follows:

| | As at 31 December 2017 | Consolidated statement of comprehensive income 2018 | Business combination (Note 6) | As at 31 December 2018 |
|---|------------------------|---|-------------------------------|------------------------|
| Deferred tax assets | | | | |
| Accrued expenses | (149,449) | (188,835) | (163,224) | (501,508) |
| Inventories | (217,675) | (326,629) | (35,952) | (580,256) |
| Trade and other receivables | (147,479) | 18,814 | (1,264,357) | (1,393,022) |
| Advances paid | (103,410) | (150,757) | - | (254,167) |
| Prepaid expenses and intangible assets | (57,140) | (106,848) | - | (163,988) |
| Other | (308,865) | (230,464) | (58,435) | (597,764) |
| Losses carried forward | - | - | (1,220,511) | (1,220,511) |
| Deferred tax assets total | (984,018) | (984,719) | (2,742,479) | (4,711,216) |
| Including netting with deferred tax liability | 984,018 | 946,954 | 92,843 | 2,023,815 |
| Net deferred tax assets | - | (37,765) | (2,649,636) | (2,687,401) |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | 21,427,892 | 4,273,549 | - | 25,701,441 |
| Inventories | 262,983 | 623,506 | - | 886,489 |
| Other | 814,863 | 78,729 | 92,843 | 986,435 |
| Deferred tax liabilities total | 22,505,738 | 4,975,784 | 92,843 | 27,574,365 |
| Including netting with deferred tax assets | (984,018) | (946,954) | (92,843) | (2,023,815) |
| Net deferred tax liability | 21,521,720 | 4,028,830 | - | 25,550,550 |

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2017 is as follows:

| | As at 1 January 2017 | Consolidated statement of comprehensive income 2017 | As at 31 December 2017 |
|-----------------------------------|----------------------|--|---------------------------|
| Deferred tax assets | | | |
| Accrued expenses | (87,604) | (61,845) | (149,449) |
| Inventories | (1,952,013) | 1,734,338 | (217,675) |
| Other | (513,834) | (103,060) | (616,894) |
| Deferred tax liabilities | | | |
| Property, plant and equipment | 17,292,548 | 4,135,344 | 21,427,892 |
| Inventories | – | 262,983 | 262,983 |
| Other | 860,135 | (45,272) | 814,863 |
| Net deferred tax liability | 15,599,232 | 5,922,488 | 21,521,720 |

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Group's profit and loss:

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Profit before tax | 43,071,995 | 45,423,770 |
| Theoretical income tax expense at 20% | (8,614,399) | (9,084,754) |
| <i>Adjustments due to:</i> | | |
| Tax effect of losses due to inventory shortages not deductible in determining taxable profit | (355,035) | (335,920) |
| Tax effect of other expenses that are not deductible in determining taxable profit | (317,434) | (464,170) |
| Income tax recovery due to submission of revised tax returns | 79,397 | 46 |
| Income tax expense | (9,207,471) | (9,884,798) |
| Effective tax rate | 21.4% | 21.8% |

Earnings per share

Earnings per share for the years ended 31 December 2018 and 2017 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year. The calculation of earnings per common share for the years ended 31 December 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|---------------|---------------|
| Profit for the year attributable to equity holders of the parent | 33,864,524 | 35,538,972 |
| Weighted average number of shares (in thousands of shares) | 101,146 | 95,105 |
| Basic and diluted earnings per share (in RUB) | 334.81 | 373.68 |

The Group does not have any potentially dilutive equity instruments.

Contingencies, commitments and operating risks

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Tax legislation

The Group's main subsidiaries, from which the Group's income is derived, operate in Russia. Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

In 2018, further implementation of mechanisms aimed at countering tax evasion through the use of low-tax jurisdictions and aggressive tax planning structures. The amendments include, among other things, definitions of beneficial ownership and tax residency by actual place of business (for legal entities) and the approach to the taxation of controlled foreign companies in the Russian Federation.

In addition, a concept of tax benefit was introduced for all taxes payable in the Russian Federation, with a focus on the presence of a business purpose of activities and confirmation of discharge of obligations under agreements by the parties to these agreements or a party to which these obligations were transferred under a contract or by law. These amendments significantly modify the framework for determination of unjustified tax benefit obtained by a taxpayer, and will have a significant impact on established court practice. However, the mechanism of application of this regulation is yet to be settled, and the respective court practice is not established.

These changes and recent trends in the applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. This may result in significant amounts of tax charges, penalties and fines being imposed. It is not possible to determine the amounts of constructive claims or evaluate probability of their negative outcome. Fiscal periods remain open to review by the tax authorities for a period of three calendar years immediately preceding the year of review.

According to management, at 31 December 2018, they had properly construed the relevant legislation, and the probability that the Group will retain its position with regard to tax, currency and customs law is assessed as high.

As at 31 December 2018 and 2017, the Group accrued no provisions for tax positions.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position, operating results and cash flows, except for contingent liability described below.

Contingent liability

LLC "Gazprom Mezhrefiongaz" initiated a legal claim against the Group in respect of default of its obligations under a gas supply contract. If the trial is lost by the Group, the estimated loss will be RUB 408,169 thousand. The next court hearing is scheduled for 2 April 2019. Management believes that the Group has sufficient grounds to defend its position in the court, but given uncertainties involved in the litigation process there possible risk that the Group will lose the case. Therefore, no liability for potential obligation has been recorded in the consolidated financial statements. The Group plans to contest the claim in the court.

Capital and rent commitments

As at 31 December 2018 and 2017, the Group entered in a number of agreements related to the acquisition of property, plant and equipment, capital commitments are presented net of VAT:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Within one year | 10,211,095 | 17,797,342 |
| In the second to fifth years inclusive | 6,705 | 1,641,856 |
| | 10,217,800 | 19,439,198 |

The Group entered in a number of cancellable short-term and long-term rental agreements. The Group plans to prolong these agreements in the future. The expected annual lease payments in 2019 under these agreements amount to approximately RUB 60,376 million (expected annual lease payments in 2018: RUB 53,077 million).

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 19, cash and cash equivalents disclosed in Note 13 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 14.

Financial risk management objectives and policies

Gearing ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio in 2018 of up to 54% (2017: 42%) determined as the proportion of net debt to equity.

The gearing ratio as at 31 December 2018 and 2017 was as follows:

| | 2018 | 2017 |
|---------------------------------|--------------------|--------------------|
| Loan debt | 164,573,341 | 126,460,055 |
| Cash and cash equivalents | (26,747,754) | (18,337,417) |
| Net debt | 137,825,587 | 108,122,638 |
| Equity | 253,303,907 | 259,307,439 |
| Net debt to equity ratio | 54% | 42% |

Debt is defined as long-term and short-term borrowings. Equity includes all capital and reserves of the Group.

The change in the target gearing ratio is due to the changes in the capital structure in 2018.

Fair values

Set out below is a comparison by class of the Group's financial instruments that are carried in the consolidated financial statements, the carrying amount and the fair value of which are different. Carrying amount of Group's financial assets approximates their carrying value.

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

| | Carrying amount | | Fair value | |
|--------------------------------|-----------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Long-term borrowings and loans | 93,736,140 | 86,338,130 | 94,010,140 | 86,417,298 |
| Bonds | – | 20,619,115 | – | 20,150,000 |

The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. Long-term borrowing and loans are categorized as Level 2 within the fair value hierarchy. For quoted bonds (Level 1) the fair value was determined based on quoted market prices. No transfers occurred between levels in the hierarchy during the reporting period.

As at 31 December 2018 and 2017, the fair value of the Group's financial instruments, except as described above, approximates their carrying value.

Set out below are changes in liabilities arising from financing activities:

| | 1 January | Proceeds from loans and borrowings | Repayment of loans and borrowings | Business combination | Finance costs | Interest paid | 31 December |
|---|-------------|------------------------------------|-----------------------------------|----------------------|---------------|---------------|-------------|
| 2018 | | | | | | | |
| Short-term and long-term borrowings and loans | 126,460,055 | 600,693,859 | (572,272,534) | 10,416,658 | 9,136,262 | (9,860,959) | 164,573,341 |
| 2017 | | | | | | | |
| Short-term and long-term borrowings and loans | 127,605,780 | 688,243,578 | (689,033,285) | – | 12,978,882 | (13,334,900) | 126,460,055 |

| | 1 January | Dividends declared | Dividends paid | 31 December |
|----------------|------------|--------------------|----------------|-------------|
| 2018 | | | | |
| Dividends paid | 831 | 27,437,973 | (13,808,982) | 13,629,822 |
| 2017 | | | | |
| Dividends paid | 11,936,866 | 17,297,163 | (29,233,198) | 831 |

Foreign currency risk management

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when purchase is denominated in a different currency from the Group's functional currency).

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership over goods to the Group.

| | Change in USD rate | Effect on profit before tax | Change in EUR rate | Effect on profit before tax |
|------|--------------------|-----------------------------|--------------------|-----------------------------|
| 2018 | +14.00% | 708,705 | +14.00% | 227,075 |
| | -14.00% | (703,516) | -14.00% | (226,246) |
| 2017 | +11.00% | 552,429 | +12.50% | 139,491 |
| | -11.00% | (552,429) | -12.50% | (139,491) |

Interest rate risk management

The Group is exposed to insignificant interest rate risk as entities in the Group borrow funds on fixed rates primary.

Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

In determining the recoverability of trade and other receivables the Group uses a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating) and the likelihood of default over a given time horizon. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Trade and other receivables

Customer credit risk is managed by the Group by dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of current assets at any time during the years presented.

Cash and cash equivalents

Credit risk from investing activities is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as presented in the statement of financial position.

Offsetting of financial assets and liabilities

The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. In the table below are reflected financial assets, offsetting against liabilities in the consolidated statement of financial position:

| | Gross amount | | Amount of offset | Net amount, reflected in consolidated statement of financial position | |
|------|-----------------------------|--------------------------|------------------|---|--------------------------|
| | Trade and other receivables | Trade and other payables | | Trade and other receivables | Trade and other payables |
| 2018 | 19,619,741 | (143,832,164) | 12,658,738 | 6,961,003 | (131,173,426) |
| 2017 | 11,433,088 | (109,176,053) | 10,033,902 | 1,399,186 | (99,142,151) |

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk tables

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate, % | Less than | | | | | Total |
|---------------------------------|---|--------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
| | | 1 month | 1-3 month | 3 month to 1 year | 1-5 years | More than 5 years | |
| 2018 | | | | | | | |
| Trade and other payables | | 105,452,122 | 25,721,304 | – | – | – | 131,173,426 |
| Fixed interest rate instruments | 8.14 | 5,123,937 | 24,953,099 | 50,813,588 | 105,104,729 | 2,471,011 | 188,466,364 |
| | | 110,576,059 | 50,674,403 | 50,813,588 | 105,104,729 | 2,471,011 | 319,639,790 |
| 2017 | | | | | | | |
| Trade and other payables | | 79,174,922 | 19,967,229 | – | – | – | 99,142,151 |
| Fixed interest rate instruments | 8.56 | 1,515,852 | 20,511,786 | 25,796,557 | 88,741,275 | 719,245 | 137,284,715 |
| | | 80,690,774 | 40,479,015 | 25,796,557 | 88,741,275 | 719,245 | 236,426,866 |

The Group has access to financing facilities of RUB 378,150,000 thousand of which RUB 211,533,730 thousand remains unused at 31 December 2018. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Subsequent events

There were no significant events after the reporting date.

Chief Executive PJSC "Magnit" Naumova O.V.

14 March 2019

Report on Compliance with the Principles and Recommendations of the Corporate Governance Code

The Board of Directors confirms that the data provided in this report contains complete and reliable information about the Company's compliance with the principles and recommendations of the Corporate Governance Code (hereinafter the "Code") for 2018. Complied with

Partially complied with

Not complied with

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|------------|---|--|--|---|
| 1.1 | The Company should treat all shareholders equally and fairly when they exercise their right to participate in the management of the Company. | | | |
| 1.1.1 | The Company has created the best possible conditions for shareholders to participate in General Shareholders Meeting and conditions required to form an informed opinion on the agenda items of the Meeting, aligning the shareholders' actions, and opportunities for them to express their opinion on the matters being considered. | 1. An internal document of the Company adopted by the General Shareholders Meeting and establishing the procedures for conducting the General Shareholders Meeting is publicly available. 2. The Company provides freely available communication channels such as a Hotline, email, or an Internet forum allowing shareholders to express their opinions and send questions regarding the agenda during preparations for the General Shareholders Meeting. These actions were taken by the Company before every General Shareholders Meeting that took place during the reporting period. | Complied with | |
| 1.1.2 | The procedure for providing notification about a General Shareholders Meeting and providing materials for the meeting enables shareholders to properly prepare for it. | 1. Notification about the General Shareholders Meeting is posted on the Company's website at least thirty days before the date of the meeting. 2. Notification about the General Shareholders Meeting specifies the venue for the meeting and contains the list of documents required for admission to the premises. 3. Shareholders have been granted access to information about persons who proposed agenda items and nominated candidates to the Board of Directors Audit Commission. | Complied with | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|---|---|--|--|
| 1.1.3 | During preparations for the General Shareholders Meeting and the meeting itself, the shareholders had the opportunity to easily receive information on the meeting and related materials in a timely manner as well as to ask the Company's executive bodies and members of the Company's Board of Directors questions and communicate with each other. | 1. During the reporting period, shareholders were given an opportunity to ask members of the Company's executive bodies and members of the Company's Board of Directors questions prior to and in the course of the Annual General Shareholders Meeting. 2. The position of the Board of Directors (including dissenting opinions included in the minutes) on each agenda item of the General Shareholders Meetings held in the reporting period was included in the materials for the General Shareholders Meeting. 3. The Company provided authorized shareholders with access to the list of persons eligible to participate in the General Shareholders Meeting, starting from the date when this list was received by the Company; this applies to all such meetings in the reporting period | Complied with | |
| 1.1.4 | The shareholder's right to request the convening of the General Shareholders Meeting, nominate candidates to governing bodies and propose agenda items for the General Shareholders Meeting was exercised without any unnecessary difficulties. | 1. In the reporting period, shareholders were given an opportunity to propose agenda items for the Annual General Shareholders Meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the Company did not reject proposals regarding agenda items or candidates nominated to the Company's bodies because of misprints or other minor drawbacks in a shareholder's proposal. | Partially complied with | Not observed in terms of the incorporation a 60-day deadline in the Company's internal documents for shareholders to submit proposals for the agenda of the annual general meeting (clause 1, Evaluation Criteria for Compliance with the Principle of Corporate Governance). During the reporting period, there were no situations in which shareholders would not have had enough time to submit proposals within the period specified by law. There are plans to consider the feasibility and necessity of recording these provisions in the Company's internal documents at the annual general meeting of shareholders for 2018. |
| 1.1.5 | Each shareholder was able to freely exercise the right to vote in the easiest and most convenient way. | 1. An internal document (internal policy) of the Company contains provisions whereby each participant of the General Shareholders Meeting may request a copy of the ballot filled in by him/her and certified by the Company's ballot committee before the end of the respective meeting. | Not complied with | These Corporate Governance Code recommendations have not yet been reflected in the Company's Charter and/or its internal documents. There are plans to consider the feasibility and necessity of recording these provisions in the Company's internal documents prior to the annual general meeting of shareholders for 2019. The registrar JSC "New Registrar" performs the functions of the ballot committee for PJSC "Magnit" based on the agreement which terms do not prevent any of the Company's shareholders from requesting a copy of a completed ballot from the Registrar's representatives before the end of the meeting. Neither the Company's registrar nor the Company itself denied such a request at the general meeting of shareholders in 2018. |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|------------|--|---|--|--|
| 1.1.6 | The Company's procedure for holding the General Shareholders Meeting provides all meeting participants with equal opportunities for expressing their opinions and asking questions. | 1. When conducting the General Shareholders Meeting in the form of a meeting (joint presence of shareholders), a sufficient amount of time was provided to make reports on agenda items and to discuss these agenda items. 2. Candidates nominated to the Company's governing and supervisory bodies were available to answer shareholders' questions at the meeting during which they were put to a vote. 3. When making decisions on preparations for and holding of the General Shareholders Meetings, the Board of Directors addressed the issue of the use of telecommunications to provide shareholders with remote access enabling them to participate in General Shareholders Meetings. | Partially complied with | Not complied with in terms of providing shareholders with remote access to participate in general meetings (clause 3 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance). The Company's management and the Registrar consider using telecommunications to provide shareholders with the remote access to the general meetings. There are plans to consider the feasibility and necessity of this practice prior to the annual general meeting of shareholders for 2019. The Board of Directors did not consider the issue of providing shareholders with the remote access to take part in general meetings during the reporting period. The Company's shareholders who are clients of the nominal holders take part in meetings by sending messages to the registrar expressing their will on the general meeting agenda items in the form of electronic documents. |
| 1.2 | The shareholders are given equal and equitable opportunities to receive a share of the Company's profits by receiving dividends. | | | |
| 1.2.1 | The Company has developed and implemented a transparent and clear mechanism for determining the amount of dividends and their payment. | 1. The Company has developed and disclosed the dividend policy approved by the Board of Directors. 2. If the Company's results recorded in its financial statements are used for determining the amount of dividends in accordance with the Company's dividend policy, the consolidated results recorded in the financial statements are considered in its relevant provisions. | Complied with | |
| 1.2.2 | The Company does not decide to pay dividends if such a decision is economically unfeasible or may create a misleading impression as to the Company's operations, despite its formal compliance with legislation. | 1. The Company's dividend policy clearly stipulates the financial/economic circumstances due to which the Company should not pay dividends. | Complied with | |
| 1.2.3 | The Company does not allow any deterioration in terms of the dividend rights of existing shareholders. | 1. The Company did not take any actions causing any deterioration as regards the dividend rights of existing shareholders in the reporting period. | Complied with | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|------------|--|--|--|--|
| 1.2.4 | The Company aims to ensure that shareholders do not have any other ways to receive profit (income) from the Company, except for dividends and liquidation value. | 1. In order to prevent shareholders from using other means of gaining profit (income) from the Company, except for dividends and liquidation value, the Company's internal documents provide control mechanisms which ensure the timely identification and approval of transactions with affiliates (associates) of major shareholders (persons entitled to exercise votes attached to voting shares) in such cases when the law does not officially recognize these transactions as related-party transactions. | Not complied with | These Corporate Governance Code recommendations have not yet been reflected in the Company's Charter and/or its internal documents. There are plans to consider the feasibility and necessity of recording these provisions in the Company's internal documents at the annual general meeting of shareholders for 2018. The Company's Charter specifies a number of transactions that require consent (approval) from the Board of Directors (or the Company's Management Board) for their completion in cases where the law does not provide for such a need. The Company's subsidiaries utilize a similar approach. Such a measure reduces the possible additional risks associated with the failure to comply with this recommendation of the Code. |
| 1.3 | The corporate governance system and practices should ensure equitable treatment of all shareholders owning shares of one class (type), including minority (small) shareholders and foreign shareholders, and equal treatment of them by the Company. | | | |
| 1.3.1 | The Company has created conditions required to ensure that its governing bodies and controlling entities treat each shareholder fairly, including preventing abuse by major shareholders with respect to minority shareholders. | 1. In the reporting period, the management of potential conflicts of interest among major shareholders was efficient, and the Board of Directors paid due attention to conflicts between the shareholders, if any. | Complied with | |
| 1.3.2 | The Company does not take any actions which lead to or may lead to the artificial redistribution of corporate control. | 1. There were no quasi-treasury shares in the Company or they did not participate in voting in the reporting period. | Complied with | |
| 1.4 | Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares. | | | |
| 1.4 | Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares. | 1. The quality and reliability of activities carried out by the Company's Registrar associated with keeping a register of security holders meet the needs of the Company and its shareholders. | Complied with | |
| 2.1 | The Board of Directors is responsible for the strategic management of the Company; it formulates the basic principles and approaches to the development of the risk management and internal control system, supervises the work of the Company's executive bodies and performs other core functions. | | | |
| 2.1.1 | The Board of Directors is responsible for making decisions related to the appointment and dismissal of executive bodies, including due to the improper performance of their functions. The Board of Directors also ensures that the Company's executive bodies act in accordance with the approved development strategy and the Company's key areas of business. | 1. The Board of Directors has the power to appoint and dismiss members of executive bodies as well as to determine the terms and conditions of their contracts; these powers are stipulated in the Charter. 2. The Board of Directors has considered the report(s) of the sole executive body and members of the collective executive body on the implementation of the Company's strategy. | Complied with | |
| 2.1.2 | The Board of Directors decides on the main long-term strategic targets for the Company's operations, evaluates and approves key performance indicators and the Company's main business goals, evaluates and approves the strategy and business plans for the Company's core business areas. | 1. In the reporting period, the Board of Directors addressed issues related to the implementation and review of the strategy, approval of the financial and economic plan (budget) of the Company, as well as the consideration of criteria and indicators (including interim indicators) related to the implementation of the Company's strategy and business plans. | Complied with | |

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| 2.1.3 | The Board of Directors determines the principles and approaches to the development of the risk management and internal control system at the Company. | 1. The Board of Directors has determined the principles and approaches to the development of the risk management and internal control system at the Company. 2. The Board of Directors assessed the risk management and internal control system of the Company in the reporting period. | Complied with | |
| 2.1.4 | The Board of Directors determines the Company's policy on the payment of remuneration and/or compensation (reimbursement) to members of the Board of Directors, executive bodies, or other key executives of the Company. | 1. The Company has developed and introduced the policy (policies) on remuneration and/or compensation (reimbursement) to members of the Board of Directors, executive bodies, and other key executives of the Company; the policy (policies) has (have) been approved by the Board of Directors. 2. In the reporting period, the meetings of the Board of Directors addressed issues related to the above policy (policies). | Complied with | |
| 2.1.5 | The Board of Directors plays a key role in preventing, identifying, and resolving internal conflicts between the Company's bodies, shareholders and employees. | 1. The Board of Directors plays a key role in preventing, identifying, and resolving internal conflicts. 2. The Company has created a system for identifying transactions involving a conflict of interest and a system of measures for resolving such conflicts. | Complied with | |
| 2.1.6 | The Board of Directors plays a key role in preventing, identifying, and resolving internal conflicts between the Company's bodies, shareholders, and employees. | 1. The Board of Directors has approved the Regulations on Information Policy. 2. The Company has appointed individuals responsible for the implementation of the Information Policy. | Complied with | |
| 2.1.7 | The Board of Directors oversees the Company's corporate governance practices and plays a key role in the Company's significant corporate events. | 1. In the reporting period, the Board of Directors considered the issue of corporate governance practices at the Company. | Complied with | |
| 2.2 | The Board of Directors reports to the Company's shareholders. | | | |
| 2.2.1 | Information on the performance of the Board of Directors is disclosed and provided to shareholders. | 1. The Annual Report of the Company for the reporting period includes information on the attendance of meetings of the Board of Directors and Committees by individual directors. 2. The Annual Report includes information on the main results of the performance assessment of the Board of Directors carried out in the reporting period | Complied with | |
| 2.2.2 | The Chairman of the Board of Directors is available for communication with the Company's shareholders. | 1. The Company has a transparent procedure enabling shareholders to send their questions and opinions on them to the Chairman of the Board of Directors | Complied with | |
| 2.3 | The Board of Directors is an effective and professional governing body of the Company that is able to make objective and independent judgments and make decisions in the interests of the Company and its shareholders. | | | |
| 2.3.1 | Only persons having an impeccable business and personal reputation and the knowledge, skills, and experience required for making decisions within the purview of the Board of Directors and for the efficient performance of its functions are elected to the Board of Directors. | 1. The Company's procedure for the performance assessment of the Board of Directors also includes an evaluation of the professional qualifications of members of the Board of Directors. 2. In the reporting period, the Board of Directors (or the Nomination Committee) assessed candidates for the Board of Directors in terms of their experience, knowledge, business reputation, lack of a conflict of interest, etc. | Complied with | |

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| 2.3.2 | Members of the Board of Directors are elected under a transparent procedure that enables shareholders to obtain information about the candidates which is sufficient to form an opinion about their personal and professional qualities. | 1. In all cases when the agenda of a General Shareholders Meeting held in the reporting period included elections to the Board of Directors, the Company provided its shareholders with biographical details of all candidates for the Board of Directors, results of their assessment carried out by the Board of Directors (or its Nomination Committee) as well as information on whether the candidate met the independence criteria in accordance with Recommendations No. 102 - 107 of the Code and the written consent of the candidates for election to the Board of Directors. | Complied with | |
| 2.3.3 | The membership of the Board of Directors is well-balanced, including in terms of its members' qualifications, experience, knowledge, and business skills, and has the shareholders's credibility. | 1. As part of the performance assessment of the Board of Directors in the reporting period, the Board of Directors analyzed its own needs for professional qualifications, experience, and business skills. | Complied with | |
| 2.3.4 | The number of members of the Company's Board of Directors makes it possible to organize its work in the most efficient manner, including the opportunity to form Board Committees, and also gives the Company's major minority shareholders an opportunity to elect a candidate to the Board of Directors in favor of whom they can vote. | 1. As part of assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered whether the number of its members met the needs of the Company and corresponded to the interests of its shareholders. | Complied with | |
| 2.4 | The Board of Directors should consist of the sufficient number of independent directors. | | | |
| 2.4.1 | A person shall be qualified as an "Independent Director" if he or she has sufficient professional skills, experience and independence to form his/her own opinion and is able to make objective and fair judgments independently of the executive bodies of the Company, individual groups of shareholders, or other stakeholders. At the same time, it should be noted that under normal circumstances a candidate (an elected member of the Board of Directors) associated with the Company, its major shareholder, major counterparty, competitor, or the government cannot be considered independent. | 1. In the reporting period, all independent members of the Board of Directors met all independence criteria specified in Recommendations No. 102-107 of the Code or were recognized as independent by the Board of Directors. | Complied with | |
| 2.4.2 | The Company assesses whether candidates for the Board of Directors meet the independence criteria, and a regular analysis is carried out to determine whether independent members of the Board of Directors meet the independence criteria. When carrying out the assessment, content should prevail over form. | 1. In the reporting period, the Board of Directors (or the Nomination Committee) formed an opinion on the independence of each candidate nominated to the Board of Directors and provided the shareholders with the relevant statement. 2. In the reporting period, the Board of Directors (or the Nomination Committee) considered the independence of the current members of the Board of Directors who are specified in the Annual Report as Independent Directors of the Company at least once. 3. The Company has developed procedures describing the actions to be taken by a member of the Board of Directors if he or she ceases to be independent, including the obligation to inform the Board of Directors of such a situation in a timely manner. | Complied with | |

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| 2.4.3 | Independent directors comprise at least one-third of the elected members of the Board of Directors. | 1. Independent directors comprise at least one third of the membership of the Board of Directors. | Complied with | |
| 2.4.4 | Independent directors play a key role in preventing internal conflicts within the Company and in significant corporate actions taken by the Company. | 1. Independent directors (who have no conflict of interest) conduct a preliminary assessment of significant corporate actions involving a potential conflict of interest and submit the results of this assessment to the Board of Directors. | Complied with | |
| 2.5 | The Chairman of the Board of Directors ensures that the functions assigned to the Board of Directors are performed most effectively. | | | |
| 2.5.1 | The Board of Directors is chaired by an Independent Director, or a Senior Independent Director is elected from among the elected Independent Directors to coordinate the activities of the Independent Directors and communicate with the Chairman of the Board of Directors. | 1. The Chairman of the Board of Directors is an Independent Director or a Senior Independent Director who has been selected from among Independent Directors. 2. The role, rights, and duties of the Chairman of the Board of Directors (and, if applicable, the Senior Independent Director) are properly specified in the Company's internal documents. | Complied with | |
| 2.5.2 | The Chairman of the Board of Directors creates a constructive atmosphere at the meetings, facilitates an open discussion of agenda items, and supervises the implementation of the resolutions adopted by the Board of Directors. | 1. The performance of the Chairman of the Board of Directors was evaluated as part of the procedure for assessing the performance of the Board of Directors in the reporting period. | Complied with | |
| 2.5.3 | The Chairman of the Board of Directors takes the necessary measures to ensure the members of the Board of Directors are provided in a timely manner with the information required to adopt resolutions on agenda items. | 1. The duty of the Chairman of the Board of Directors to take measures to ensure the timely provision of materials on agenda items of the meeting of the Board of Directors to members of the Board of Directors is stipulated in the Company's internal documents. | Complied with | |
| 2.6 | Members of the Board of Directors act in a reasonable manner and in good faith in the interests of the Company and its shareholders on the basis of sufficient information, exercising due diligence and care. | | | |
| 2.6.1 | Members of the Board of Directors adopt resolutions taking into account all available information, with no conflict of interest, ensuring equal treatment of the Company's shareholders, and within the limits of standard business risk. | 1. The Company's internal documents stipulate that a member of the Board of Directors shall inform the Board of Directors if there is a conflict of interest in relation to any issue on the agenda of the meeting of the Board of Directors or a Board Committee prior to the discussion of the above issue. 2. The Company's internal documents stipulate that a member of the Board of Directors shall refrain from voting on any issue with respect to which he or she has a conflict of interest. 3. The Company has established a procedure which allows the Board of Directors to obtain professional advice on issues within its purview at the Company's expense. | Partially complied with | Not complied with in terms of the Company's internal documents stipulating the obligation of a member of the Board of Directors to report a conflict of interest before a discussion of the relevant agenda item has begun (clause 1, Evaluation Criteria for Compliance with the Principle of Corporate Governance). However, the fact that the obligation of members of the Board of Directors to provide notification about a conflict of interest before a discussion of the relevant agenda item begins is not formally documented does not result in the concealing of such information. The chairman of the Board of Directors requests information about the existence of any conflict of interest and reports it to the Board of Directors prior to the discussion of the relevant agenda item. There are plans to consider the feasibility and necessity of recording these provisions in the Company's internal documents at the annual general meeting of shareholders for 2018. |
| 2.6.2 | The rights and responsibilities of the members of the Board of Directors are clearly formulated and stipulated in the Company's internal documents. | 1. The Company has adopted and published an internal document which clearly specifies the rights and responsibilities of the members of the Board of Directors. | Complied with | |

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| 2.6.3 | Members of the Board of Directors have sufficient time to perform their duties. | 1. Individual attendance of meetings of the Board and the Committees as well as the time devoted to preparations for participation in the meetings were taken into account when performing the assessment of the Board of Directors in the reporting period. 2. In accordance with the Company's internal documents, members of the Board of Directors shall inform the Board of Directors of their intention to join the governing bodies of any other organizations (apart from organizations controlled by or affiliated with the Company) and the fact of such an appointment. | Complied with | |
| 2.6.4 | All members of the Board of Directors have equal access to the Company's documents and information. Newly elected members of the Board of Directors shall be provided with sufficient information on the Company and the work of the Board of Directors in the shortest time possible. | 1. In accordance with the Company's internal documents, members of the Board of Directors have the right to access documents and make inquiries concerning the Company and its affiliated organizations, and the Company's executive bodies shall provide the above information and documents. 2. The Company has a formalized introductory program for newly elected members of the Board of Directors. | Complied with | |
| 2.7 | Meetings of the Board of Directors, preparations for them, and participation of the members of the Board of Directors in the meetings enable the efficient work of the Board of Directors. | | | |
| 2.7.1 | Meetings of the Board of Directors are held when necessary, given the scale of the Company's operations and challenges facing the Company at any given time. | 1. The Board of Directors held at least six meetings in the reporting year. | Complied with | |
| 2.7.2 | The Company's internal documents set out a procedure for preparing for and holding meetings of the Board of Directors which ensures that the members of the Board of Directors are able to properly prepare for them. | 1. The Company has approved an internal document which determines the procedure for preparing for and holding meetings of the Board of Directors and stipulates, among other things, that notification of the meeting shall be generally given at least 5 days before the date of the meeting. | Complied with | |
| 2.7.3 | The form of the meeting of the Board of Directors is determined taking into account the importance of the agenda items. The most important issues are addressed at face-to-face meetings. | 1. The Charter or an internal document of the Company stipulates that the most important issues (according to the list given in Recommendation 168 of the Code) shall be addressed at face-to-face meetings of the Board. | Not complied with | These Corporate Governance Code recommendations have not yet been reflected in the Company's internal documents. There are plans to consider the feasibility and necessity of recording these provisions in the Company's internal documents prior to the annual general meeting of shareholders for 2019. Moreover, the Company has established the practice of considering the most important issues at in-person meetings of the Board of Directors. |
| 2.7.4 | Resolutions concerning the most important issues of the Company's business are adopted at the meeting of the Board of Directors by a qualified majority or by a majority of votes cast by all elected members of the Board of Directors. | 1. The Company's Charter stipulates that resolutions concerning the most important issues specified in Recommendation 170 of the Code shall be adopted at the meeting of the Board of Directors by a qualified majority comprising at least three-quarters of votes, or by a majority of votes cast by all elected members of the Board of Directors. | Complied with | |
| 2.8 | The Board of Directors establishes committees for the preliminary consideration of the most important issues related to the Company's business. | | | |

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| 2.8.1 | An Audit Committee consisting of Independent Directors has been established for the preliminary consideration of any issues related to the monitoring of the Company's financial and business operations. | 1. The Board of Directors has formed an Audit Committee that consists solely of Independent Directors. 2. The Company's internal documents set out the duties of the Audit Committee, including those specified in Recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an Independent Director has experience in and knowledge of the preparation, analysis, evaluation, and audit of financial statements. 4. Meetings of the Audit Committee were held at least once a quarter in the reporting period. | Complied with | |
| 2.8.2 | A Remuneration Committee consisting of Independent Directors and chaired by an Independent Director who is not the Chairman of the Board of Directors has been established for the preliminary consideration of any issues related to the establishment of the efficient and transparent remuneration practices. | 1. The Board of Directors has formed a Remuneration Committee that consists solely of Independent Directors. 2. The Chairman of the Remuneration Committee is an Independent Director who is not the Chairman of the Board of Directors. 3. The Company's internal documents set out the duties of the Remuneration Committee, including those specified in Recommendation 180 of the Code. | Complied with | |
| 2.8.3 | A Nomination (Appointment, HR) Committee consisting mostly of Independent Directors has been established for the preliminary consideration of any issues related to workforce planning (succession planning), professional composition and the performance of the Board of Directors. | 1. The Board of Directors has established a Nomination Committee (or another committee performs its duties specified in Recommendation 186 of the Code) that consists mostly of Independent Directors. 2. The Company's internal documents set out the duties of the Nomination Committee (or another committee with shared functions), including those specified in Recommendation 186 of the Code. | Complied with | |
| 2.8.4 | Given the scale of business and the risk level, the Company's Board of Directors has made sure that the membership of its committees meets all objectives of the Company's operations. Additional committees have been either formed or deemed unnecessary (the Strategy Committee, the Corporate Governance Committee, the Ethics Committee, the Risk Management Committee, the Budget Committee, the Health, Safety, and Environment Committee, etc.). | 1. In the reporting period, the Company's Board of Directors considered whether the membership of its committees was consistent with the duties of the Board of Directors and the objectives of the Company's operations. Additional committees have been either formed or deemed unnecessary. | Complied with | |
| 2.8.5 | The membership of Committees is determined so that it enables a comprehensive discussion of issues for preliminary consideration taking into account different opinions. | 1. Committees of the Board of Directors are chaired by Independent Directors. 2. The Company's internal documents (policies) contain provisions whereby persons who are not members of the Audit Committee, the Nomination Committee, or the Remuneration Committee may only attend meetings of the Committees by invitation of the Chairman of the relevant Committee. | Complied with | |
| 2.8.6 | Chairmen of the Committees regularly inform the Board of Directors and its Chairman on the performance of their Committees. | 1. In the reporting period, the chairmen of the Committees regularly reported to the Board of Directors on the performance of their Committees. | Complied with | |
| 2.9 | The Board of Directors arranges a performance assessment of the Board of Directors, its committees, and members. | | | |

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| 2.9.1 | The performance assessment of the Board of Directors is aimed at evaluating the performance of the Board of Directors, its Committees, and members, determining whether their work meets the Company's development needs, intensifying the work of the Board of Directors, and identifying opportunities for improving its performance. | 1. The self-assessment or external assessment of the performance of the Board of Directors carried out in the reporting period included an assessment of the performance of its Committees, individual members, and the Board of Directors as a whole. 2. The results of the self-assessment or external assessment of the Board of Directors carried out in the reporting period were considered at a face-to-face meeting of the Board of Directors. | Complied with | |
| 2.9.2 | The performance assessment of the Board of Directors, its Committees, and members is carried out on a regular basis at least once a year. An external organization (consultant) is hired to perform an independent assessment of the performance of the Board of Directors at least once every three years. | 1. An external organization (consultant) was hired to perform an independent evaluation of the performance of the Board of Directors at least once during the last three reporting periods. | Not complied with | These Corporate Governance Code recommendations have not yet been reflected in the Company's corporate governance practices. During the reporting period, the Board of Directors conducted a self-assessment of its work that showed that the effectiveness of the work of the Board of Directors fully meets the Company's objectives. At present, the Company sees no need to hire an independent consultant to conduct an independent assessment, although the Company does not rule out this possibility if the Board of Directors deems the self-assessment to be insufficient. There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's corporate governance practices prior to the annual general shareholders meeting for 2019. |
| 3.1 | The Company's corporate secretary facilitates efficient ongoing communication with shareholders, coordinates the Company's efforts aimed at protecting the shareholders' rights and interests, and supports the efficient work of the Board of Directors. | | | |
| 3.1.1 | The Corporate Secretary has the knowledge, expertise, and qualifications sufficient for performing his or her duties and must also have an excellent reputation and enjoy shareholders' confidence. | 1. The Company has adopted and disclosed an internal document: the Regulation on the Corporate Secretary. 2. Biographical details of the Corporate Secretary are provided on the Company's website and in the Annual Report; they are as detailed as those of the members of the Board of Directors and the Company's executive officers. | Complied with | |
| 3.1.2 | The Corporate Secretary is sufficiently independent from the Company's executive bodies and has the necessary powers and resources to carry out his or her tasks. | 1. The Board of Directors approves the appointment and dismissal of the Corporate Secretary and his or her additional remuneration. | Complied with | |
| 4.1 | The amount of remuneration paid by the Company is sufficient for attracting, motivating, and retaining employees who have the competence and qualifications required by the Company. Remuneration is paid to members of the Board of Directors, executive bodies, and other key executives of the Company in accordance with the remuneration policy adopted by the Company. | | | |
| 4.1.1 | Remuneration paid by the Company to members of the Board of Directors, executive bodies, and other key executives is sufficient to motivate them to work efficiently, thus enabling the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids paying remuneration that is larger than necessary and seeks to prevent an unreasonably large gap between the amounts of remuneration paid to the above individuals and the Company's employees. | 1. The Company has adopted an internal document(s): a policy (policies) on the remuneration of members of the Board of Directors, executive bodies, and other key executives, which clearly defines approaches to remuneration for above individuals. | Complied with | |

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| 4.1.2 | The Company's remuneration policy has been developed by the Remuneration Committee and approved by the Board of Directors. The Board of Directors, supported by the Remuneration Committee, monitors the adoption and implementation of the remuneration policy at the Company and, if necessary, revises and adjusts it. | 1. In the reporting period, the Remuneration Committee considered the remuneration policy (policies) and its (their) implementation and, where necessary, provided the Board of Directors with the relevant recommendations. | Complied with | |
| 4.1.3 | The Company's remuneration policy includes transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies, and other key executives of the Company; in addition, it regulates all types of payments, benefits, and privileges provided to the above individuals. | 1. The remuneration policy (policies) of the Company includes (include) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies, and other key executives of the Company; in addition, it (they) regulates (regulate) all types of payments, benefits, and privileges provided to the above individuals. | Complied with | |
| 4.1.4 | The Company formulates the policy on the reimbursement of expenses (compensation), which defines the expenses to be reimbursed and the service level which may be provided to members of the Board of Directors, executive bodies, and the other key executives of the Company. This policy may form part of the Company's remuneration policy. | 1. The remuneration policy (policies) or other internal documents of the Company establishes the procedures for the reimbursement of expenses incurred by members of the Board of Directors, executive bodies, and the other key executives of the Company. | Complied with | |
| 4.2 | The system of remuneration for the members of the Board of Directors ensures that the directors' financial interests are aligned with the long-term financial interests of shareholders. | | | |
| 4.2.1 | The Company pays fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participating in individual meetings of the Board of Directors or Committees of the Board of Directors. The Company does not offer short-term or additional financial incentives to the members of the Board of Directors. | 1. Fixed annual remuneration was the only form of financial remuneration paid to the members of the Board of Directors for their work in the reporting period. | Partially complied with | The annual general shareholders meeting on June 21, 2018 approved a new version of the Regulation on the Board of Directors (unnumbered minutes dated June 21, 2018) that reflects this recommendation of the Corporate Governance Code. From the approval date of the Regulation, fixed monetary remuneration is the only monetary form of remuneration for members of the Company's Board of Directors for their work on the Board of Directors. |
| 4.2.2 | Long-term ownership of the Company's shares is the most important factor to ensure that the financial interests of the members of the Board of Directors are aligned with the long-term interests of shareholders. Nevertheless, the rights to exercise shares are not conditioned by the achievement of certain goals, and the members of the Board of Directors do not participate in stock options plans. | 1. If an internal document (documents), namely the Company's policy (policies) on remuneration, stipulate(s) that members of the Board of Directors shall be provided with shares, clear rules regarding the ownership of shares by the members of Board of Directors, which are aimed at encouraging long-term ownership of such shares, should be introduced and disclosed. | Complied with | |
| 4.2.3 | The Company's internal documents do not provide for any additional payments or compensation in the event of the early dismissal of members of the Board of Directors due to a change in control over the Company or other circumstances. | 1. The Company's internal documents do not provide for any additional payments or compensations in the event of the early dismissal of members of the Board of Directors due to a change in control over the Company or other circumstances. | Complied with | |
| 4.3 | The remuneration system for members of executive bodies and other key executives of the Company ensures that the remuneration is linked to the Company's performance and reflects their personal contribution to this performance. | | | |

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| 4.3.1 | Remuneration paid to members of executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and justified ratio of fixed components of remuneration to its variable components, which depend on the Company's performance and an employee's personal (individual) contribution to this performance. | <p>1. In the reporting period, annual performance indicators approved by the Board of Directors were used to determine variable components of remuneration for members of executive bodies and other key executives of the Company.</p> <p>2. During the last assessment of the system of remuneration for the members of executive bodies and other key executives of the Company, the Board of Directors (the Remuneration Committee) made sure that the Company used an effective combination of fixed and variable components of remuneration.</p> <p>3. The Company has a procedure ensuring that bonuses wrongfully received by the members of executive bodies and other key executives of the Company are returned to the Company.</p> | Partially complied with | <p>Clause 3 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance not complied with: The recommendations of the Corporate Governance Code concerning the existence of a procedure to ensure the return to the Company of bonus payments wrongfully received by members of executive bodies and other key employees have not yet been reflected in the Company's internal documents and corporate governance practices.</p> <p>Moreover, the system of key performance indicators and the practice of setting target values that have been introduced at the Company aim to eliminate the possibility of excessive amounts of variable remuneration being wrongfully charged. In the event of a situation where members of the executive bodies and other key executives of the Company wrongfully receive bonus payments, the situation will be resolved individually in each specific case. As of the end of the reporting year, there were no cases in the Company's practice of members of the executive bodies or other key executives of the Company wrongfully receiving bonus payments.</p> <p>However, there are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents and corporate governance practices prior to the annual general meeting of shareholders for 2019.</p> |
| 4.3.2 | The Company has implemented a long-term incentive plan for members of executive bodies and other key executives involving the use of the Company's shares (options or other derivatives for which the Company's shares are underlying assets). | <p>1. The Company has implemented a long-term incentive plan for members of executive bodies and other key executives involving the use of the Company's shares (financial instruments based on the Company's shares).</p> <p>2. The long-term incentive plan for members of executive bodies and other key executives of the Company stipulates that the right to sell shares and other financial instruments used in this plan may be exercised no earlier than three years after their provision. At the same time, the right to sell them is related to the achievement of certain performance targets of the Company.</p> | Partially complied with | <p>Paragraph 2 of the criteria for assessing the principle of corporate governance is not complied with. The Board of Directors approved the long-term motivation program. The aim of the Program is to motivate management to increase the market capitalization of the Company supported by the growth of EBITDA. The program includes remuneration in the form of shares and options which are represented by annual tranches. The remuneration amount will depend on the share price. The program is designed for 5 years. There are no restrictions to sell shares received under the Program.</p> |
| 4.3.3 | The amount of compensation (golden parachute) paid by the Company in the event of the early dismissal of members of the executive bodies or key executives at the Company's initiative and in the absence of wrongdoing on their part does not exceed twice the size of the fixed component of annual remuneration | <p>1. The amount of compensation (the golden parachute) paid by the Company in the event of the early dismissal of members of executive bodies or key executives at the Company's initiative and in the absence of wrongdoing on their part did not exceed twice the size of the fixed component of annual remuneration in the reporting period.</p> | Complied with | |
| 5.1 | The Company has created an effective risk management and internal control system aimed at providing reasonable assurance that the Company will achieve its goals. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|------------|--|--|--|---|
| 5.1.1 | The Board of Directors has established the principles of and approaches to organizing a risk management and internal control system at the Company. | 1. The functions of the Company's various governing bodies and divisions within the risk management and internal control system are clearly defined in internal documents/the relevant policy of the Company approved by the Board of Directors. | Complied with | |
| 5.1.2 | The Company's executive bodies ensure the creation and support of an efficient risk management and internal control system at the Company. | 1. The Company's executive bodies have ensured the distribution of functions and powers in the sphere of risk management and internal control among heads of units and divisions accountable to them. | Complied with | |
| 5.1.3 | The risk management and internal control system of the Company gives a fair, objective, and clear picture of the current situation at the Company and its prospects and ensures the integrity and transparency of the Company's statements. It also ensures that risks taken by the Company are reasonable and acceptable. | <p>1. The Company has approved an anticorruption policy.</p> <p>2. The Company has developed a convenient method for informing the Board of Directors or its Audit Committee about violations of the law, internal procedures, or the Corporate Code of Ethics.</p> | Complied with | |
| 5.1.4 | The Company's Board of Directors takes the necessary measures to make sure that the Company's risk management and internal control system is in line with the principles of and approaches to its organization formulated by the Board of Directors and that it functions efficiently. | 1. In the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the performance of the Company's risk management and internal control system. The key results of this assessment are included in the Company's Annual Report. | Complied with | |
| 5.2 | The Company organizes internal audits in order to make an independent and systematic assessment of the reliability and performance of the risk management and internal control system and corporate governance practices. | | | |
| 5.2.1 | To conduct an internal audit, the Company has created a separate unit or hires an independent third-party organization. The functional and administrative reporting relationships of the internal audit unit are differentiated. The internal audit unit functionally reports to the Board of Directors. | 1. To conduct an internal audit, the Company has created a separate unit responsible for internal audits which is functionally accountable to the Board of Directors or the Audit Committee, or an independent third-party organization has been hired following the same accountability principles. | Complied with | |
| 5.2.2 | The internal audit unit assesses the performance of the internal control system, the risk management system, and the corporate governance system. The Company uses generally accepted performance standards in matters concerning internal audit. | <p>1. In the reporting period, the performance of the internal control and risk management system was assessed as part of an internal audit.</p> <p>2. The Company uses generally accepted approaches to internal control and risk management.</p> | Complied with | |
| 6.1 | The Company and its operations are transparent to shareholders, investors, and other stakeholders. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|--|---|--|--|
| 6.1.1 | The Company has developed and introduced an information policy that ensures effective communication between the Company, its shareholders, investors, and other stakeholders. | 1. The Board of Directors has approved the Company's information policy, which was developed taking into account the recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered issues related to the Company's compliance with its information policy at least once in the reporting period. | Partially complied with | <p>Clause 1 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance not observed: The recommendations of the Corporate Governance Code concerning the compliance of the Company's information policy with the Code's recommendations have not yet been reflected in the Company's internal documents.</p> <p>There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents prior to the annual general meeting of shareholders for 2019.</p> <p>However, the Company ensures the timely disclosure of complete and reliable information, including its financial position, economic indicators, and ownership structure, in order to provide the Company's shareholders and investors with an opportunity to make informed decisions.</p> <p>Information is disclosed in accordance with the requirements of the Russian legislation as well as the rules of the Financial Conduct Authority (FCA) of the United Kingdom.</p> <p>In 2018, the Company underwent significant changes, including changes related to the Company's development strategy, and many business processes are in the process of transformation. The Company performs systematic work to bring its corporate governance practices as well as internal documents regulating its activities and the activities of the Company's management bodies into compliance with the Code.</p> |
| 6.1.2 | The Company discloses information on the corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code. | 1. The Company discloses information on its corporate governance system and general corporate governance principles used by it, including disclosure on the Company's website. 2. The Company discloses information on the membership of executive bodies and the Board of Directors, independence of its members, and their membership in the Committees of the Board of Directors (as defined in the Code). 3. If there is an entity controlling the Company, the Company publishes a memorandum of this entity detailing its plans concerning corporate governance at the Company. | Complied with | |
| 6.2 | The Company discloses comprehensive, up-to-date, and accurate information about its operations in a timely manner to ensure that its shareholders and investors are able to make justified decisions. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|--|---|--|---|
| 6.2.1 | The Company discloses information in accordance with the principles of regularity, consistency and promptness as well as the availability, accuracy, comprehensiveness, and comparability of the data disclosed. | 1. The Company's information policy stipulates approaches to and criteria for identifying information which may have a significant impact on the value of the Company and its securities, as well as procedures ensuring the timely disclosure of such information. 2. If the Company's securities are listed on foreign markets, the disclosure of material information in the Russian Federation and on such markets is simultaneous and equivalent during the reporting year. 3. If foreign shareholders own a considerable number of shares in the Company, information was disclosed not only in Russian, but also in one of the prevailing foreign languages during the reporting year. | Complied with | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|---|---|--|---|
| 6.2.2 | The Company avoids using a formal approach to information disclosure and discloses material information on its operations even if the law does not require disclosing such information. | 1. In the reporting period, the Company disclosed IFRS financial statements for the six months and for the full year. The Company's Annual Report for the reporting period includes IFRS annual financial statements and an auditor's report. 2. The Company discloses comprehensive information on its capital structure in accordance with Recommendation No. 290 of the Code in the Annual Report and on its website. | Partially complied with | Clause 2 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance not complied with: The Company has not determined the procedure for disclosing separate additional information about the Company's capital structure, as specified by Recommendation 290 of the Code, specifically: statements by the Company's executive bodies indicating that the Company has no information about the existence of share ownership exceeding five percent other than those already disclosed by the Company and no information about the possible acquisition or acquisition by certain shareholders of a degree of control that is disproportionate to their participation in the Company's authorized capital, including on the basis of shareholder agreements. There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents and corporate governance practices prior to the annual general meeting of shareholders for 2019. Even though information about the Company's lack of the above data is not disclosed in the form of a statement by the executive bodies, this does not result in any information being concealed concerning the Company's capital structure in accordance with clause 290 of the Code. The Company avoids taking a formal approach to the disclosure of essential information about its activities. In 2018, the Company underwent significant changes, including changes related to the Company's development strategy, and many business processes are in the process of transformation. The Company performs systematic work to bring its corporate governance practices as well as internal documents regulating its activities and the activities of the Company's management bodies into compliance with the Code. |
| 6.2.3 | As of the most important means of communication with shareholders and other stakeholders, the Annual Report contains information that allows for assessing the Company's performance during the year. | 1. The Company's Annual Report contains information on the key aspects of its operations and its financial results. 2. The Company's Annual Report contains information on environmental and social aspects of its operations. | Complied with | |
| 6.3 | The Company provides equal and easy access to information and documents at the shareholders' request. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|---|--|--|--|
| 6.3.1 | The Company provides equal and easy access to information and documents at the shareholders' request. | 1. The Company's information policy stipulates that shareholders must be granted easy access to information, including information on legal entities controlled by the Company, at the shareholders' request. | Partially complied with | The Corporate Governance Code recommendations concerning the provision to shareholders of information on legal entities controlled by the Company have not yet been reflected in the Company's internal documents. There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents prior to the annual general shareholders meeting for 2019. However, the Company discloses a sufficiently large amount of information at its own initiative about the legal entities it controls in addition to information whose disclosure requirements are envisaged by existing legislation. In practice, access to such information is easily provided. In 2018, the Company underwent significant changes, including changes related to the Company's development strategy, and many business processes are in the process of transformation. The Company performs systematic work to bring its corporate governance practices as well as internal documents regulating its activities and the activities of the Company's management bodies into compliance with the Code. |
| 6.3.2 | When the Company provides information to shareholders, a reasonable balance is maintained between the interests of individual shareholders and those of the Company since the Company is interested in maintaining the confidentiality of important commercial information which may have a material effect on its competitiveness. | 1. In the reporting period, the Company did not reject shareholders' requests for information, or, if it did, it gave reasons for the refusal to provide information. 2. In the cases stipulated by the Company's information policy, shareholders are informed that the information is confidential and undertake to keep it confidential. | Complied with | |
| 7.1 | Actions that have or may have a substantial impact on the Company's share capital structure and financial position and, accordingly, on the shareholders' position (significant corporate actions) are taken on fair terms securing the rights and interests of the shareholders and other stakeholders. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|---|--|--|--|
| 7.1.1 | Significant corporate actions include the reorganization of the Company, the purchase of 30 or more percent of the Company's voting shares (acquisition), major transactions, an increase or reduction in the Company's authorized capital, the listing and delisting of the Company's shares as well as other actions that may result in a significant change in shareholders' rights or a violation of their interests. The Company's Charter provides a list (criteria) of transactions or other actions constituting significant corporate actions, and such actions fall within the purview of the Company's Board of Directors. | 1. The Company's Charter provides a list of transactions or other actions constituting significant corporate actions and establishes criteria for their definition. Making decisions about significant corporate actions is within the competence of the Board of Directors. In cases when legislation specifically states that the exercising of corporate actions falls within the purview of the General Shareholders Meeting, the Board of Directors provides the shareholders with the relevant recommendations. 2. The Company's Charter classifies reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), major transactions, an increase or reduction in the Company's authorized capital, and the listing and delisting of the Company's shares as significant corporate actions. | Partially complied with | Clause 1 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance partially not complied with. Clause 2 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance not complied with. The list of significant corporate actions and criteria for their determination has not been formally incorporated in the Company's internal documents. There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents prior to the annual general shareholders meeting for 2019. However, the Company's corporate governance practices imply that corporate actions which the Code regards as significant are approved by the Board of Directors or the general meeting of shareholders based on a proposal from the Board of Directors, and the position of the Board of Directors on all the agenda items of the general shareholders meeting, including on items that may be regarded as significant corporate actions, is provided to shareholders as part of preparations for the above general meeting. In 2018, the Company underwent significant changes, including changes related to the Company's development strategy, and many business processes are in the process of transformation. The Company performs systematic work to bring its corporate governance practices as well as internal documents regulating its activities and the activities of the Company's management bodies into compliance with the Code. |
| 7.1.2 | The Board of Directors plays a key role in making decisions or recommendations with regard to significant corporate actions; the Board of Directors relies on the opinion of the Company's Independent Directors. | 1. The Company has established a procedure whereby Independent Directors express their opinions on significant corporate actions before their approval. | Complied with | |
| 7.1.3 | When taking significant corporate actions that affect the rights and legitimate interests of shareholders, equal conditions are provided for all shareholders of the Company, and if statutory mechanisms aimed at protecting shareholders prove to be insufficient, additional measures are taken to protect the rights and legitimate interests of the Company's shareholders. At the same time, the Company is guided not only by compliance with the formal requirements of the law but also by the corporate governance principles set out in the Code. | 1. Given the nature of the Company's operations, the minimum criteria established by the Company's Charter for classifying the Company's transactions as significant corporate actions are lower than those established by law. 2. During the reporting period, all significant corporate actions were approved prior to their implementation. | Complied with | |
| 7.2 | The Company ensures that significant corporate actions are taken in a manner that enables the shareholders to receive full information on such actions, provides them with an opportunity to influence such actions, and guarantees that their rights are observed and properly protected when such actions are taken. | | | |

| No. | Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|-------|---|---|--|---|
| 7.2.1 | Information on significant corporate actions is disclosed, and an explanation of the reasons, conditions, and consequences of such actions is provided. | 1. During the reporting period, the Company promptly and thoroughly disclosed information on its significant corporate actions, including the rationale and timing of such actions. | Complied with | |

| No. Corporate governance principles | Criteria for evaluation of compliance with corporate governance principle | Status of compliance with corporate governance principle | Explanations concerning the failure to meet the criteria for the evaluation of compliance with corporate governance principle |
|---|---|--|---|
| 7.2.2 The rules and procedures for the implementation of significant corporate actions are set forth in the Company's internal documents. | <p>1. The Company's internal documents establish the procedure for hiring an independent appraiser to carry out a valuation of the property sold or acquired in a major transaction or a related-party transaction.</p> <p>2. The Company's internal documents establish the procedure for hiring an independent appraiser to carry out a valuation of the Company's shares for the purposes of purchase or buyback.</p> <p>3. The Company's internal documents contain an expanded list of reasons why members of the Company's Board of Directors and other persons stipulated by applicable laws can be recognized as related parties for the purpose of the Company's transactions.</p> | Partially complied with | <p>Clauses 1 and 2 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance partially complied with:</p> <p>The Company's internal documents envisage a procedure for hiring specialists to obtain professional advice on issues considered at meetings of the Board of Directors without specifying the purpose of the hiring of such a specialist.</p> <p>Existing legislation envisages cases where the hiring of an independent appraiser is mandatory. Moreover, existing legislation does not preclude the possibility of hiring an appraiser in any of the specified cases (determining the value of property that has been alienated or acquired in a major transaction or a related party transaction or an assessment of the cost of acquiring and redeeming a company's shares).</p> <p>Clause 3 of the Evaluation Criteria for Compliance with the Principle of Corporate Governance not complied with:</p> <p>The recommendations of the Corporate Governance Code concerning an expansion in the list of grounds based on which members of the Company's Board of Directors and other entities envisaged by law are recognized as interested parties in the Company's transactions have not been reflected in the Company's internal documents.</p> <p>There are plans to consider the feasibility and necessity of incorporating these provisions into the Company's internal documents prior to the annual general shareholders meeting for 2019.</p> <p>However, after the Code took effect, significant changes were made to the legislation on the joint-stock companies regarding related party transactions. For example, the range of interested parties was reduced, the procedure for concluding related party transactions was simplified, and there was an expansion in the list of transactions to which the rules on the conclusion of related party transactions do not apply, despite the formal existence of "interest."</p> <p>In 2018, the Company underwent significant changes, including changes related to the Company's development strategy, and many business processes are in the process of transformation. The Company performs systematic work to bring its corporate governance practices as well as internal documents regulating its activities and the activities of the Company's management bodies into compliance with the Code.</p> |

Related party transactions

During the reporting year, there were no transactions that are recognized as related party transactions in accordance with the legislation of the Russian Federation

Major transactions

List of transactions concluded in 2018 that are recognized as major transactions in accordance with the Federal Law "On Joint-Stock Companies"

| | |
|--|---|
| Transaction date | 09/28/2018 |
| Subject of the transaction and other material terms of the transaction | <i>Gratuitous transfer by the Shareholder PJSC "Magnit" of a contribution to the property of the Company JSC "Tander". In order to finance and support the activities of JSC "Tander" (hereinafter the "Company"), PJSC "Magnit" (the "Shareholder") shall make a contribution of RUB 60,000,000,000 (sixty billion) to the Company's property without compensation, and the Company shall accept this contribution and use it in its operations. The contribution shall be transferred to the Company within 30 days from the time the Contract is signed by transferring money to the Company's payment account. The voluntary contribution to the Company's property shall not alter the size of the Shareholder's stake, increase the Company's authorized capital, or alter its nominal stock price.</i> |
| Parties to the transaction | <i>PJSC "Magnit" – "Shareholder", JSC "Tander" – "Company"</i> |
| Amount of the transaction in monetary terms, thousand rubles | 60,000,000.00 |
| Size of the transaction as a percentage of the book value of the Company's assets as of the end date of the last completed reporting period preceding the date of the transaction, % | 43.41% |
| Deadline for performance of obligations under the transaction | <i>By 10/27/2018</i> |
| Information about the performance of the above obligations | <i>Obligations fulfilled.</i> |
| Management body that consented to the transaction or its subsequent approval | <i>Board of Directors of PJSC "Magnit"</i> |
| Other information about the transaction specified by the Company at its own discretion | |

Subsidiaries and joint ventures

As of December 31, 2018, in addition to PJSC "Magnit," the Group included the following companies: LLC "Retail Import", which develops wholesale in alcohol products, LLC "Selta", which provides transportation services to the Group, LLC "Tandem", LLC "Alkotrading", LLC "BestTorg", LLC "MFK" (former names LLC "Tander-Magnit"); LLC "Green Line Greenhouse Complex" (former names LLC "Project M" and LLC "Tander-Petersburg"), LLC "Zvezda", LLC "Logistics Alternative", LLC "MagnitEnergo", LLC "TD-Holding", LLC "ITM", LLC "Krasnodar Management Company Industrial Park", LLC "Konditer Kubani", LLC "Kuban Baked Goods Factory", LLC "Volshebnyaya Svezhest", LLC "Moroznye Pripasy", LLC "Moscow On Don", LLC "Magnit Pharma" (former name LLC "Pharmasystems"), LLC "MF-SIA", and its subsidiaries.

About the report

The Annual Report of PJSC «Magnit» for 2018 (hereinafter also referred to as «Magnit» or the Company) was prepared based on the information available to PJSC «Magnit» and its subsidiaries (hereinafter referred to as “Magnit”) **as of December 31, 2018, unless otherwise implied by the meaning or content of the information provided.**

This Annual Report is addressed to a wide range of stakeholders and reflects the key performance results of “Magnit” for 2018 in such matters as strategic and corporate governance as well as financial and operating results.

The Report was prepared in accordance with the regulatory requirements of existing legislation. Among other things, the principles and requirements of the following were used and taken into account during its preparation:

- the Legislation of the Russian Federation, including the Regulation on Information Disclosure by Issuers of Equity Securities approved by the Bank of Russia on December 30, 2014 as No. 454-P;
- the Moscow Exchange;
- Letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014 “On the Corporate Governance Code”;
- the London Stock Exchange;
- the UK Financial Conduct Authority (FCA);
- the Regulation on the Company’s Information Policy.

Disclaimer

This Annual Report contains forward-looking statements that reflect the expectations of the Company’s management. Forward-looking statements are not based on actual circumstances and include all statements concerning the Company’s intentions, opinions, or current expectations regarding its performance, financial position, liquidity, growth prospects, strategy, and the industry in which PJSC “Magnit” operates. By their nature, such forward-looking statements are characterized by risks and uncertainties since they relate to events and depend on circumstances that may not occur in the future.

Such terms as “assume,” “believe,” “expect,” “predict,” “intend,” “plan,” “project,” “consider,” and “could” along with other similar expressions as well as those used in the negative usually indicate the predictive nature of the statement. These assumptions contain risks and uncertainties that are foreseen or not foreseen by the Company. Thus, future performance may differ from current expectations, therefore the recipients of the information presented in the Annual Report should not base their assumptions solely on it.

In addition to official information on the activities of PJSC “Magnit,” this Annual Report contains information obtained from third parties and from sources which PJSC “Magnit” finds to be reliable. However, the Company does not guarantee the accuracy of this information, as it may be abridged or incomplete. PJSC “Magnit” offers no guarantees that the actual results, scope, or indicators of its performance or the industry in which the Company operates will correspond to the results, scope, or performance indicators clearly expressed or implied in any forward-looking statements contained in this Annual Report or elsewhere. PJSC “Magnit” is not liable for any losses that any person may incur due to the fact that the above person relied on forward-looking statements. Except as expressly envisaged by applicable law, the Company assumes no obligation to distribute or publish any updates or changes to forward-looking statements reflecting any changes in expectations or new information as well as subsequent events, conditions, or circumstances.

Management statement on responsibility and approval of the report

I hereby confirm that:

- the financial statements prepared in accordance with International Financial Reporting Standards represent an accurate and fair reflection of the Company’s assets, liabilities, financial position, profits, and losses as well as those of its consolidated subsidiaries as a whole; and
- the management report includes a fair description of the development and performance of business operations and the Company’s position as well as that of its consolidated subsidiaries as a whole along with a description of the main risks and uncertainties they face.

On behalf of the Management Board:

CEO and Chairperson of the Management Board

O.V. Naumova

The information presented in the Report was confirmed by the Audit Commission, preliminary approved by the Board of Directors on April 24, 2019 (minutes w/o No. as of April 26, 2019) and approved by the Annual general shareholders meeting of PJSC «Magnit» on May 30, 2019.