MAGNIT

FROM FIELD TO PLATE

ANNUAL REPORT 2019

Welcome to Magnit

Our main purpose is to provide safe, nutritious, affordable food and products to make the lives of millions of our customers better. We have a strong culture of continuing operational improvement and focus on delivering exceptional quality and customer service. Magnit takes a long-term approach to investment and is committed to increasing shareholder value through sound commercial, responsible and sustainable business decisions that deliver steady growth in earnings and dividends.

For more information about strategy, vision and mission, please see page 42.

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We produce environmentally friendly products

Magnit is proud of its own production facilities and adheres to the principles of continuous high-quality production. We put a lot of effort into responsibly sourcing the food our customers choose for their families.

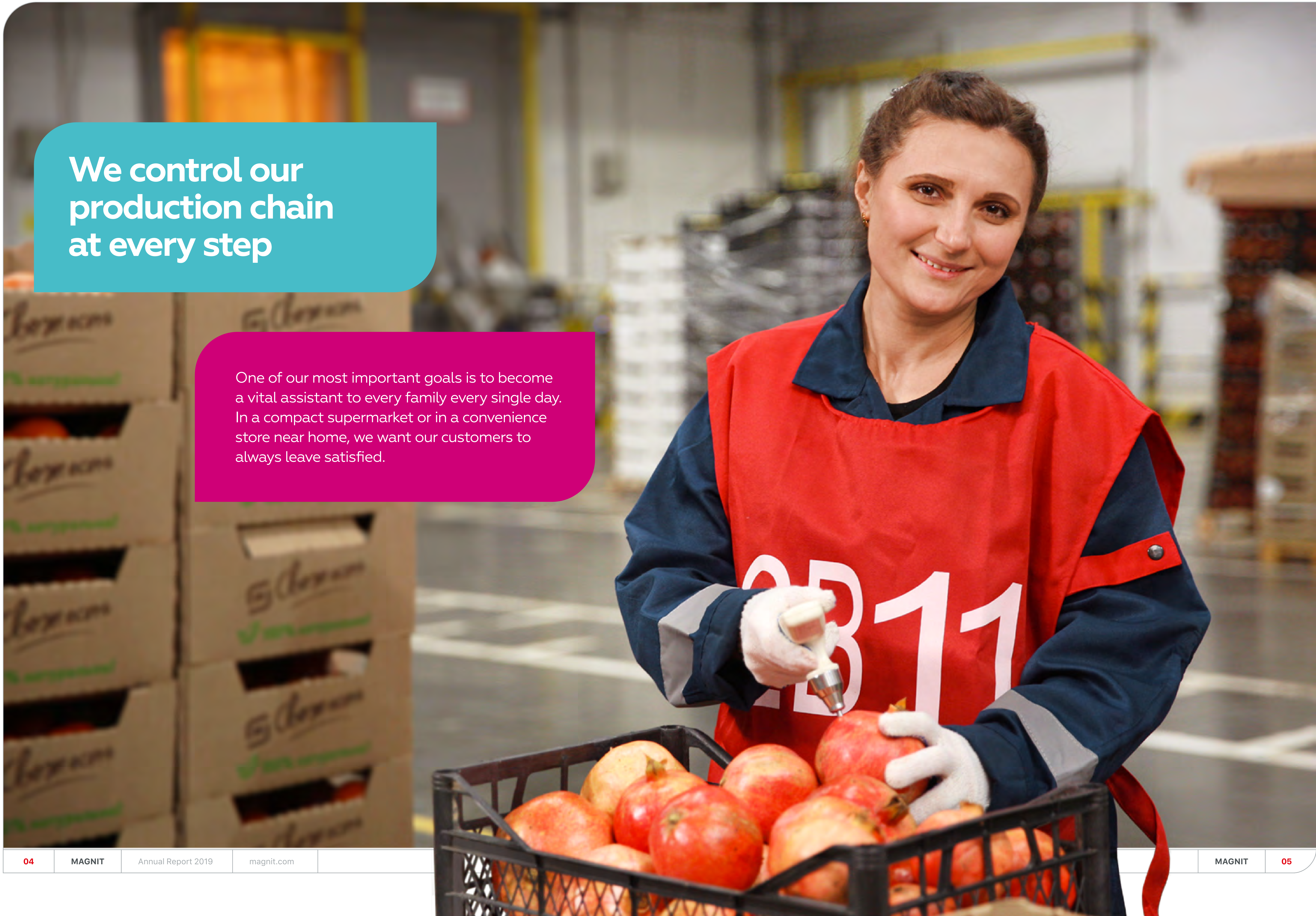
Magnit's own production facilities are located in 6 regions across the country, where we have built modern greenhouses and industrial complexes. We bear responsibility for offering the best products to every customer within the area of our operations.

- We try our best to minimise the environmental impact from our operations by using more sustainable trucks and speeding up the delivery process
- We monitor the journey each product makes to reach the shelf and implement quality control at every step of the product's journey
- We cooperate with local suppliers, create jobs and organise trainings for employees to ensure that local communities benefit from what we do

For more information about our own production, please see page 65.

We control our production chain at every step

One of our most important goals is to become a vital assistant to every family every single day. In a compact supermarket or in a convenience store near home, we want our customers to always leave satisfied.

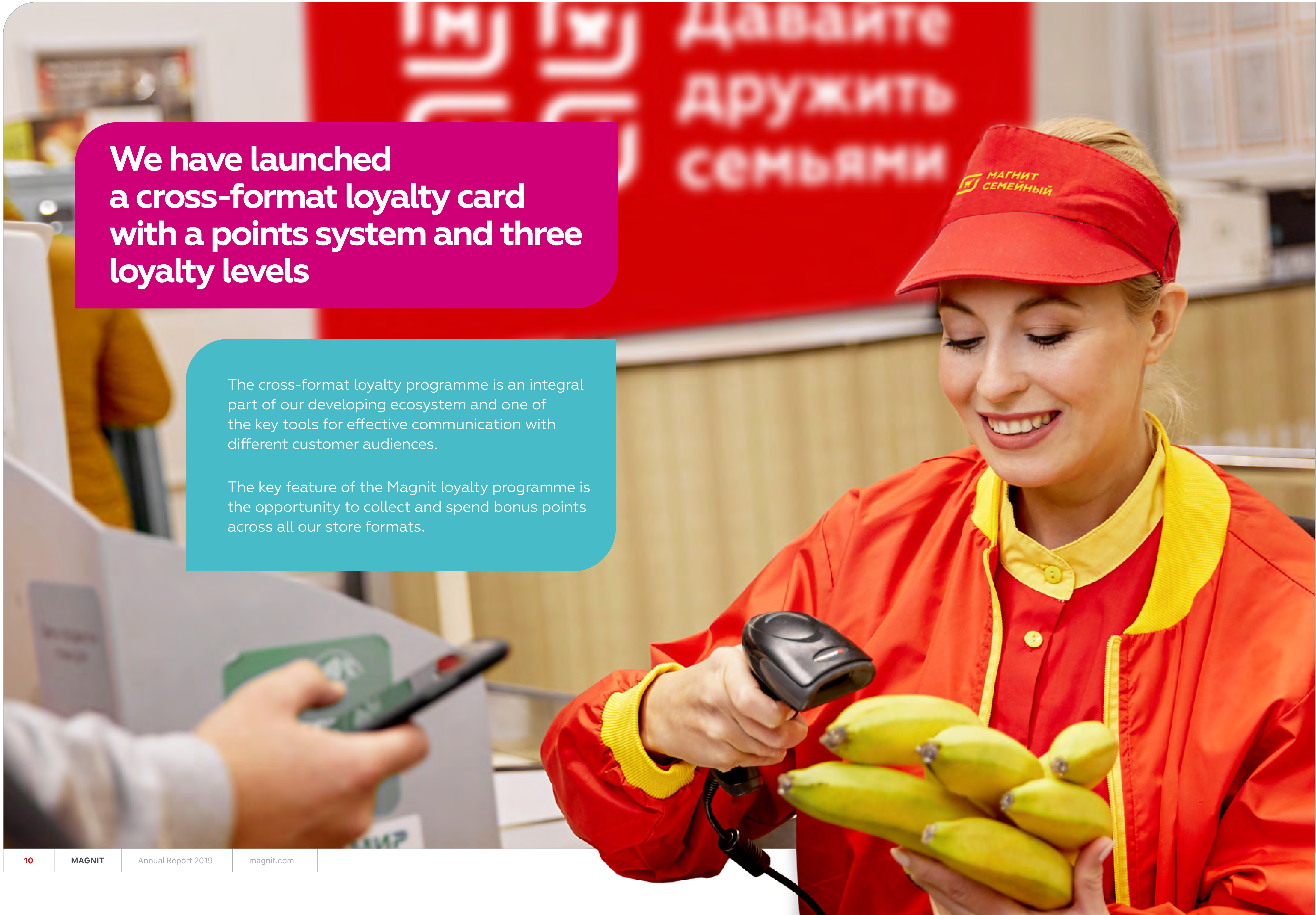


Our logistics system plays an important role in meeting the needs of our customers

Logistics is about optimising the product flow from receipt of goods to warehousing and picking, to delivery to stores and customers. Efficient logistics create conditions for favourable and profitable growth.

We enhance quality control and freshness throughout the supply chain

Our experts control all the links of the Magnit food production chain. That is why we confidently bear personal responsibility to each customer for the quality and environmental friendliness of our production.



We have launched a cross-format loyalty card with a points system and three loyalty levels

The cross-format loyalty programme is an integral part of our developing ecosystem and one of the key tools for effective communication with different customer audiences.

The key feature of the Magnit loyalty programme is the opportunity to collect and spend bonus points across all our store formats.

We deliver freshness and natural products to your table

At Magnit we believe all the people want to see high-quality foods at their kitchen tables. Consumers' expectations of the food retail sector are growing every year and we comply with them to the fullest extent.

Who We Are

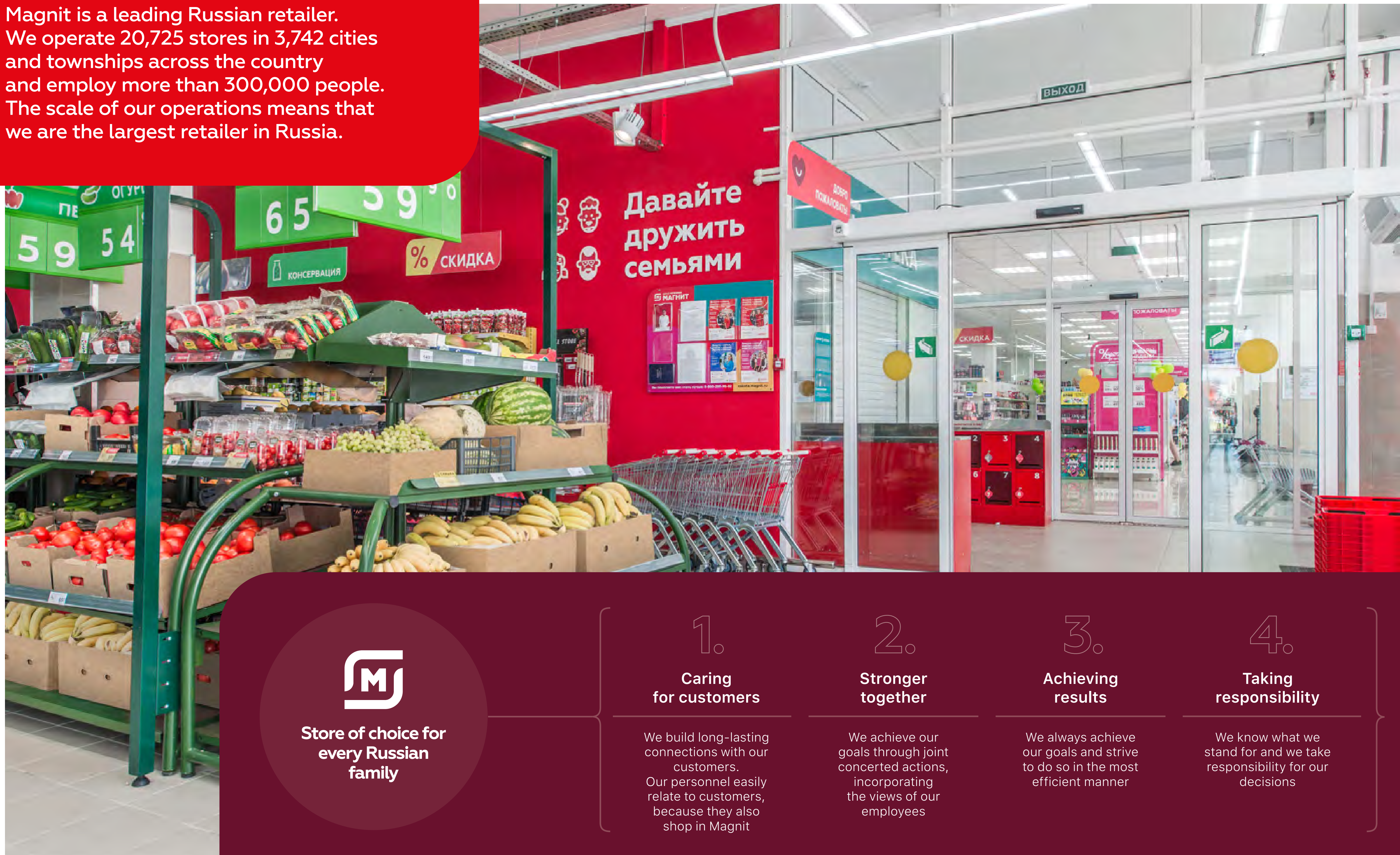
Magnit is a unique company within Russian retail.
We operate a multi-format model, which includes convenience stores and supermarkets, drogeries and pharmacies. As the only vertically integrated retailer, Magnit operates 15 agricultural and food production units in various parts of Russia. These production facilities are central to ensuring the supply of high quality produce for our private label (PL) range and play a vital role in enabling the Company's sourcing of local and sustainable products. Our greenhouses, including a mushroom complex, are among the largest in Eastern Europe.

Magnit is also one of the leading logistics operators in the country. We own **38 distribution centers** across Russia and our **5,656 trucks** make us one of the largest fleet owners in Europe.

Magnit was founded in Krasnodar, in the South of Russia, in 1994. In 25 years, we have developed from a small regional private company, to one of the most renowned food retailers in Russia, serving nearly **13 mln customers** daily. Magnit went public in 2006 and is traded on both the Moscow and London Stock Exchanges (MGNT). According to audited IFRS results for the 2019 financial year, Magnit's revenue amounted to **RUB 1,368.7 bln**, while EBITDA (IAS 17) reached **RUB 83.1 bln**.

Magnit has a credit rating issued by Standard & Poor's of **"BB", Stable** outlook.

Magnit is a leading Russian retailer. We operate 20,725 stores in 3,742 cities and townships across the country and employ more than 300,000 people. The scale of our operations means that we are the largest retailer in Russia.



OUR MISSION AND VALUES

Our values are a basis for our mission: to become the store of choice for every Russian family.

Store of choice for every Russian family

1. Caring for customers
We build long-lasting connections with our customers. Our personnel easily relate to customers, because they also shop in Magnit

2. Stronger together
We achieve our goals through joint concerted actions, incorporating the views of our employees

3. Achieving results
We always achieve our goals and strive to do so in the most efficient manner

4. Taking responsibility
We know what we stand for and we take responsibility for our decisions

Highlights of the Year

In 2019 Magnit celebrated its 25th anniversary.
The year was marked by a host of changes at the Company: we improved our corporate governance system, introduced new store concepts and revamped existing stores.

Operations

- IIntroduced new brand architecture for Magnit family of stores
- Developed CVP for each format
- Launched a unified brand for all stores in our family under the slogan "Let's bring families together!"
- Improved organisational structure, giving regions greater decision-making autonomy
- Established KPI system, aligned with the Company's goals
- Established foundation for category management function
- Reviewed assortment for each format
- Developed private label and own production strategies
- Launched a multi-format loyalty programme and introduced first co-brand projects (e.g. Tinkoff, Pochtabank)
- Piloted online deliveries in Moscow and Krasnodar.

Securities

- Completed a buyback programme launched in 2018
- Announced dividends for 9M 2018 and FY2018 totalling RUB 31 bn
- ACRA assigned a credit rating of AA (RU) to PJSC Magnit and its securities, with a Stable outlook
- Issued five exchange bond series with a total nominal volume of RUB 50 bln. ACRA Rating Agency assigned a credit rating of AA(RU) to each of these bond issues
- S&P Global Ratings has affirmed the rating of Magnit at BB, Stable outlook.

Corporate Governance

- Jan Dunning elected as President and then as CEO
- Extended and strenghtened the Management Board
- AGM elected a new Board of Directors
- Developed Sustainability Strategy and a number of other sustainability initiatives were launched.

20,725[1]
Total number of stores

14,622
Convenience stores

5,630
Drogeries

473
Supermarkets

7,238
Selling space, thous. sq. m

308,432
Employees

5,656
Trucks

38
Distribution centres

15
Agricultural & food production units

1,686
Warehouse space, thous. sq. m

13
Private labels, > 500 SKUs

0.9
CO_2 emissions, mln tonnes

1.7
Total amount of waste, mln tonnes

0.4
Total amount of recycled waste, mln tonnes

RUB 1,368.7
Revenue, bln

6.1%
EBITDA margin (IAS 17)

10.6%
Revenue growth

RUB 58.6
CAPEX (IAS17), bln

RUB 312.0
Gross profit, bln

1.3%
Net income margin (IAS 17)

RUB 31.0
Dividends announced for 2018, bln

3,742
Cities & townships with stores

4,690
Tickets, mln

20 mln
Number of active loyalty cardholders

58%
Penetration in sales

(1) Does not include pharmacies.

Chairman's Statement

Dear shareholders,

In 2019 Magnit celebrated its 25th anniversary, giving us a chance to reflect on the Company's many achievements and present some recent successful developments.

Since its founding, Magnit has grown to become one of the most recognised brands in Russia and one of the country's largest retail and food production businesses. Our industry is continuously evolving and we strive to be at the forefront of the best retail practices. Recent developments in the retail industry along with changing market trends have created new challenges and opportunities for the Company. We now intend to capitalise on every strength Magnit has accumulated throughout its history while building a business fit for the future.

2019 proved to be a milestone year for Magnit, as the Company made a number of significant achievements, overcame difficulties and implemented brand new solutions. We put considerable effort into enhancing the efficiency of our operations, improving our corporate governance and streamlining our balanced approach to the organizational structure. A year after initiating this transformation, we have seen positive results in our operations, including encouraging trends in our LFL indicators.

Our ultimate goal is to make Magnit a value-for-money store, providing high-quality products at affordable prices. The business transformation remains on track, and we have made good progress in improving the Company's operations. In 2019 we implemented new policies and processes which will guide our actions and enable the execution of our Strategy. Meanwhile, we continued to adhere closely to our top priorities – fulfilling our customers' needs, building on our numerous competitive advantages and creating a solid foundation for Magnit's future development.

During the prior year, a relatively strained macroeconomic environment in Russia produced challenging conditions for both retailers and consumers. However, the retail market is still consolidating and showing modest growth. We are attentive to the changing habits of retail customers who are increasingly demanding better quality produce and more engaging experiences but remain price sensitive.

Customers are increasingly looking for fresh and responsibly sourced produce, and we are meeting their needs through our focus on our own production facilities, collaborations with local producers and our carefully crafted assortments.

The changes in our business are already visible to our customers. In 2019 Magnit introduced a new unified brand architecture for its stores, strengthening our corporate identity and improving customer retention. All retail formats, including convenience stores, supermarkets, drogeries and pharmacies now share the same design and are linked together by our cross-format loyalty programme.

We are extending our loyalty-based approach to our human resource policy, which is particularly important given the pace of Magnit's transformation. We know that our entire team across the country is at the heart of the Company's success, so developing and retaining our employees remains one of our top priorities.

In line with our operational transformation, we have continued to align our corporate governance system with international best practices. A new position of President was established with the appointment of Jan Dunning, who brought a wealth of experience and valuable expertise to the role, before taking the lead as CEO. We also strengthened and expanded our Board of Directors to nine members. The Committees of the Board are now Chaired only by independent non-executive directors and consist mainly of independent directors. We also strengthened the Management Board by appointing five new managers to strategic positions, including a new Human Resource Director and Chief Investment Officer. Another element of our improved corporate governance system is a KPI system, which seeks to align the current motivation of employees at all levels.

We fully recognise the various impacts that Magnit has on a range of different stakeholders and we use this knowledge to develop our approach to social responsibility. In 2020 we look forward to adopting important policies on sustainable development issues and introducing a new Sustainability Strategy.

I would like to thank my fellow members of the Board of Directors for their continual support and efficient performance which has made an important contribution to the implementation of Magnit's Strategy.

I would also like to extend my gratitude to the Management Board. Each of its members plays a vital role in the execution of our complex transformation process. Our new CEO, Jan Dunning, has made an immediate impact and I would like to thank him for joining our team with the will to lead the evolution of Magnit and for sharing his vision with us.

The results we have achieved in 2019 would have been impossible without the contribution of each of Magnit's employees, a big family which unites over 300 thousand people across Russia. Their enthusiasm and professionalism allow us to deliver the high standards of service and keen customer focus that is at the core of our strategy. They have also shown flexibility and a readiness to adapt to meet the inevitable challenges of our business transformation and I sincerely appreciate their tireless efforts over the last year.

Finally, I would like to express our gratitude to all of Magnit's shareholders for their ongoing support and for sharing our belief in Magnit.

I am confident that we will make great progress in 2020, successfully implementing the Company's transformation, achieving the goals we have set ourselves and delivering value for our shareholders. If all of us at Magnit remain focused on working as one united team to develop our competitive advantages, I am confident that we will attain every objective.

Charles Ryan
Chairman of the Board of Directors

CEO's Statement

Dear colleagues,

It was an honour to become part of the Magnit team in 2019, and a privilege to be given responsibility for driving the transformation of the Company into an innovative modern retailer.

Our strategic vision for Magnit places our customers at the heart of our organisation and seeks to capture synergies from one umbrella brand across multiple Magnit formats. We are fully committed to fulfilling customer needs via the implementation and adjustment of our customer value proposition. We intend to maintain and build upon the Company's differentiating strengths including our own production capabilities, our wide geographical coverage and one of the largest supply chain networks in the country.

Our focus is on fixing and improving the processes of our core business, while continuing to enhance cross-functional cooperation to ensure effective decision-making. With this we will invest in developing our human capital, private label offering and direct imports, and we will upgrade and modernize our IT infrastructure to optimise business processes.

We will also incorporate the use of big data and digital technologies across our business to drive efficiency and create future growth opportunities.

Performance

2019 was an exciting and challenging year from a macro perspective and in terms of the operating environment. The retail industry was insufficiently stimulated by inflation as disposable incomes remained under pressure. Competition during the year remained intense given high promotional levels.

During the year we opened 2,841 new stores, including 1,630 convenience stores, 9 supermarkets and 1,202 drogeries, with 12.7% growth of selling space. More than 2,300 stores were redesigned.

Like-for-like indicators remain the pivotal measure of the Company's development. LFL sales growth turned positive in 2019 after 3 consecutive years of decline and stood at 0.4%, with 2.8% average ticket growth and 2.3% traffic decline.

Magnit's revenue grew by 10.6% to RUB 1,368.7 bln. EBITDA margin came in below our expectations at 6.1%, mainly driven by stronger promo intensity in the industry, the active roll out of the cross format loyalty programme and several one-off effects.

Our aim is profitable growth, combined with efficiency gains in all areas and business processes, resulting in higher returns and value creation for stakeholders.

Convenience stores remain the driver of our business, generating around 77% of our retail sales. In 2019, we redesigned 1,615 stores and opened a flagship store in Kazan which set the standard for the comfortable and enjoyable shopping experience we aim to offer. In the past year we also piloted new Magnit Evening and Magnit City formats, which are showing promising initial results.

We undertook a review of our supermarket business, including analysis of the design, product layout and assortment in stores of this format. Following this review, we launched the first newly renovated superstore in Krasnodar, fully equipped with innovative solutions for the best customer experience. We are looking forward to rolling out those solutions in other stores in this segment.

Magnit Cosmetic is performing very well, delivering some of the best results in the industry, with positive LFL traffic of 3.1% and strong 20.5% net retail sales growth. We opened 1,202 new stores in 2019 and started to serve the drogerie segment via SIA Group distribution centres. We will continue to pursue expansion in 2020, while constantly updating and modernising the existing business.

Pharmacies are our most recently established format and provide a complementary offering to our existing stores and help to drive increased traffic. We also note synergies with drogerie format derived while processing and delivery of non-food items.

CEO's Statement
(continued)

Strategic priorities in action

We have repositioned Magnit in 2019, refining our mission and management approach. Our aim is to become recognised as the retailer providing the "best quality at an affordable price". To achieve this, we have strengthened our regional management teams and conducted an extensive review of our communications, developed our category management functions and upgraded our organisational structure. Magnit also continues to develop its own production capabilities, as part of our unique approach to freshness of our fruits and vegetables.

In 2019, Magnit continued the implementation of its Strategy, aimed at improving operating efficiency and process optimisation, coupled with a customer centric approach to decision making. In the meantime, we reviewed our expansion priorities and our approach to capital allocation, increasing ROIC requirements across all projects.

In line with our customer centric strategy, in 2019 we enhanced our value proposition and significantly improved the shopping experience. New store designs were rolled out, our service level was significantly improved and our assortment was expanded. The major component of our enhanced CVP is the development of our private label offering. In 2019 we reassessed our private label brands versus customers' expectations and launched key private labels such as "My Price" and "Magnit Freshness".

We plan to promote 26 of our private label brands, across all price categories, in order to raise customer recognition and loyalty and to grow the category's share of our revenues to 20%.

Another key priority is to build an omnichannel ecosystem, implementing cutting-edge digital technology. In 2019, we took a major step towards this goal with the deployment of our multi-format loyalty programme, across our entire area of operations. The loyalty programme encompasses the whole family of Magnit stores and will very soon allow us to upgrade the level of personalisation we provide for our customers.

Sustaining our status as the largest Russian employer and one of the leading companies in the retail industry is impossible without a committed approach to sustainable development. We strive to act responsibly for all our stakeholders, including local communities, our customers and suppliers, coordinating our approach with the help of our recently developed Sustainability Strategy.

Magnit aims to be a modern and progressive employer, supporting our employees who are making a vital contribution to building the Company. In 2019, we adopted a new Employee Value Proposition and plan to further expand opportunities for development and education for our employees.

Outlook

Throughout 2019 we continued building on Magnit's strategic advantages working to unlock the Company's huge potential and create a platform for our future success.

The transformation of our vision and organisational processes has already created a strong basis for sustainable growth. We will continue to develop as a modern customer-oriented retailer, acting responsibly to deliver value for all our stakeholders. In 2020, we will focus on improving our efficiency and capitalising on our strengths such as our multi-format approach and own production capabilities.

We will continue refining our CVP and improving assortment in our stores to drive Magnit's development. Meanwhile, we are not implementing aggressive expansion policies and instead are being guided by feedback from our customers and concentrating on quality.

In the current circumstances of sluggish economic growth, weak consumer demand and a shrinking population the level of competition among retailers will inevitably remain intense. We will strive to stay ahead of our competition, adopting and developing the latest technologies and techniques to gain better customer insight and quickly tailor our offering to their needs.

I would like to thank the Board of Directors for their trust and support and restate my commitment to delivering value to our shareholders, employees, partners and Russian consumers. I am confident that despite the many challenges facing us, we will continue the successful implementation of our strategy and sustain the positive momentum in our operational results.

Jan Dunning
Chief Executive Officer

Magnit At a Glance

The leading food retailer
in Russia by number of stores and geographical coverage

The largest food importer
in Russia

A multi-format retail chain
with a unique cross format loyalty programme

The only vertically integrated retailer
which operates 15 agricultural and food production units across Russia

A reliable and stable partner
for national producers and foreign companies

A nationwide supply chain network
One of the largest logistics operators in the country

The largest private employer
in Russia

The store of choice
for millions of customers

Key Figures

	2017	2018	2019
Number of Stores	16,350	18,399	20,725
Cities & Townships with Stores	2,709	2,976	3,742
Tickets, mln	4,041	4,370	4,690
Number of Employees	276,290	295,882	308,432
Number of Suppliers	5,900	5,900	6,021
Revenue, RUB bln	1,143	1,237	1,369
Revenue Growth, %	6.4	8.2	10.6
Gross Margin, %	25.3	23.9	22.8
Adjusted EBITDA Margin (IAS 17)[1], %	8.0	7.2	6.8
Net Income Margin (IAS 17), %	3.1	2.7	1.3
CAPEX (IAS 17), RUB bln	75	54	59
Net Debt/EBITDA (IAS 17)	1.2	1.5	2.1
Total Dividends Announced, RUB bln	24.7	31.0	15.0[2]
CO_2 Emissions, mln tonnes	0.8	0.8	0.9
Total Amount of Waste, mln tonnes	0.9	1.1	1.7
Total Amount of Recycled Waste, mln tonnes	0.4	0.4	0.4

Key Subsidiaries of the Company

The Magnit Group consists of 43 companies, including PJSC Magnit and its subsidiaries:

- LLC Alcotrading
- JSC Tander
- LLC Tandem
- LLC Retail Import.

For full list of Magnit Group Companies please see in Appendix 4.

PJSC MAGNIT

LLC Alkotrading	JSC Tander	LLC Tandem	LLC Retail Import
100%	100%	100%	100%

Our History

For detailed history see magnit.com/en/about-company/history/

1994
Company founded as a household cleaning products and cosmetics distributor

1998
First grocery store opened in Krasnodar

2001
Magnit holding company established

2006
IPO on RTS and Moscow Exchange, raising approximately USD 370 mln

2008
SPO on London Stock Exchange, raising almost USD 500 mln

2010
First drogerie store launched

2011
Expansion of operations to include the production of vegetables

2013
Magnit becomes the largest retailer in Russia

2018
New Board of Directors and new Management team introduced, following a change in the shareholder structure

(1) Adjusted for the accident at Voronezh DC, changes in the management structure, passive stock sell-off and consulting fees.
(2) Dividends announced on PJSC Magnit shares following the results for the first 9 months of 2019.

What Sets Us Apart

ONE BRAND – MULTIPLE FORMATS

Magnit operates a multi-format business model that aims to meet all major customer requirements and be the favorite retail chain for Russian customers.

All our formats operate under a single brand, sharing consistent standards of quality and service and a common loyalty programme. We call this integrated concept "One Brand – Multi-Formats". Multiple formats allow us to capitalise on synergies, utilise our differentiated proposition and increase overall customer loyalty across the Family of Magnit stores. Meanwhile, our One Brand helps us remain front of mind among our customers and creates strong recognition among all audiences. This highly customer-centric approach underpins cross format promotional campaigns, our unified loyalty programme and unique cross category private label assortment based on our own high-quality production capabilities.

CONVENIENCE STORES

Magnit Convenience
A convenient store for everyday shopping with a large assortment of the most demanded food products and non-food goods at attractive prices is the most popular format. Here, customers can quickly buy fresh dairy products, fruits and vegetables, bread, dry foods, flour and confectionery products, or household cleaning products. Stores are located both in cities and in remote localities, which makes Magnit the largest and the most accessible retail chain in Russia in terms of geographical coverage. Convenience stores also include small pilot stores such as Magnit City and Magnit Evening.

Magnit City
A small store with a cozy interior and a café, where visitors can grab a bite, take away any of the ready-to-eat offerings, or make other small purchases, as well as charge their smartphone and connect to Wi-Fi.

Magnit Evening
This format has a diverse assortment of alcoholic and low-alcohol drinks with a wide selection of local producers, private labels and imported products. Additional assortment consists of basic food products from fresh and ultra-fresh categories, snacks, confections as well as staple non-food commodities.

14,622
Stores

4,952
Selling space, thous. sq. m

RUB 1,020.4
Revenue, bln

SUPERMARKETS

Magnit Family Supermarkets
These classic supermarkets with larger assortment than in the Convenience stores, are located at a walking distance in residential and business areas, as well as shopping malls. This format implies increased attention to the customer's comfort and pleasant shopping atmosphere, while keeping the attractive prices through the whole assortment.

Superstores
Compact city hypermarkets are modern and high-tech stores for the whole family located within the city. Such stores have broader assortment in all categories of products, including Magnit's private labels, focus on fresh and ultra-fresh products, offer useful services, have dedicated kids and healthy lifestyle departments, and boast their own cafés and culinary products prepared in the store.

Magnit Cash&Carry
The Cash&Carry format is geared towards private customers and small enterprises who are interested in bulk purchases at low prices. The Company started development of the Cash&Carry format in 2017.

473
Stores

948
Selling space, thous. sq. m

RUB 200.1
Revenue, bln

DROGERIE

The drogerie format pertains to stores with non-food assortment launched by the Company in 2010. Assortment of a cosmetics store includes mass-market make-up products and personal care items, including private labels, household cleaning products, perfumes, hygiene products, and household items. These stores are located next to home or office, thus being very convenient for daily shopping.

5,630
Stores

1,302
Selling space, thous. sq. m

RUB 109.7
Revenue, bln

OTHER FORMATS

Magnit Pharmacy
This modern pharmacy format was launched by the Company in 2017. Among its advantages are affordable prices, easy navigation, convenient and open display and personnel who can help with choosing the right product. Apart from pharmaceuticals, the assortment also includes items such as medical cosmetics, family products, beauty and personal hygiene articles, baby food, medical products, and seasonal offerings. Pharmacies are usually located inside or next to convenience, supermarkets, and cosmetics stores.

Ultra-small format stores include stores with basic assortment in the Russian post offices including remote areas with the population of less than 3,000 citizens, and stores with basic food and non-food products at petrol stations.

The Customer is **Our Top Priority**

Magnit is fundamentally committed to fulfilling customer needs. At the core of the Company's strategy are the demands of our customers. Our vision is to set a new standard for affordable retail fulfilling the everyday needs of Russian families. To do so we work relentlessly to improve customer service and sharpen our focus on the most important requirements of consumers. We ensure that the most in-demand products are available on our shelves, while monitoring the freshness and quality of our produce, and maintaining our leadership in price.

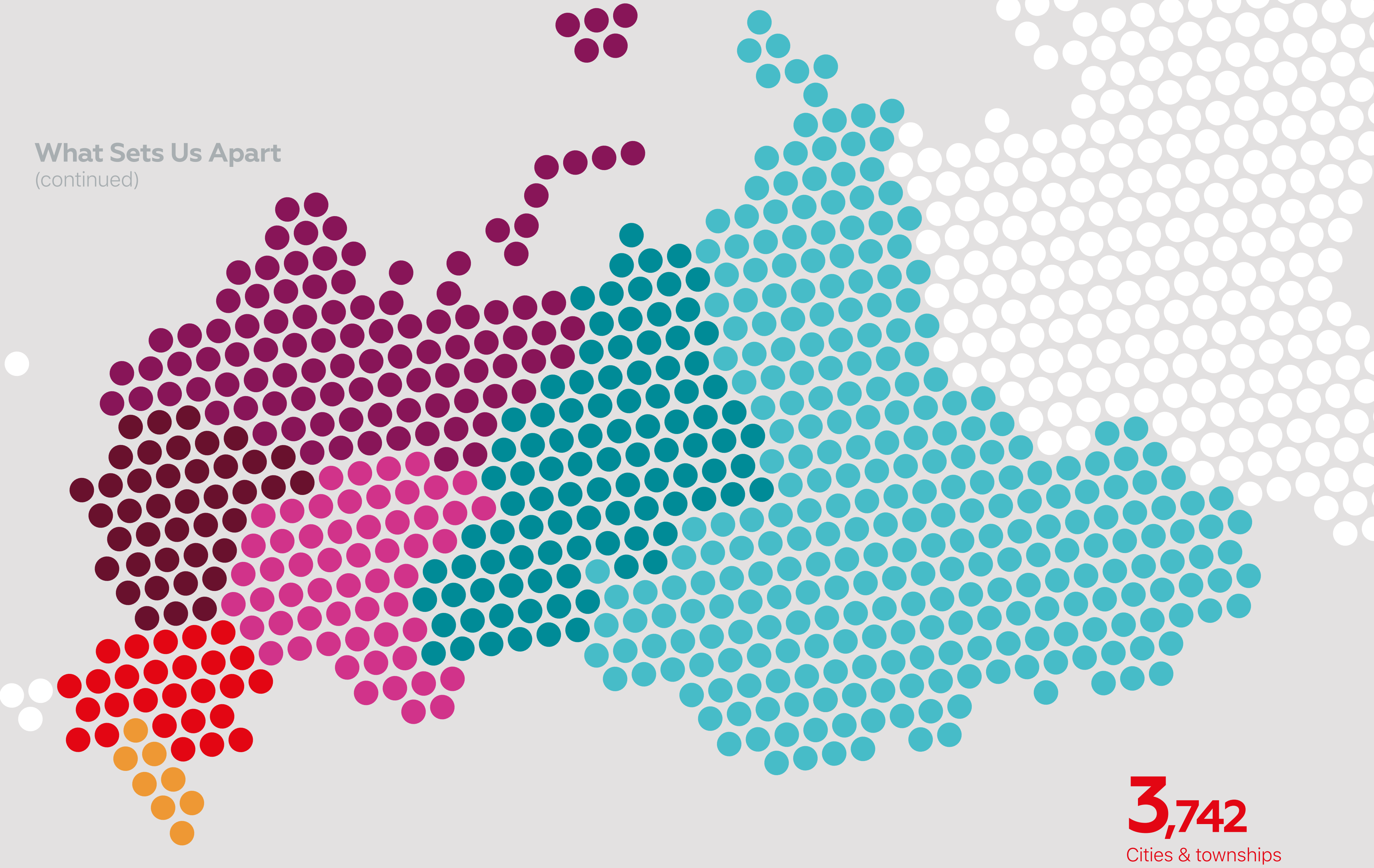
In 2019, Magnit launched its new loyalty programme, which has been designed with all of the best features currently available in the market. A key differentiator of the programme is its multi-format coverage: all our store formats benefit from the same programme. With this unified loyalty programme we can make our proposition even more attractive to consumers. It sets us apart from our competitors and enables us to achieve a profound understanding of our customers' needs.

In 2019, 33 mln of cards were issued, 60% of them were activated. This has already helped us to better understand our audience, enabling us to adjust our supply to their demands and above all to increase freshness.

20 mln
active loyalty cardholders

58%
penetration in sales

What Sets Us Apart
(continued)



	CENTRAL	VOLGA	SOUTHERN	NORTH WEST	URALS	SIBERIA	NORTH CAUCASUS	
Convenience Stores	4,238	3,968	2,130	1,566	1,442	875	403	14,622
Supermarkets	90	126	125	35	54	24	19	473
Drogerie Stores	1,466	1,463	1,049	502	639	316	195	5,630
Distribution Centres	10	10	8	3	3	3	1	38

3,742
Cities & townships

7
Federal regions

38
Distribution centres

5,656
Vehicles

We Are **Everywhere**

Magnit is the **number one** Russian retailer in terms of proximity to customers and geographical coverage. Our stores are located in 3,742 cities and townships in 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. Roughly two-thirds of the Company's stores are located in cities with a population of less than 500,000 people. We also operate in townships with population of 3,000 people.

In 2019 we started to upgrade our functional expertise. As one of our key priorities, we focused on creating category management teams. We decentralised the organisation into 8 multi-format districts to speed up decision-making and develop a deeper understanding of communities and consumers using functional teams at a local level. Through this we aim to provide the best local retail offering. We combine this with our own production capabilities, and high quality private labels in different price segments to deepen our differentiation from the rest of the market.

Magnit operates one of the largest supply chain networks in the country. Magnit's fleet primarily consists of heavy trucks. We plan to increase the proportion of light trucks in our fleet, while maintaining a total number of vehicles at approximately the same level. This scale of operations makes Magnit one of Russia's biggest employers.

We are widely implementing a digitalisation programme across our supply chain. New services and technologies, such as pooling and electronic consignment notes, will significantly improve the efficiency of our logistics, thereby reducing our carbon footprint and increasing the freshness of our produce on sale. Due to the centralised logistics system, we managed to effectively handle and optimise our costs.

We Sell What We Grow

Magnit's own production facilities, including our greenhouses, are unmatched among Russian retailers. The Company owns cultivated areas and production facilities in Kuban, one of the most fertile regions of Russia.

We are the only retailer that can truly control the entire product journey, from field to plate, and we will capitalise on this advantage through an offering of our range of private label products. Through our own production capabilities we have a unique opportunity to distinguish the Magnit offering, especially in fresh categories.

We are planning to increase our focus on the branding of our own production. The core of our private label offer will be formed by the Magnit Basic, Magnit Fresh and Magnit Health brands. These provide basic value-for-money food and pharmaceutical items with the aim of differentiating Magnit from the competition, increasing customer loyalty and growing the average basket size. We have revised our private label assortment focusing on 26 most popular and recognized brands instead of 69 private labels in previous years. Now we focus on just 26 brands, 7 of which are cross-format.

4

agricultural complexes produce fresh mushrooms and vegetables

11

production facilities produce sweets, cereal, pasta, instant food, snacks, spices and fish

Targets

20%

share of private labels in sales

26

private labels with over 2,000 SKUs

We Are Building **a Sustainable Future**

Magnit is committed to sustainability, and we fully recognise our obligations as a leading business. We continuously work to improve the sustainability of our operations and implement new responsible initiatives. When making decisions, we seek to incorporate the interests of all of our stakeholders.

To become truly sustainable, we recognise that we must be a transparent and efficient organisation. To this end, in 2019 we enhanced our corporate governance and strengthened both the Board of Directors and Management Board. We also embedded sustainable development within our internal regulations. We developed a Sustainability Strategy and are in the process of implementing a number of policies, including a Climate Change Policy and Policies for Packaging Waste, Own Brand Packaging and Quality and Food Safety as well as a Responsible Supply Chain. We have also drafted an extensive Human Rights Policy, Policies on Charity, Sponsorships and Volunteering, Health and Wellness, etc. The Strategy sets targets to significantly improve sustainability of Magnit across all areas by 2025. We established a Sustainability Steering Committee to manage sustainability activities.

Caring for people lies deep within Magnit's DNA. Throughout our history we have acted as a socially responsible Company, operating in distant regions with low populations, providing access to affordable retail services to people that previously had none.

We are striving to increase the share of local products in our assortment, and currently 52% of all the SKUs are locally produced. Local also means better quality of fresh products. To save up all the best qualities of local fresh we sped up delivery process in several regions. We launched cross-docking platform to enable delivery of fresh goods to the stores the same day we got it from supplier.

We have further affirmed our dedication to sustainability by joining The Consumer Goods Forum – a global organisation, that brings retailers together to promote sustainable development.

Market Overview

Macroeconomic Environment

The market environment in the Russian retail sector remained challenging throughout 2019, for both retailers and consumers. Despite the low level of government debt and a budget surplus, economic growth was constrained by the significant slowdown in the global economy resulting from trade conflict escalation, and a worsening investment climate in Russia.

In 2019, Russia's real GDP grew by 1.3%, according to Ministry of Finance of Russia. According to the Ministry forecasts for 2020, real GDP growth will accelerate to 1.7%. Given the planned design of the federal budget of Russia, the state plans to stimulate economic growth through investments in infrastructure projects.

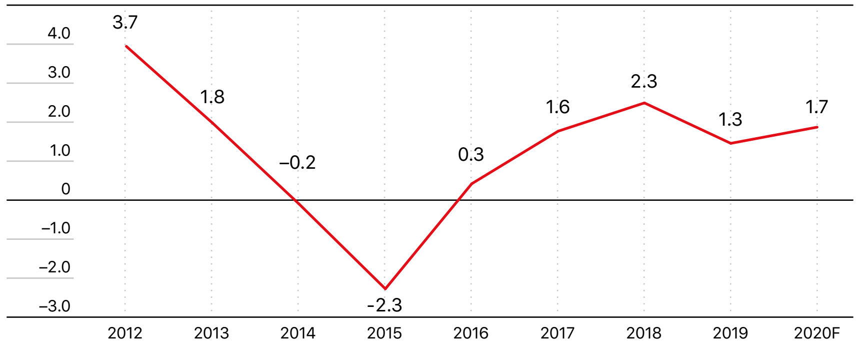
In 2020, Russia's Federal government budget revenues are expected to reach RUB 20.594 trln, RUB 7.524 trln of it are expected to come from oil and gas revenues. Expenditures are planned in the amount of RUB 19.666 trln. Thus, the Federal budget surplus of 2020 will amount to RUB 0.928 trln.

In 2019, an increase in average real wages (+2.9% Y-o-Y) improved the dynamic in real disposable income (RDI) by 0.8% to the highest level in 6 years. Nevertheless, RDI continued to be negatively affected by a number of factors forcing consumers to save. The increase in prices for fuel, housing and communal services, loan servicing and an increase in taxes offset the increase in real income. This effect was exacerbated by the increase in VAT from January 2019 from 18% to 20%.

2.9%
Average real wage growth in Russia in 2019

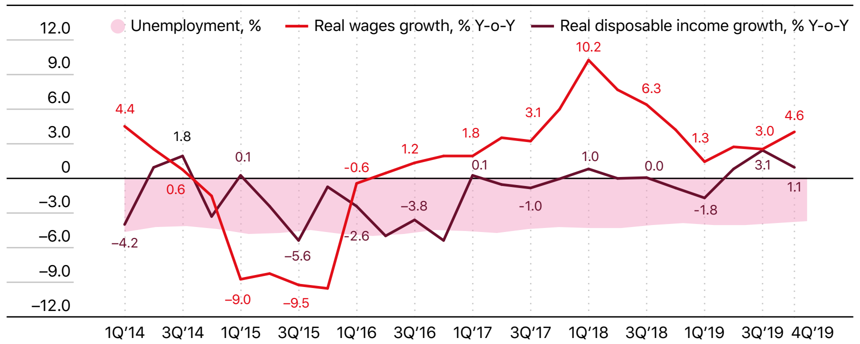
1.4%
Real growth of food retail sales in Russia in 2019

Real GDP Growth in Russia in 2012-2020F, %



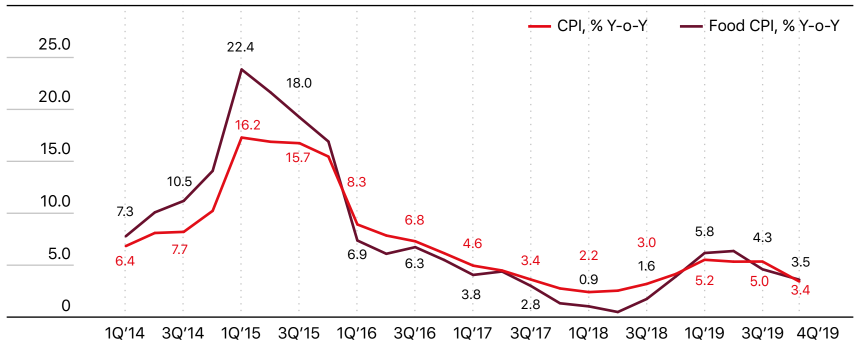
Source: Ministry of Economy Development of the Russian Federation

Real Wages, Real Disposal Income change and Unemployment Rate in Russia in 2014-2019, %



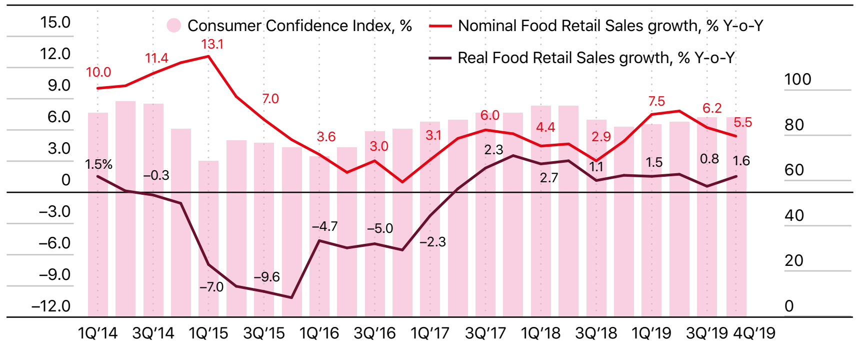
Source: Federal State Statistics Service, Ministry of Economic Development of Russian Federation

CPI and Food CPI in Russia in 2014-2019, %



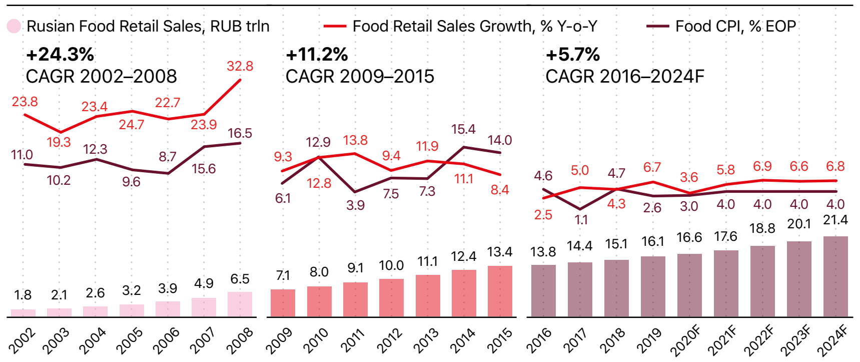
Source: Federal State Statistics Service

CCI and Food Retail Sales growth in Russia in 2014-2019, %



Source: Federal State Statistics Service

Food Retail Sales in Russia in 2002-2024F



Source: Federal State Statistics Service, Ministry of Economic Development of Russian Federation, Magnit Analysis

Thanks to a planned increase in public sector wages, the Ministry of Economic Development of Russia expects RDI growth of 1.5% in 2020. Such growth should be achieved mainly due to implementation of decrees of the President of Russia on increasing the wages of state sector employees. The unemployment rate, which reached a record low level of 4.6% in 2019, is forecasted to decline further to 4.5% in 2020 and 2021.

In 2019, the Consumer Price Index (CPI) grew by 3.0%, while Food CPI increased by 2.6%. According to the Ministry of Economic Development of Russian Federation, as the credit cycle draws to an end and consumer lending slows, the CPI growth rate is expected to remain at 3.0% in 2020 and increase to 4.0% in 2021-2024. These forecasts will be used as a basis for social payments indexation.

The Russian Retail Market

The real growth of food retail sales in Russia in 2019 was 1.4%[1]. This level of growth was a natural consequence of the low purchasing power and a weak consumer confidence index (CCI). The slowdown in the Russian grocery retail market continued, in line with the higher maturity of the sector.

In 2019, the Russian food retail market was the eighth largest in the world in terms of revenue, ahead of countries such as the Italy, Turkey, Brazil and Poland.

(1) According to Federal State Statistics Service.

Market Overview
(continued)

Despite the recent slowdown, the modern Russian food retail market has solid potential for further growth. The share of modern retail in 2019 in Russia was 70%, behind the markets of North America (86%), Australia (82%), Western Europe (81%) and Eastern Europe (72%). The Russian retail market remains underpenetrated.

Despite ongoing consolidation, the retail market in Russia remains fragmented with significant potential for further market share growth for top players. At the end of 2019, the share of revenue of the top 5 retail chains was 36.6%[1], up 7.9 pp versus 2018. In this respect, Russia is still rather behind developed countries, where the top 5 players account for 50% or more of the market.

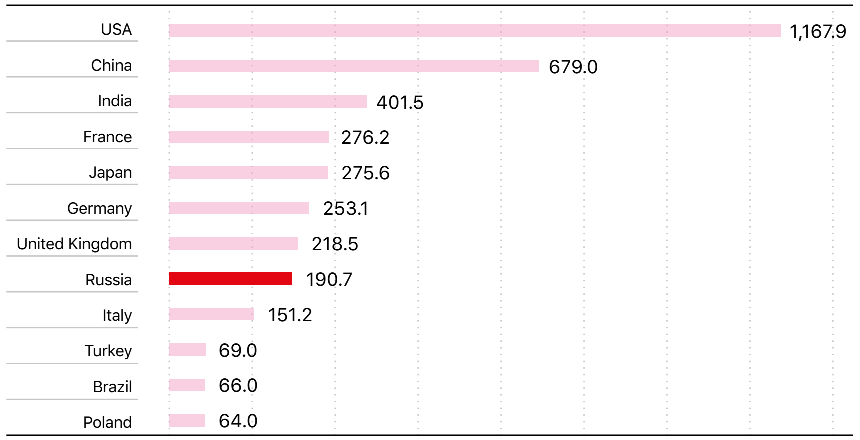
Over the past few years, leading Russian retailers have recorded significant increases in market shares, primarily due to the rapid growth of convenience stores. According to Infoline, among national chains, the growth was primarily attributable to Magnit, X5 Retail Group, Lenta and SPS Holding (the Red and White)[2].

In recent years, one of the major trends has been an increase in the number of discounters and convenience stores while the average selling space has decreased.

(1) Euromonitor, 2019.

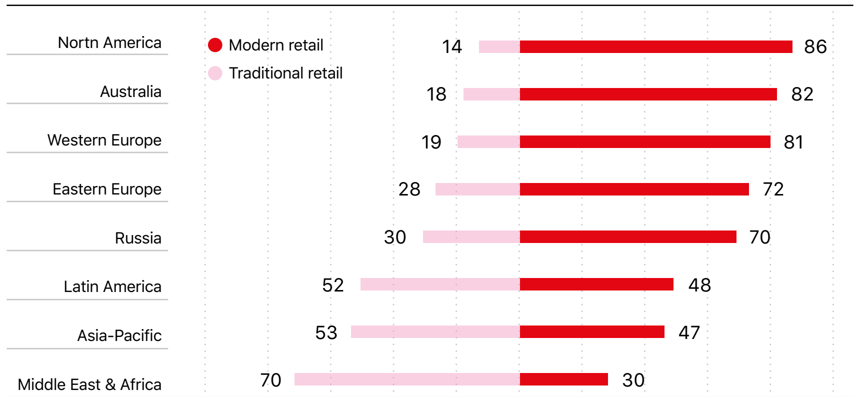
(2) At the end of 2019, Dixy, Bristol and SPS Holding (the Red and White) merged into DKBR Mega Retail Group Limited, which became the 3rd largest retailer in Russia with market share of 5.5%.

Grocery Retail Market in 2019, USD bln



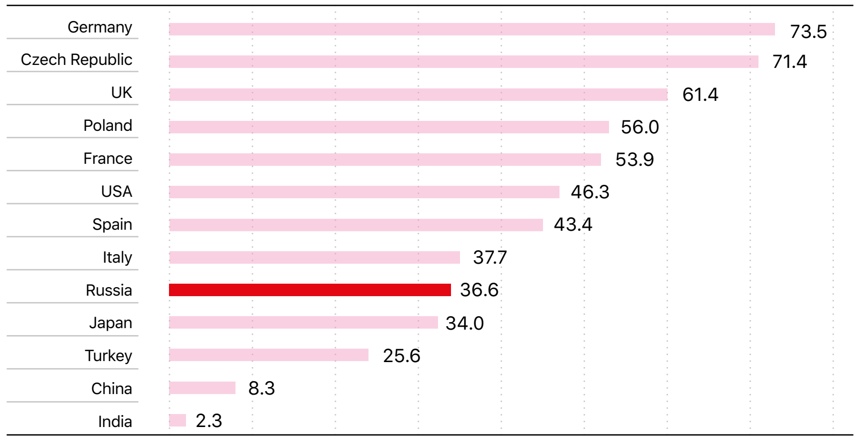
Source: Euromonitor, 2019

Share of Modern and Traditional Retail in 2019, %



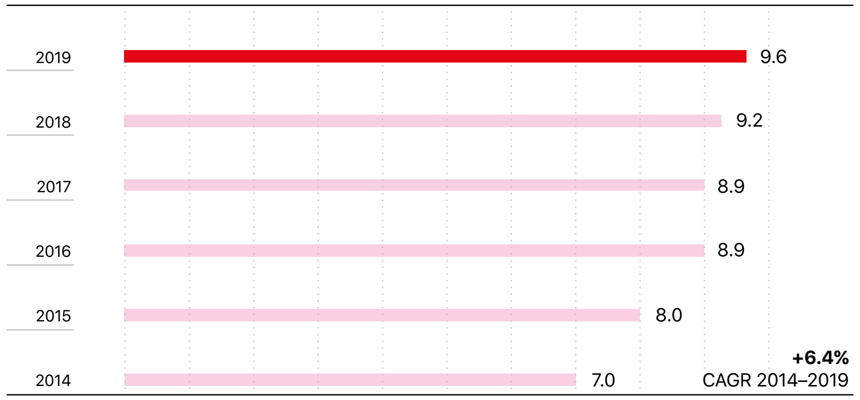
Source: Euromonitor, 2019

Share of Top-5 Retail Chains by Countries in 2019, %



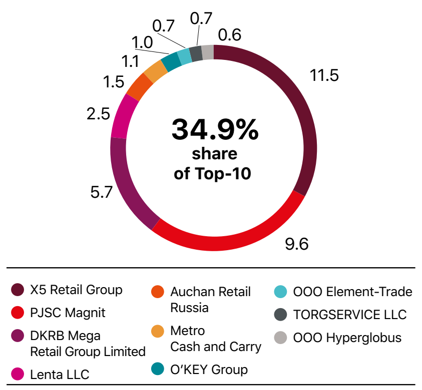
Source: Euromonitor, 2019

Magnit Market Share by Revenue in Russia in 2014-2019, %



Source: Federal State Statistics Service, Magnit analysis, 2019

Top-10 Retail Chains Market Share in Russia in 2019, %



Source: Infoline, Magnit analysis, 2019

Magnit is

#1

in Russia by number of stores and geographical footprint[4]

#2

in Russia by revenue[5]

Russian Food Market at a Glance

8th largest in the World

30% share of Traditional retail in Russia[1]

37% share of Top-5 Retail Chains[2]

10% sales Growth of Top-10 in 2019[3]

(1) Euromonitor, 2019

(2) Euromonitor, 2019

(3) Infoline, 2019

(4) Federal State Statistics Service, public disclosures, Magnit analysis, 2019

(5) Infoline, 2019

Market Overview
(continued)

Key Trends in the Retail Market

Change in consumer preferences

Despite the slowdown in economic growth and the continuing trend towards cheaper goods, consumer preferences are shifting towards an assortment that offers:

- Quality and fresh products, especially fruits and vegetables
- Unique and local products
- Healthy food
- Ready-to-eat and ready-to-cook products.

Change in consumer behavior

Consumers are becoming increasingly time poor and prefer to shop at convenience stores. At the same time, the online shopping is gaining momentum, especially in large cities such as Moscow and Saint Petersburg.

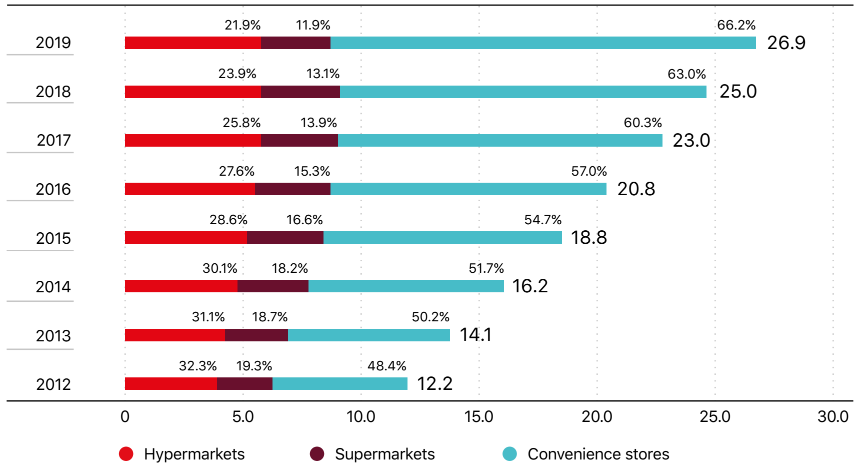
Increasing competition

Competition is intensifying, thanks partly to the entry of new players into the market (e.g. health food stores, liquor stores and local butcher shops).

Aging population

The population of Russia is in decline, and the proportion of people receiving state support in various forms is increasing.

Total Selling Space in Russia for modern retail format in 2011-2019, sq. m mln



Source: Infoline, Magnit analysis, 2019

We strive to proactively adapt our business to address market trends and challenges. This includes adapting our assortment to the needs of consumers and improving our capabilities in the production, delivery and storage of fresh and ultra-fresh products to ensure consistently high quality. Thanks to our own greenhouses and agricultural facilities, we are the only retailer in Russia able to control the quality of products from field to plate.

We are also strongly focused on introducing best practices in category management, expanding the range of products of our own production, and strengthening quality control.

We are introducing a CVP for the different customer formats to align our business with the latest trends. In 2019 we launched our cross-format loyalty programme, which allows us to approach clients individually, taking all their needs into account. In addition, we launched e-commerce projects in Krasnodar and Moscow during the year.

We strive to offer products at reasonable prices for price-conscious customer groups and remain one of the leaders in sales in this segment. In particular, since 2018 we have introduced a system of special discounts for pensioners.

For further detail, see Strategy (p. 42) and Operational Review (p. 48).

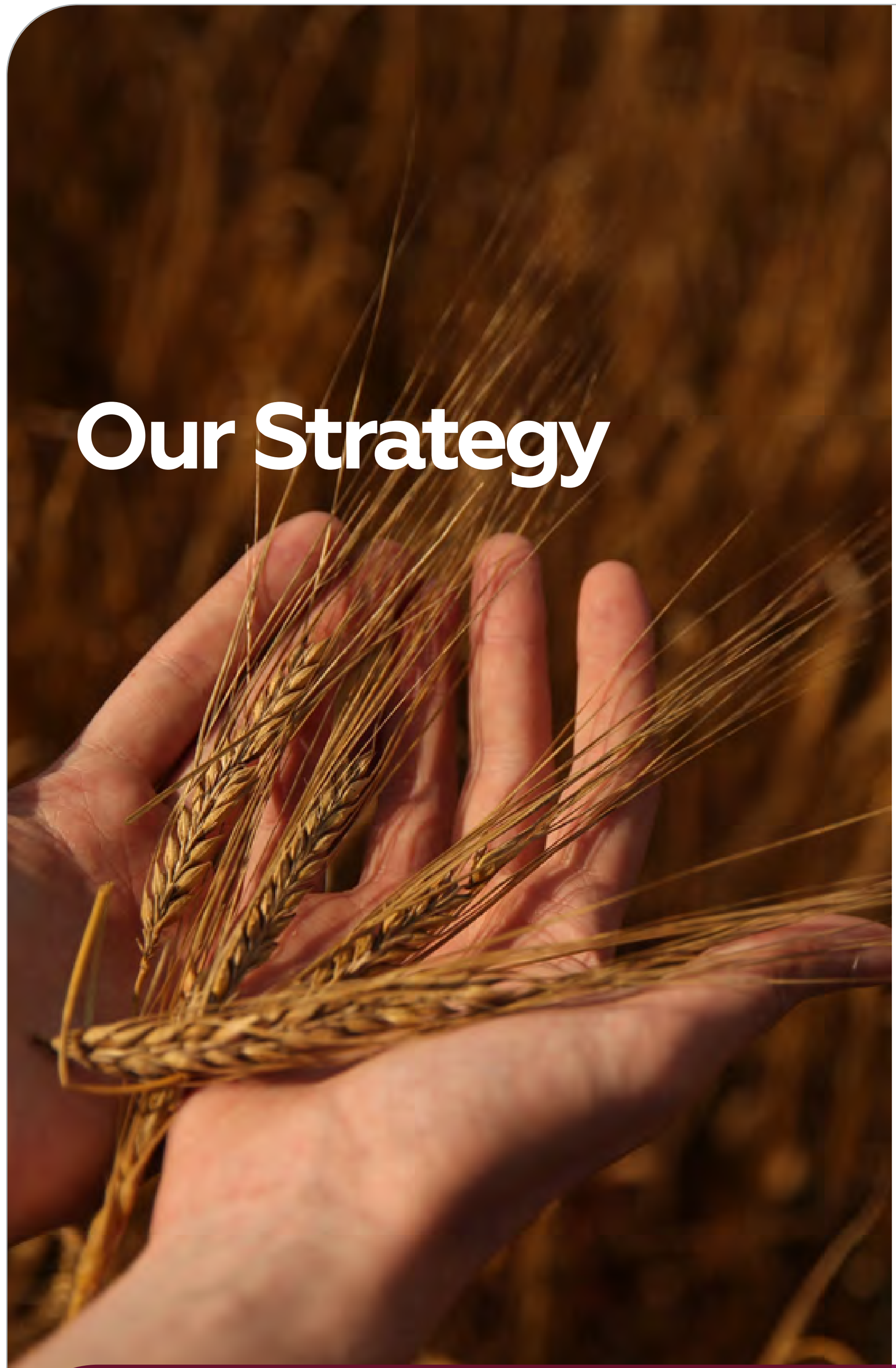
Among other trends in Russian market in recent years:

Political factors	– Sanctions by the US and the EU – Counter-sanctions – Continuous support of local suppliers and manufacturers by government – Regional protectionism.
Tightening regulatory environment	– Tax pressure on suppliers – Trend towards tightening regulation promoting healthy lifestyles.
Growing interest in sustainable development	– Increased interest in sustainable development among customers – Growing attention to responsible waste disposal – Increased attention to relationships with suppliers – High investor expectations.
Other consumer behavior trends	– Increasing attention to environmentally friendly components in non-food products – Increased demand for communication – Ongoing digitalisation.

Key Changes in the Regulatory Environment in 2019

Change	Regulatory Document	Effective Date
VAT increase from 18% to 20%	Federal Law of 3 August 2018 No. 303-FZ	1 January 2019
Amended procedure for technical inspection of vehicles equipped with tachographs	Decree of the Government of the Russian Federation of 30 August 2019 No. 1276	1 November 2019
Requirement to separate dairy and milk-containing products from other foods and to label such products as "Products without milk fat substitutes"	Decree of the Government of the Russian Federation of 28 January 2019 No. 50	1 July 2019
Lower VAT rate on import and sale of certain fruits and berries in Russia (including grapes), down from 20% to 10%	Federal Law "On Amendments to Article 164 of Part Two of the Tax Code of the Russian Federation"	4 January 2020
Extended list of controlled goods to be supplemented by required veterinary documents	Order of the Ministry of Agriculture of the Russian Federation of 15 April 2019 No. 193	From 1 July 2019 and 1 November 2019 (in two stages).
The ban imposed on retailers returning unsold goods to suppliers	Federal Law of 28 November 2018 No. 446-FZ	9 December 2018
New legal regulation of domestic viticulture and winemaking	Federal Law of 27 December 2019 No. 468-FZ	26 June 2020

Our Strategy



Our strategic evolution

In October 2019 Magnit undertook a regular strategy review where our focus shifted towards efficiency – we reconsidered our expansion priorities and capital allocation approach. We reviewed our investment process, in particular for the stores opening programme, improved all elements to ensure an appropriate returns profile and to maintain a healthy financial position.

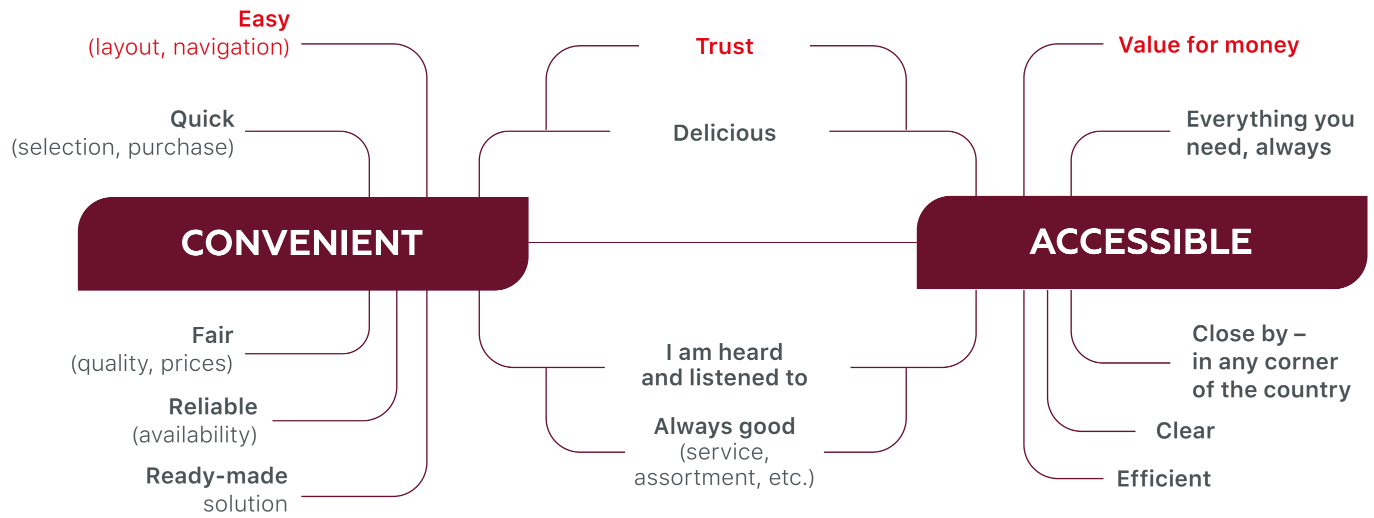
We remain fully committed to fulfilling customer needs via the implementation and adjustment of our CVP. We are focused on fixing and improving the end-to-end processes of our core business, while continuing to enhance cross-functional cooperation to ensure effective decision making.

We will invest in developing our human capital, private label offering, direct imports, and we will upgrade and modernize our IT infrastructure to optimize business processes.

We are taking the first steps in the development of our omnichannel concept focused on new trends and overall customer journey with all relevant instruments allowing to identify customers and their consumption patterns, to structure proper advanced analytics and personalisation, as well as to enrich our overall OMNI experience including different potential ecosystem elements. To allow this, we successfully completed the roll out of our multi-format loyalty programme in 1Q 2020.

Convenient and Accessible

We address the most important needs of Russian consumers with convenient and accessible solutions through our "family" of Magnit propositions.



OUR VISION

A trusted value-for-money retailer, providing high-quality products at affordable prices and catering to all of the everyday needs of Russian families

OUR GOAL

To become the store of choice for all Russian families

Magnit's 2020 strategy is built around three pillars

1. Putting the customer first

Optimising and implementing our CVP to build trust and strengthen customer loyalty

2. Fixing the basics

Enhancing execution in our core business to ensure high operational efficiency including end-to-end processes

3. Creating a platform for future growth

Building on our competitive advantages, while exploiting and piloting new technology and trends to drive growth and efficiency

Strategy Review in Detail

In October 2019 we updated our approach to the strategy execution.

We confirmed our commitment to:
- Implementing our CVP and functional strategies for LFL and profitability improvement
- Providing a multi-format offering under a single brand, including a multi-format loyalty programme
- Building capabilities and developing people, nurturing Magnit's corporate culture based on professionalism, team work and respect
- Reviewing and improving all end-to-end processes
- Strengthening our private label offering and direct import initiatives
- Enhancing and upgrading our IT and logistics infrastructure.

We modified our approach in a few development areas:
- Investment process review with a particular focus on quality to ensure profitable and value accretive growth
- Enhancing our format expertise: creating format teams responsible for both CVP and operations
- Maintaining a healthy leverage position and continuing cash distribution to shareholders.

We also decided to:
- Focus on projects with higher ROIC and overall material impact while refusing from small and unprofitable projects
- Continue expansion in areas with high certainty of achieving acceptable returns. We will continue monitoring the market for attractive M&A opportunities
- Focus on efficiency of our own production facilities.

Our Strategic Priorities

Putting the customer first

Our strategy is based on driving fundamental improvements in our value proposition for consumers and we have shifted to a customer-centric approach in our decision making. We are embedding a **focus on customers in Magnit's DNA**, striving to deeply understand their needs in each location and adapting our approach to fulfill those requirements.

We are aiming to enhance customers' perception of Magnit, from its historical positioning as the "lowest price" retailer, to a provider of the "Best Quality at the Best Price". We are, therefore, renewing our business processes to provide better insight and understanding of consumers and to bring decision-making closer to the customer.

Based on these insights, we are focused on improving on-shelf availability, quality and freshness and plan to invest in our private label, direct import and local products. At the same time, we will ensure we maintain a good range of entry price products to ensure our current loyal customers remain well catered for. We are also prioritising improved customer service, by delivering high standards of employee skills, including friendliness and approachability.

We are now implementing this well-defined CVP and will regularly tailor this based on our insights to meet changing customer needs. Our corporate culture has been enhanced to encourage open dialogue and effective cross-functional cooperation to ensure the CVP is implemented quickly and efficiently.

Fixing the basics

We are investing in the optimisation of our end-to-end business processes to improve our operating efficiency.

We are focused on improving our core business functions' execution, including process optimisation, streamlining cross-functional cooperation, end-to-end analytics and transparent cross-functional communication. In the mid-term we also plan to adopt more effective IT solutions.

Magnit has a wealth of core strengths and differentiating attributes on which to build upon. We will maintain these competitive advantages, including the largest geographical coverage and supply chain network in the country. Our operating model is based on over 20 thous. stores in 3.7 thous. cities and townships; 38 distribution centres; about 5,7 thous. trucks; and our unique direct import system and own production facilities. All of these strengths provide a platform that will enable us to become the leader in efficiency.

Creating a platform for future growth

Customer engagement via digital channels is accelerating every year on the back of increasing penetration of new technologies providing new opportunities in terms of identifying and communicating with customers, as well as improving overall processes. To establish an omnichannel relationship with our customers – an important part of our long-term strategy – and to enhance operations, we are, therefore, building new digital and big data capabilities as well as strengthening our digital team. To allow this we successfully completed roll out of our multi-format loyalty programme in 1Q 2020.

We are also considering making the first steps in e-commerce in 2020 to serve as foundation for further potential initiatives.

To ensure the effective implementation of our strategy, we are working on operational and organizational development, including, among other initiatives:

- a customer-centric approach in decision making
- format management structure
- focus on better service level and on-shelf availability
- improved in-store customer service
- better quality control
- cross-functional cost optimization
- higher forecasting accuracy.

Our Business Model

We put an absolute focus on the customer as the cornerstone of our operations while capitalising on our inherent strengths (in particular very wide geographical coverage and supply chain capabilities) and progressing with new development areas.

While our 2018 strategy was focused on implementing a decentralised multi-format operating model, the focal point has evolved to developing format expertise to implement a format-specific CVP under a single family brand. Magnit adheres to a decentralised approach where needed and dictated by business reasons while keeping the optimal balance with the centralised approach.

In conducting our operations, we consider the needs of the communities in which we operate and the various groups of stakeholders affected by our decisions. We are proud of the charitable activities we sponsor within those communities and our support of the important causes such as environmental protection.

Please see our Business model on the next spread

Our Business Model

OUR GOAL

To become the store of choice for all Russian families

OUR VISION

A trusted value-for-money retailer, providing high-quality products at affordable prices and catering to all of the everyday needs of Russian families

Supreme quality of supplies

> 6,000 network of suppliers

52% local SKUs

7% direct import supplies (over 700 contracts)

15 own production facilities

Private labels in different price segments

13 private labels

> 500 SKUs

Quality control "from seed to plate"

12 laboratories

>2,500 tests daily

Largest supply chain network in Russia

38 distribution centres

7 federal districts

> 5,600 trucks

91% centralisation ratio

Multi-format offering under single brand

Convenience stores

3,146 locations

14,622 stores

Supermarkets

283 locations

473 stores

Drogerie stores

1,822 locations

5,630 stores

TOTAL

3,742 cities and townships

> 20,000 stores overall

Best customer experience

New cross-format brand

Unique CVP

Strong focus on fresh

New retail technologies
- *Scan&Go*
- *Face-to-pay*

Eco initiatives

Cross-format loyalty programme

> 33 mln loyalty cards issued

60% cards activated

58% penetration in sales

Created value for...

CUSTOMERS

Delivering fresh and high-quality products

#1
Russian retailer in terms of proximity to customers and geographical coverage:
3,742 cities and townships,
20,725 stores, **4.7 bln** tickets

EMPLOYEES

308,432
employees - largest private employeer in Russia

10,686
jobs created

64,323
employees trained

SUPPLIERS

52%
of SKUs supplied by **4,355** local producers

21
business events for suppliers

COMMUNITIES

RUB 21 mln
allocated for charity

RUB 2 bln
responsible approach towards environment

GOVERNMENT

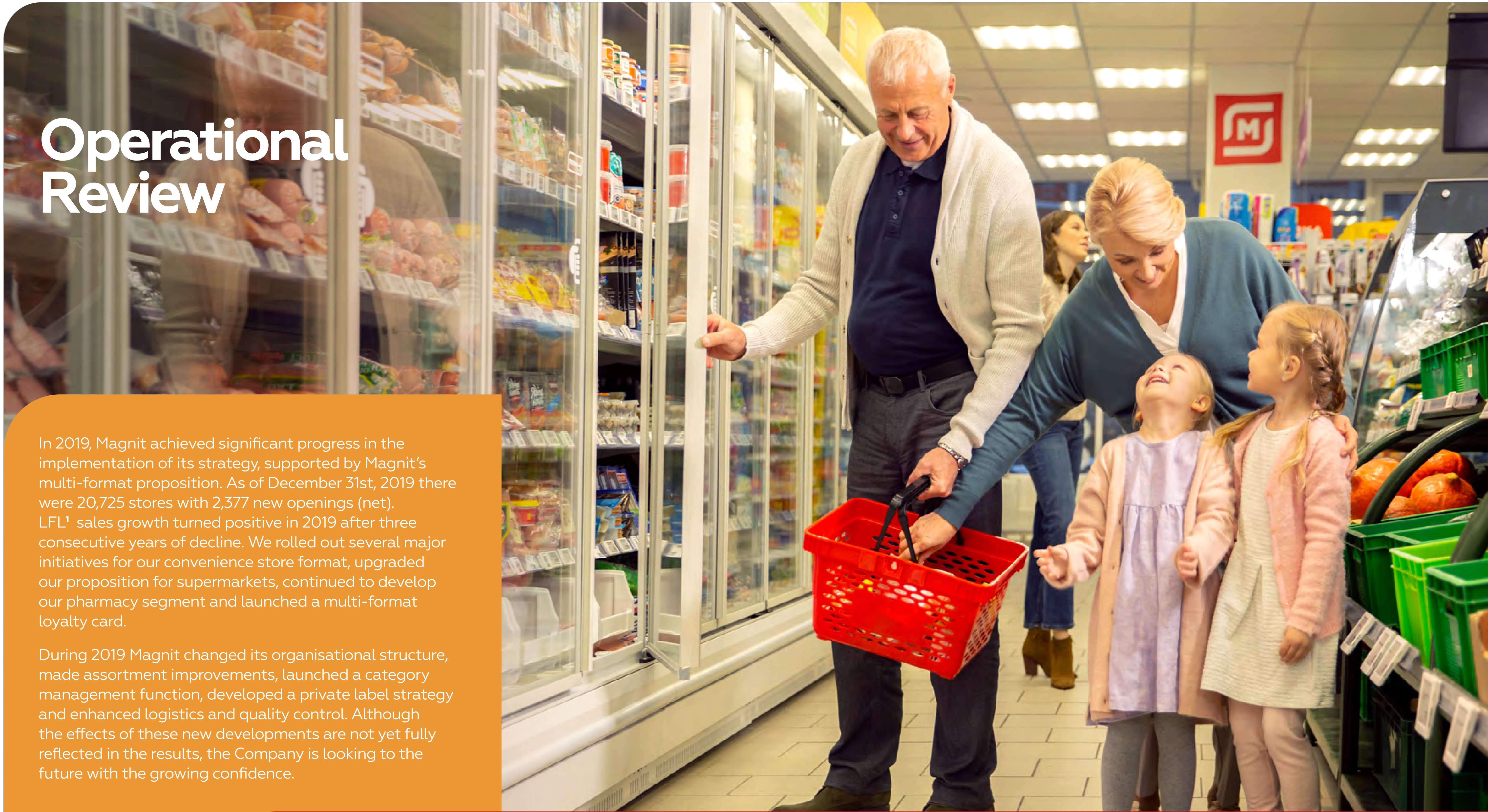
RUB 64.1 bln
timely tax allocation

RUB 2.6 bln
investments in joint projects development (Industrial park)

INVESTORS

11%
sales growth in 2019

RUB 31.0 bln
dividends announced for 2018



Operational Review

In 2019, Magnit achieved significant progress in the implementation of its strategy, supported by Magnit's multi-format proposition. As of December 31st, 2019 there were 20,725 stores with 2,377 new openings (net). LFL[1] sales growth turned positive in 2019 after three consecutive years of decline. We rolled out several major initiatives for our convenience store format, upgraded our proposition for supermarkets, continued to develop our pharmacy segment and launched a multi-format loyalty card.

During 2019 Magnit changed its organisational structure, made assortment improvements, launched a category management function, developed a private label strategy and enhanced logistics and quality control. Although the effects of these new developments are not yet fully reflected in the results, the Company is looking to the future with the growing confidence.

(1) LFL calculation base includes stores, which have been opened for 12 months since its first day of sales. LFL sales growth and average ticket growth are calculated based on sales turnover including VAT.

+9.5%
Y-o-Y increase in net retail revenue

7,238
total selling space, thous. sq. m

+2,377
stores opened in 2019 (on net basis)

+12.7%
Y-o-Y increase in total selling space in 2019

2,341
stores redesigned in 2019

Performance

Among the major macro factors influencing the Company's operations were the further consolidation of the retail industry, increasing competition and weak consumer environment.

Magnit's net retail revenue reached RUB 1,332.9 bln in 2019, 9.5% more than in 2018. Selling space growth remained double-digit on 12.7% despite high base and totaled 7,238 thous. sq. m.

During the year we introduced changes to our assortment, developed category management function, implemented measures to improve on-shelf availability, launched our loyalty programme and continued to redesign stores in line with the new concept.

As a result, after three years of decline, LFL sales growth for the full year turned positive supported by sound trading up effect and improvements in traffic. We saw very encouraging trends in the last quarter of the year with traffic being the key factor of LFL sales growth. Importantly, this came as a result of net inflow of new unique customers from other chains and increased visit frequency. Improving LFL traffic dynamics was recorded across all formats and turned positive in the core convenience format for the first time since Q3 2016.

During the year there were several one-off factors including an accident at Voronezh DC and an inventory sell-off. Passive matrix sell-off in Q3 was a well-considered and necessary step which allowed to clear up shelf space for the new assortment and substantially reduce the share of passive assortment in the total number of SKUs. It supported further implementation of the new customer value proposition in stores and reduced complexity of operations both in the distribution centres and store network.

Improvement of operating efficiency of the existing store base, optimisation of key business processes and strict cost control remain our priorities and the main growth drivers for 2020. The Company will continue its organic expansion next year with higher return requirements aimed at delivering additional value to our shareholders.

CONVENIENCE STORES

76.6%
of Magnit net retail sales for 2019

+8.9%
Y-o-Y increase in amount of stores

3,6%
LFL average ticket growth in 2019

A convenient store is aimed at everyday shopping with a large assortment of the most demanded food products and non-food goods at attractive prices. It is the most well-known and popular format, accounting for 76.6% of Magnit net retail sales for 2019. Here customers can buy fresh dairy products, fruits and vegetables, bread and dry foods, flour and confectionery products, or household chemicals spending the minimum time. Stores are located both in cities and in remote locations, which makes Magnit the largest and the most accessible retail chain in Russia in terms of geographical coverage.

The revenue for convenience stores in 2019 reached RUB 1,020.4 bln and grew by 11.2%. There were 14,622 Magnit convenience stores in Russia by the end of 2019, 8.9% more than in 2018, with 1,195 stores opened (on a net basis) on 11.4% growth in selling space and 1,615 stores redesigned in 2019. LFL sales growth for 2019 was 1.3%, improved from -2.8% in 2018.

LFL average ticket growth for the year was 3.6% primarily driven by continuous trading up effect as a result of changes in the assortment made during the year. LFL traffic remained negative at -2.2%, although improved from -2.8% in 2018. Importantly, LFL traffic in Q4 turned positive for the first time during the last three years and stood at 0.2%.

There are two new formats within Magnit convenience stores, piloted in 2019. Both formats have been showing satisfying results.

Magnit City
The pilot format was opened in Moscow and Krasnodar. It is a small store with a cozy interior and a café, where visitors can grab a bite, take away any of the ready-to-eat offerings, or make other small purchases, as well as charge their smartphone and connect to Wi-Fi. Magnit City stores are located in high traffic areas – near office buildings, universities, parks, transport junctions, etc.

Magnit Evening
Magnit Evening with the assortment of nearly 2,500 SKUs represents another pilot format for the Company. This format has a diverse assortment of alcoholic and low-alcohol drinks with wide selection of local producers, private labels and imported products. Additional assortment consists of basic food products from fresh and ultra-fresh categories, snacks, confections as well as staple non-food commodities.

Operational Review
(continued)

MAGNIT COSMETIC

1,176 drogeries

opened in 2019 (net)

The drogerie format - Magnit Cosmetic - pertains to stores with non-food assortment launched by the Company in 2010 and accounts for 8.2% of Magnit net retail revenue. Assortment of Magnit Cosmetic includes mass-market make-up products and personal care items, including private labels, household cleaning products, perfumes, hygiene products, and household items.

There were a record 1,176 new drogeries opened (on a net basis) in 2019, 60.7% more than a year earlier, with the total of 5,630 stores by the end of the year, a growth on 25.8% in selling space. 44% of the new drogeries were opened jointly with convenience stores. 721 drogerie stores were redesigned in 2019. The strong performance strengthened the position of the Company as a market leader.

In 2019, we also completed the integration of SIA Group distribution centres with Magnit logistics which allowed us to serve drogerie stores. It significantly optimised workload and distribution for the whole supply chain network while at the same time bringing synergies for non-food segments.

The revenue reached RUB 109.7 bln with an 20.5% increase year-on-year. The drogeries segment reached a record high of 8.7% of Magnit's net retail sales in 4Q and with the prospects of further growth. Drogeries have completed the year with all the LFL indicators in the positive zone: 1.5%, 1.6% and 3.1% for the average ticket, traffic and sales respectively.

SUPERMARKETS

15.0%

of Magnit net retail sales for 2019

6 supermarkets

opened in 2019 (net)

Supermarkets include three sub-formats – Magnit Family supermarkets, superstores and Cash&Carry.

The larger formats potential is yet to be unleashed with the help of a specific approach and dedicated team established in 2019 to reload the segment. One of the features in the format are so-called cubes (mini-stores within stores) with unique fresh assortment offerings and an enhanced customer experience.
This initiative indicates the direction and the "freshness" approach we are pursuing with our CVP.

Supermarkets account for 15.0% of Magnit's net retail sales. 6 new stores were opened in 2019 (on a net basis) and 5 redesigned, including the flagship store in Krasnodar. LFL sales in 2019 declined by 4.6% with LFL traffic at -6.1%. With the format expertise in place and revised customer value proposition we look to the future with enthusiasm.

Magnit Family Supermarkets
The supermarkets with larger assortment than in the Convenience stores, are located at a walking distance in bedroom communities and business areas, as well as shopping malls. This format is aimed at keeping the attractive prices through the whole extended assortment.

Superstores
Compact city hypermarkets are modern and high-tech stores for the whole family located within the city area. Such stores have broader assortment in all categories of products, including Magnit's private labels, focus on fresh and ultra-fresh products. The first renovated superstore was opened in Krasnodar in November, 2019. The innovations include carefully tailored proposition of household goods, wide assortment of products for families with children, number of locally produced goods.

Magnit Cash&Carry
The Cash&Carry format is a new format geared towards private customers and small enterprises who are interested in bulk purchases at low prices. The Company started development of the Cash&Carry format in 2017. There are around 4,000 SKUs with the focus on dry food assortment and bulk purchases for small business. As of end of 2019 there were 23 stores of that format in retail chain.

OTHER FORMATS

1,060 pharmacies

opened in 2019 (net)

Magnit Pharmacy
This modern pharmacy format was launched by the Company in 2017. Among its advantages are affordable prices, easy navigation, convenient open display and friendly and professional personnel. The assortment features medicine, medical cosmetics, family products, beauty articles, baby food, and seasonal offerings. Pharmacies are usually located inside or next to the convenience, supermarkets, and cosmetics stores.

There were 1,060 pharmacies opened in 2019. The format proved to be effective and the Company will continue its expansion in the future.

Ultra-small formats
Ultra-small format stores comprise of the stores with basic assortment in the Russian post offices, including remote areas with a population of less than 3,000 citizens, and stores with basic food and non-food products at petrol stations.

Improving customer experience

In line with our strategy, we aim to deliver the best customer experience across all market segments. Magnit is focused on understanding customer needs and preferences, and providing the best shopping experience and personalised offers, as well as implementing digital technologies.

In 2019, we achieved a significant improvement in customer experience. We redesigned our stores with focus on convenience with one of the new features including aisles wide enough for shopping carts and strollers. We also introduced new racks and shelves, enhanced layout and upgraded navigation. Customer experience also benefited from the use of new technologies, such as mobile printers, self-scanning and digital tags. An added benefit of continued digitalisation includes stock management at store level, which allows us to increase supply frequency in line with demand levels.

Given the widespread use of smartphones, internet banking and digital public services in Russia, customers also have high expectations when it comes to digital technologies in retail, such as electronic price tags and mobile applications.

Our flagship stores allow the customers to enjoy the best of the modern retail: they are equipped with unique selfie-pay solution, wi-fi zones, electronic sommelier and self-scanning devices. To ensure the on-shelf availability and comfort of the customers we use video monitoring of shelves and queues.

We expanded training programmes for our employees and introduced a new employee value proposition (EVP) which includes market level compensation schemes and improved working conditions.

In February 2019, we presented our updated brand architecture based on the concept of creating the unified family of stores. Since then, Magnit convenience stores, supermarkets, drogeries and pharmacies share the same umbrella brand and the slogan "Let's bring families together!".

The new Magnit logo retained its recognisable color and its brand name letter "M". The letter has changed the shape and now reminds of a pair of hands folded in a caring gesture. The new Magnit logo resembles a smartphone icon, in light of increasing of digitalisaiton. It will be widely used in the original system of pictograms, placed on facades, trade hall signs, private label packaging and advertising materials.

Enhanced customer experience:

- Redesigned stores
- Reviewed assortment
- Improved layout
- Upgraded navigation
- Changed communication
- Optimised technologies and processes
- Trained personnel.

Operating organisational structure

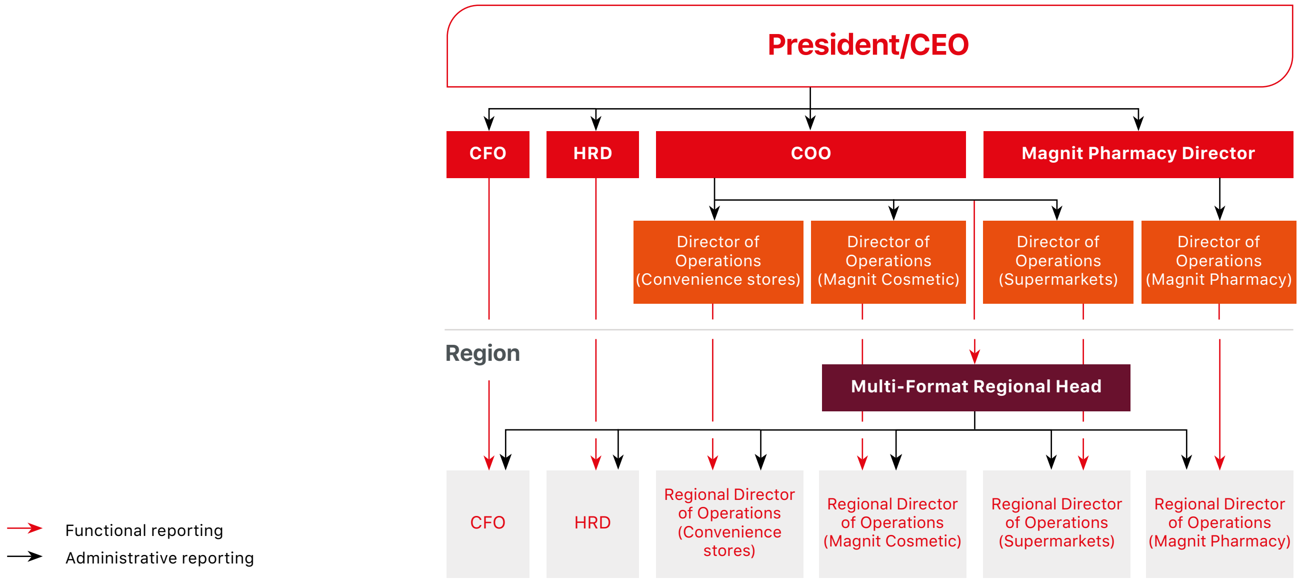
We upgraded the organisational structure and developed the unique multi-format approach to decentralise our decision making. In 2019 the Company introduced format heads and format management in regions in order to strengthen its expertise in each of the business segments. We created 8 multi-format regions to become more flexible and efficient in decision making and adjust our value proposition to our customers' needs. Head Office remains responsible for strategy development, methodology and serves as a centre of excellence for regions.

In the regions we have matrix-based management structure with administrative and functional reporting lines. We have format Operational directors, Chief Finanical Officer (CFO) and Human Resources director (HRD) in each region administratively subordinate to the Multi-Format Regional Head. At the same time functionally they report to the Head Quarter.

In 2019, we established the Shared Service Centre (SSC) in Krasnodar. While transferring some responsibilities to the regions we centralised the routine tasks which allow us to increase the speed and quality of work performed by the staff and and achieve a significant decrease in process support costs.

In 2019–2020, the Shared Service Centre will take over a number of functions related to finance and HR services: accounting and tax records, contractor interactions and contractual records, and payroll management.

In parallel with the transfer of functions from the districts, the SSC is working on creating a service management system that would incorporate operational efficiency, quality control, and development of client relations. In addition to that, the Company has launched a project to implement a system enabling electronic document flow, which serves as one of the cornerstones for implementation of the SSC concept and Magnit's IT Development Strategy.



Category management

Introduction of category management was a key for the enhancement of operations across the whole value chain. Previously Magnit was a function-based organisation with the isolated Logistics, Procurement and Marketing departments. Now these functions have all been united into the classic model of category management. The KPI system for category managers was also updated to align it with sales objectives.

In 2019, a new assortment management system was introduced with all operations migrated to this system by year end. This allows for faster implementation of assortment changes – down to 4 weeks, from 10 weeks.

In line with the new organisational structure we will have 8 local teams of category managers responsible for local assortments tailored to the needs of customers each particular region. Meanwhile, category managers in the Head Office will be in charge for federal assortment and its quotes in the regions unique for every category group. Similar to operations, the structure of category management department is based on a format approach where format dedicated Category Managers report to the Multi-Format Category Head.

In 2019 Magnit launched its Category Management Academy, which has had 230 graduates to date. The educational venue provides an opportunity for further development for various categories of employees, including line managers, category managers and category directors.

Cooperation with suppliers

Close engagement with our suppliers allows us to make joint plans and forecasts, to optimise procurement volumes, to deliver the best products at minimum cost and to achieve better commercial terms.

To maintain close relationships, we hold supplier conferences to share ideas and develop a unified approach to handling various issues in retail. In 2019, more than 350 suppliers took part in our "On the same wavelength" conference to discuss the trends and achievements of the industry.

We share information with suppliers and partners to foster close cooperation, especially during high season and intense promotional campaigns. Close communications also give way to more clear and consistent planning process for the period up to three years.

"Implant" project
In the reporting year we launched the unique "Implant" project. We invite employees of our major suppliers to work from our office, so we can cooperate in close contact and analyse processes both from internal and external viewpoints. In 2019, we piloted this project with Baltika, an expert in distribution and supply chain management. Our major partners Procter & Gamble and Danone subsequently joined the programme.

New digital platform for media agencies and brands
At the end of 2019, with technical support of Microsoft and in partnership with Aggregion Magnit launched its digital platform, where the retail market participants can monitor and download anonymised data based on more than a hundred parameters and several thousand of goods.

The platform is aimed at the local and global media agencies and brands. It will enable monitoring of the customer journey from the first mention of the brand to the purchase.

In the future Magnit plans to further enhance the features of the platform and add the tools for automated segmentation and targeting. The platform will also potentially be beneficial to customers, who will receive a more tailored product proposition.

Digital contracts with suppliers
Magnit was the first to introduce the digital contracts with the suppliers in 2019. The verification time has been dramatically reduced from 40 to 2 minutes. In addition, the Company uses electronic signature to verify the contracts. Because Magnit is currently working with over 6 thous. suppliers, the fast and convenient process of document flow is extremely important. During the four months of the pilot project 700 suppliers joined the system. The approach is to save more than 1 mln of working hours for the next 10 years. Magnit's digital contracting system received a prize at the Efficient Consumer Response (ECR) contest as "The best innovative case".

Operational Review
(continued)

Logistics

PJSC Magnit runs one of the most developed logistics systems in Russia. It includes 38 distribution centres with 1.7 mln sq. m of warehouse space, a fleet of more than 5.6 thous. trucks and workforce of 36 thous. employees.

In 2019, the Company introduced a new logistics development strategy called "The chain of freshness". It is based on three pillars: transparency and cooperation with suppliers, logistics optimisation and automation. The strategy covers all areas of logistics: distribution, transit and international delivery, distribution centres, management structure, etc. Furthermore, Magnit strengthened its logistics team with leading experts from the FMCG market.

In line with the new strategy which implies focus on fresh and ultrafresh assortment, Magnit has divided its logistics into several geographical zones, subject to their proximity to the DCs.

The Company plans to raise the share of light trucks in the fleet for the first and second geographical zones, while maintaining the total number of trucks, as light trucks are more useful and convenient for deliveries within cities and short distances. We also increased the share of rented trucks from 80% to 85% for long distance routes and brought it to 16% for local routes.

We started construction of a distribution centre (DC) in Novosibirsk in order to increase the Company's warehouse capacity in Siberia. The launch of DC is planned for the second half of 2020.

In 2019, we achieved significant improvements in our logistics management. Despite the fact that assortment was significantly revised, service levels were maintained and shelf availability improved. Overall, we continued to improve load planning for distribution centres and transport, reduced lead times and mileage and enabled our suppliers to provide fresher products faster. We strengthened our logistics by fully integrating SIA Group distribution capacities into our pharmacies and drogeries distribution network. It provides us with more flexibility and efficiency in picking and distributing items of smaller quantities.

Magnit approach to delivery by geographical zones

Geographical zone	Daily delivery of fresh category	Fresh and cross-docking platforms[1]	Contactless goods acceptance at night	Use of leased transport
< 80 км	Maximum potential	Minimum potential	Maximum potential	Maximum potential
> 80 km High population density	Maximum potential	Maximum potential	Maximum potential	Maximum potential
> 80 km Low population density		Minimum potential	Maximum potential	Minimum potential

Maximum potential   Minimum potential

(1) Cross-docking platform is a transshipment platform used to consolidate incoming products for outgoing destinations. Inbound and outbound of items is carried out within one day.

Geographical coverage of Magnit distribution centres[1]

Central Federal District	
10 centres	**516 thous. sq. m** total warehouse space
Volga Federal District	
10 centres	**470 thous. sq. m** total warehouse space
Southern Federal District	
8 centres	**313 thous. sq. m** total warehouse space
Urals Federal District	
3 centres	**143 thous. sq. m** total warehouse space
Northwestern Federal District	
3 centres	**119 thous. sq. m** total warehouse space
Siberian Federal District	
3 centres	**84 thous. sq. m** total warehouse space
North Caucasian Federal District	
1 centre	**40 thous. sq. m** total warehouse space

Overview of the logistics chain

Logistics chain characteristics	2019	2018	2017
Number of stores served	**20,725**	18,348	16,298
Number of distribution centres	**38**	37	37
Total warehouse space[1], thous. sq. m	**1,686**	1,645	1,640
Selling space per 1 sq. m of warehouse space, sq. m.	**4.29**	3.91	3.51
Number of stores per 1 warehouse[2]	**545**	496	440
Sales per 1 sq. m of warehouse space, RUB thous./sq. m	**812**	752	697
Centralization ratio[3], %	**91**	89	88
Number of company-owned trucks	**5,656**	5,897	6,089

Procurement practice

PJSC Magnit responsibly chooses its suppliers and strives to engage them as stakeholders. The Company handles the selection of suppliers and oversees quality control for deliveries to 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.

Quality characteristics of our products are regulated by the laws of the Russian Federation. Moreover, for a range of items, including fruits and vegetables and our private label products, we apply our own standards, which exceed government regulations.

Magnit strives to develop local production and engages with local suppliers to get the best quality products on to shelves. We have more than 6 thous. suppliers, 52% of which are local.

(1) Excluding small pharma warehouses located in the other regions.
(2) Excluding pharmacies.
(3) Share of goods delivered to the stores via distribution centres.

Operational Review
(continued)

Trusted goods acceptance
We are testing trusted goods acceptance, which is aimed at the best suppliers and allows for a significant reduction in the time and workload for the goods acceptance procedure at the warehouse, once a supplier has been provided consistently high quality products for a long time.

Pooling
In 2018, we launched a new delivery scheme – pooling. Pooling entails a consolidated delivery of goods from different suppliers to distribution centres using a transport company. Pooling allows suppliers to reduce logistics costs by an average of 10-30%. 250 companies have already joined the scheme and this number is growing rapidly.

Cross-docking platforms
Cross-docking platforms are small warehouses located between distribution centres and stores. Magnit plans to cover local suppliers with cross-docking platforms to decrease the costs of transportation and speed up the delivery process. Introduction of the cross-docking approach in 2019 allowed the Company to increase sales and reduce shrinkage in the "fresh" category.

Automation
Automation and digitalisation are key enablers of our logistics development strategy. In 2019, we launched a number of projects, including: a project to monitor availability of products on shelves - OSA HP, a new warehouse management system (WMS), a new system for picking operations in distributions centres - "pick by voice".

- **OSA HP** is an analytical platform for Magnit and its suppliers, which gathers and analyses data on products availability on shelves. This allows to reduce stock levels and to timely notify suppliers about the necessary products.
- **Warehouse Management System (WMS)** will allow the control of all operations in distribution centres: from application processing to delivery to stores. The projects will increase traffic capacity at the centres. At present, this is being piloted in one distribution centre.
- **"Pick by voice"** is another project to increase the efficiency of distribution centres. Previously employees of the centres received text instructions via tablet, but with the implementation of the new system they will receive voice instructions via headset. This guides all of their actions step-by-step and is expected to improve labour efficiency.

Magnit also played an active part in the Mercury[1] programme: we process around 570 mln electronic veterinary certificates per year, which is over 1.5 mln certificates per day – more than any other retail company in Russia.

FUTURE DEVELOPMENT
In 2020, we will continue to develop our logistics. We will scale our current pilot projects, such as WMS, OSA HP and others. We will continue to optimise our internal processes and the scale of operations of our distribution centres, and will open new cross-docking platforms.

We will continue to pursue our strategy of reducing the amount of heavy trucks in favour of light trucks and will also continue to grow the share of rental trucks in our fleet to serve larger cities with parking constraints and allow faster and efficient delivery.

(1) Federal state informational system "Mercury" – automated system for electronic certification of goods subject to state veterinary control in Russian Federation.

Marketing

In 2019 we separated the marketing function from the commercial function. As a result, our marketing is now empowered by format expertise, with different development strategies for each format. This structure enables different formats of Magnit to be more efficient and closer to their target audience.

Marketing communications
The ultimate goal of the marketing function is to provide superior customer communication and personalised recommendations to all our clients. This is possible through the use of big data analytics and other modern technologies. We use a variety of tools to collect and analyse data regarding customer purchases, as well as to trace the impact of our advertising campaigns on Magnit's sales and brand awareness. One of the most powerful tools which enables us to initiate personalised marketing campaigns and gives us deep understanding of the customers' preferences is our multi-format loyalty programme which encompasses the whole family of Magnit stores.

NEW PROJECTS AND TECHNOLOGIES
- Joint analytical tools with suppliers. We provide suppliers with sophisticated analysis for the planning of sales, marketing and logistics via a special portal. This data is provided at brand level
- Joint forecasting based on common data with key suppliers and partners. The project helps to optimise the entire supply chain by improving the accuracy of order forecasting so that suppliers can plan their production and logistics accordingly
- Digital marketing platform launched in December 2019. The platform will be used to identify target groups on various websites, such as VK, Yandex and Odnoklassniki, Facebook (incl. Instagram) and Google (incl. YouTube), and to use targeted advertisements to each of these groups based on the chosen criteria
- Forecasting promotion effectiveness based on machine learning. We plan to develop a unified service to be used for various purposes such as product reservation, pricing, promotion management, product availability assessment, modeling etc
- Stock level assessment project which will allow us to detect sales deviations in real time and react accordingly
- Joint optimisation of the whole ecosystem with machine learning and advanced analytics.

Marketing data collection and analysis at Magnit

Data collection tools

Receipts
Depersonalised data.

Loyalty cards
Personalised data facilitates detailed Consumer Decision Tree ('CDT') analysis, tailoring of product ranges and display, communication and tracking of customer reactions, and identification of new opportunities.

Digital footprint
Website and mobile application activities (likes, favorite categories, responses to offers), various activities conducted via the Internet.

Data analysis tools

Big data analysis

Smart customer segmentation (>300 identified segments)

Insight labs in collaboration with producers

Targeted digital marketing.

Joint consumer panels with marketing research firms (Nielsen, GfK)

Analysis of the drivers behind customer behavior and their reaction to the changes.

Key marketing campaigns of 2019

Dance in Pepsi style
In July-August 2019, Magnit held a marketing campaign in collaboration with Pepsi. The participants were offered to buy a can of Pepsi in Magnit, dance with it at the Magnit store entrance and upload the video on Instagram or TikTok with a hashtag #танцуйвстилепепси (#danceinpepsistyle).

The campaign went viral: internet users uploaded a total of 108 thous. videos with the relevant hashtag, and the number of views totaled 200 mln. The Instagram video of Anastasia Ivleeva (a famous YouTube blogger) which started the campaign, got over 1 mln "like" and "share" reactions. Her TikTok account, specially created for the campaign, reached over 558 thous. subscribers. Following the successful marketing campaign, Jan Dunning, the President of Magnit, and Neil Sturrock, the President of Pepsi in CIS countries, performed a dance in Pepsi style which was uploaded on social media.

Skrepyshy
The marketing campaign "Skrepyshy" was run in August-October 2019. For each 400 rubles, Magnit customers got a "Skrepysh", a bright small device cartoon character, which can be used for different purposes, e.g. as a fixator for earphones, a keychain or a bookmark. The collection included 22 unique characters. In the course of the campaign, Magnit handed out over 220 mln pcs. of Skrepyshy.

Football promotion
Magnit signed an agreement on a strategic partnership with Russian Football Union. The sides agreed on a joint implementation of various campaigns aimed at promoting Russian football. Magnit also became the official partner of Russian Football Union and the national football team.

Royal Küchen frying pans
In May-August 2019, Magnit ran a marketing campaign, which enabled customers to get promo stickers for their purchase which could be later swapped for a frying pan under our brand Royal Küchen at a 80% discount.

Our customers showed unprecedented interest in the campaign, so it was extended to January 2020. In total, almost 5 mln frying pans were sold, and the demand remains high.

After this successful campaign, Magnit continued to develop the Royal Küchen brand and extended its assortment. We also successfully ran a similar promotion campaign with Royal Küchen glasses and tableware and plan to have more activities and campaigns, with the option to accumulate digital promo stickers in the application.

Loyalty programme and partnerships

The cross-format loyalty programme is an integral part of our developing ecosystem and one of the key tools for effective communication with different customer audiences. It was successfully piloted between April and July of 2019 in three regions (Yaroslavl, Kostroma and Chelyabinsk). The full launch across the Magnit footprint was carried out in August 2019, covering 7 federal regions of Russian Federation and 3,742 cities and townships.

The key feature of the Magnit loyalty programme is the opportunity to collect and spend bonus points across all retail chain formats: convenience stores, supermarkets, drogeries and pharmacies.

Our award system is one of the most attractive on the market: when making a purchase, customers receive a bonus of 0.5-2% of the purchase amount. In addition to basic points, customers also earn personal points for participation in different promotions (1 bonus point equals RUB1, and may also be used to cover up to 100% of the purchase price).

The Magnit cross-format loyalty programme proved to be an effective tool: by the end of initial roll-out (in February 2020), the number of issued cards reached 33 mln while the number of active users exceeded 20 mln. We noted a 3% increase in purchase frequency from the card holders. The share of customers shopping at at least two Magnit formats increased by 15p.p. to 52%[1].

The data collected by the loyalty programme will provide Magnit with a deeper understanding of customer needs. This will enable us to improve category management, merchandising, product range localization and promo offers.

The Company plans to further improve its loyalty programme to increase its popularity and enable users to accumulate bonus points faster. In 2020, Magnit will develop targeted offers for customers through the use of digital tools. The expanded range of services will soon be available in the mobile app.

Magnit loyalty programme in figures

33 mln	**> 20 mln**	**52%**	**58%**
cards issued	active loyalty cardholders	customers make purchases in two or more formats	penetration in sales

(1) Based on the March 2019–January 2020 statistics from the initially piloted regions.

CO-BRANDED BANK CARDS

By collaborating with partners from financial or telecommunication sectors, a retailer might learn to better understand the customers' needs and offer complementary services with the unified loyalty programme.

Magnit develops such collaborations as part of its loyalty programme. In 2019, the Company piloted two co-branded bank cards in collaboration with Pochta Bank (piloted in Chelyabinsk region, Yaroslavl region, Kostroma region) and Tinkoff bank. Over 17.5 thous. cards were issued in the reporting year.

The programme enables the customer to obtain regular bonuses for purchases in family of Magnit stores, and Tinkoff Bank cards customers – additional bonuses from transactions in restaurants and at gas stations. Customers also get welcoming bonuses in the first month of using the card and special offers from the issuing banks.

Such co-branded products will give Magnit the opportunity to increase the customer loyalty and retail turnover, and get commission from partnering banks.

Private Label brands and own production

The development of Magnit's new Private Label (PL) range is central to the Company's customer value proposition (CVP), a core component of our strategy. In addition to a unique value for money offering which is provided by the private label, we are able to deliver higher gross margins compared to branded goods.

In 2019, Magnit updated its PL product line in response to evolving consumer preferences. Accordingly, Magnit reviewed its main product lines, relaunched certain brands, adjusted pricing strategies and upgraded its product packaging.

Our PL products will be available across each of Magnit's price brackets (low, medium and high).

One of the first labels launched in 2019 was "Magnit Svezhest" (Magnit Freshness) which currently brings together 58 SKUs in the category of fruits and vegetables, such as cucumbers, tomatoes, mushrooms, salads etc. A significant part of Magnit Freshness range is produced in Magnit's greenhouse complexes in the Krasnodar region. In 2020, we plan to expand the assortment of tomatoes, increase the production of eggplants and green salads, as well as to explore opportunities of adding the production of oyster mushrooms. Amongst others we consider adding dairy items and meat assortment to Magnit Freshness.

Magnit is committed to enhancing the brand awareness of its PL range and aims to increase the share of PL in our assortment from 7% to 20%. Furthermore, we intend to drive sales growth and address niche consumer segments with a clearly differentiated offering.

Low (My Price)

An extensive product range including essential goods at attractive prices.

Medium (Magnit)

Includes dairy products, drinks, dry-food, gastronomy and household products. "Magnit Freshness", launched in 2019, includes vegetables and fruits

High

Includes snacks, canned food, cheese and products considered important for a healthy lifestyle.

Was

69 private labels

lack of customer awareness and demand

Now

13 private labels

> 500 SKUs

7% share in sales

Target

26 private labels

including 7 cross-category private labels

> 2,000 SKUs

20% share in sales

Own production

Underpinning Magnit's PL range are the Company's in-house production facilities. Magnit operates eleven industrial and four agricultural facilities, located in Krasnodar, Saratov, Ufa, Tver, Lipetsk and Togliatti regions. The total annual production capacity amounts to around 200 thous. tonnes.

Magnit production facilities have the annual capacity of around 140 thous. tonnes of produce with 114 production lines. Magnit produces frozen semi-finished products, pastas, snacks, cereals and plently of other food items. Own production partially meets the Company's internal demand in different product categories.

Operational Review
(continued)

All the own production facilities are constantly monitored online by the modern software to ensure quality control at all production stages. Hence, Magnit is able to offer high quality, fresh and healthy products.

An important aspect of Magnit's own production facilities is the ability to grow fresh vegetables and mushrooms. Accordingly, our motto is "from field to plate with the speed of freshness".

We are proud to be the only Russian food retailer with its own agricultural facilities three of which are located in Kuban, the agricultural centre of Russia, and one in Lipetsk region. Our greenhouse complex Zelenaya Liniya is the largest in Russia (by greenhouse surface area and volume of vegetables produced). The total area of greenhouses is around 108 ha and annual production of vegetables of about 70 thous. tonnes.

Across our own production facilities, we recruit the best specialists and focus on continuous development and improvement. Our new products are tested in special laboratories to ensure quality control throughout the production process, from raw materials to the finished product.

Magnit's production sites operate primarily in the low-price segment, however, as Magnit's PL range develops, the sites will be gradually reoriented towards the production of food with higher added value. Thus, the share of own production in the relevant categories is expected to increase. Simultaneously, Magnit is working to develop strategic partnerships with external suppliers for the PL range by signing long-term contracts. With regard to the development of the PL range in the premium price segment, Magnit expects to explore opportunities relating to the direct import of exclusive products.

Lipetsk region
Moskva na Donu LLC
vegetables

Tver region
Tver separate division
tea, snacks

Moscow region
Cheese Slicing Facility Dmitrov JSC Tander
cheese slicing and packaging

Republic of Bashkortostan
Ufa separate division
grocery, snacks

Samara region
Togliatti separate division
frozen food

Saratov region
Saratov separate division
grocery, snacks

KRASNODAR REGION
- Zelenaya Liniya LLC – Tikhoretsk separate division
- Zelenaya Liniya LLC – Plastunovskaya separate division
- Zelenaya Liniya LLC – Mushroom complex

KRASNODAR REGION
- Kuban Factory of Bakery Products LLC
- Kuban Confectioner LLC
- Trading Company Plastunovskoe separate division
- Trading Company Tikhoretskoe separate division
- Trading Company Novotitarovskaya separate division
- Cheese Slicing Facility Krasnodar JSC Tander

11 production plants

4 agricultural facilities

114 manufacturing lines

> 460 SKUs

≈200 thous. tonnes of production

> 4.5 thous. people employed

58 SKUs of Magnit Freshness

65 regions of presence of Magnit Freshness

CONFECTIONER OF KUBAN

In 2019, Magnit launched one of the largest confectionery factories in the country, Konditer Kubani (Confectioner of Kuban), which has an estimated annual production capacity of 55,000 tonnes.

The facility is located in the Krasnodar Industrial Park and has five modern, high-tech production lines. It will produce chocolate bars and sweets, hard candies, jelly and fondant sweets, fruit jellies, and chocolate truffles. Most raw materials used in production are of Russian origin.

The factory currently produces around 20 confectionery products covering 60% of the Company's need in these categories, and hires approximately 400 people. Due to the flexibility of Magnit's production lines, the assortment of Konditer Kubani will be constantly updated in response to customer preferences.

Share of own production in Magnit's internal demand, %

Pasta	9	81
Tomatoes	13	87
Cucumbers	24	76
Salads	34	66
Roulade	75	25
Mushrooms	76	24
Pastry	97	

Information technology

Magnit strives to be one of the leading digital companies in Russia. In 2019, we continued to invest in key IT projects to improve the efficiency of our business.

In 2019, the Company adopted an IT strategy in line with the key goals and objectives of the overall corporate strategy:

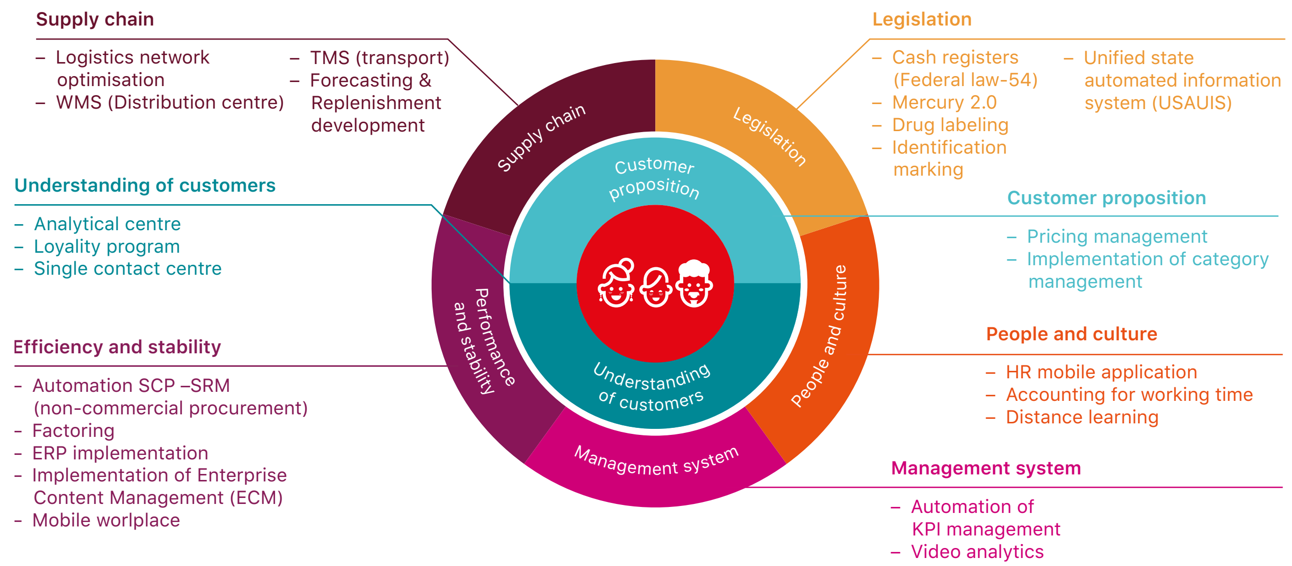
- ensuring stable growth of the Company and increasing shareholder value
- key pillars of our business strategy
- strategic priorities and business projects
- key metrics: LFL, EBITDA, average ticket, sales, etc.

The IT strategy includes the following key goals and objectives:

- to ensure a high level of resilience of the organisation and all its processes
- to increase the efficiency of data processing (implementation of big data systems and predictive analytics for handle assortment, prices and promotions, as well as to analyse data to increase the efficiency of the supply chain, etc.)
- technological leadership (the adoption of effective new technological solutions such as artificial intelligence, IoT[1], RPA[2], augmented reality, virtual reality, etc.)
- to increase operational efficiency (increased development speed due to flexible methodologies, a product-focused approach and optimisation of the sourcing model)
- to create a digital ecosystem (development of solutions for using a service-based approach)
- to improve the efficiency of infrastructure (improving reliability, security and optimising the cost of operating equipment)
- digital leadership (implementation of solutions such as mobility and cloud services, omnichannel, loyalty programmes, e-commerce, innovation management, development of strategic partnerships, etc).

(1) The Internet of things (IoT) is a system of interrelated computing devices, mechanical and digital machines provided with unique identifiers (UIDs) and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.

(2) Robotic Process Automation (RPA) involves the use of specialised software to automate repeatable and predictable computer-based processes performed by humans.



2019 was fundamental for us to identify a key vector for ensuring business continuity, the organic growth of the Company and implementation of strategic initiatives, improving business performance and the formation of a plan of changes and transformation aimed at improving all key performance indicators of the Company.

To manage day-to-day operations across the largest retail-chain in Russia, Magnit currently uses an ERP-system, based on 1C: Enterprise 8. All operations across the Group's stores are recorded by the main control centre, which processes collected data and prepares analytical reports. In 2019, we optimised this system and aligned it with our new organisational structure. We reduced the number of databases, which in turn reduced the maintenance cost of the system. We also launched a new information system project, aligned with the National catalogue. This will allow us to reduce the time needed to introduce new products to shelves.

In 2019, we launched an electronic document management in our logistics operations. In our pilot project, electronic waybills allowed us to dramatically reduce the time required for document processing from 3 days to 3 hours. Magnit is the first Russian retailer to implement this solution.

The focus of our IT projects this year was getting closer to understanding customer needs and priorities. We successfully launched our loyalty programme, which we will continue to develop through the use of different technological solutions, e.g. through face-pay applications. The first superstore in Kuban which opened in 2019 was equipped with video monitoring of queues and shelf space availability.

Key pilot projects in IT included 'pick-by-line' and 'pick-by-voice' solutions, which increase the efficiency of warehouse management and reduce the time spent on the routine operations, when handling the goods.

One of the major decisions in terms of IT infrastructure was the transfer to the SAP system which we plan to initiate in the first half of 2020.

As the digital core uniting all the Company's business processes, Magnit will use SAP S/4HANA RETAIL, a high-performance system that will enable it to automate end-to-end stock and financial accounts. Over the course of the programme, the chain plans to incorporate over 40 SAP S/4HANA modules. During the first stage, the system will be used to automate finance, stock movement, human resources, and reporting. SAP Central Finance will allow consolidation of financial administration at Magnit's main enterprises. Digitisation of personnel management, based on SAP HCM, will enhance HR records, organizational structure, as well as payroll calculations and related processes.

Other important decisions from the point of view of developing goods distribution, financial accounting, and personnel automation (in terms of payroll) was to choose a development platform for these processes. Magnit has chosen a solution based on SAP S / 4HANA RETAIL, which is a high-performance system aimed at conducting end-to-end inventory accounting and financial accounts. Within the programme, the network is to include more than 40 SAP S / 4HANA modules. At the first stage, the system will be used to automate finances, stock movements, human resources and reporting.

In 2019, we signed several important IT agreements related to strategic cooperation in the field of information technology with 1C, and agreements with Microsoft and other suppliers on integrated network digitalisation utilising the latest technological developments. Magnit also became a resident of Innopolis – a technology park created for the development of information technologies and innovative high technology.

2019 highlights:

- Approvement of IT Strategy of the Company
- Launch of a multi-format loyalty card
- The integration of 1C databases across HR and accounting systems, leading to lower labor costs
- First Russian retailer to launch electronic waybills
- Over 1,600 new suppliers connected to the Company's electronic document management system
- Magnit certification authority issued 17.8 thousand electronic signature keys to employees and 3.2 thousand to customers
- A secure cloud infrastructure deployed in MS Azure, reducing the time and cost of SSC, EDMS[1], Service Desk and other projects
- A separate test IT environment deployed at retail facilities, which will allow safe and quick testing of new sales technologies
- Introduction of platform for managing mobile devices at TanderStore retail facilities, which will reduce the cost of device maintenance
- Piloting of video analytics systems (control of goods on a shelf, queue control) successfully carried out
- Successful integration solution created for processing electronic veterinary accompanying documents for the Mercury project
- Successful integration of corporate user access control system across the organization's information systems.

(1) Electronic document management system (EDMS) is a software programme that manages the creation, storage and control of documents electronically.

Financial Review

PJSC Magnit announces its audited consolidated IFRS results for the year ending 31 December 2019[1].

The Company continues to provide analysis of financial metrics using a pre-IFRS 16 approach in the current report in order to support smooth and transparent transition to the new reporting standard. Respective financial data with IFRS 16 implication is also provided for proper comparison further in the report.

FY 2019 key financial highlights:

- Total revenue increased by 10.6% Y-o-Y to RUB 1,368.7 bln
- Net retail sales reached RUB 1,332.9 bln representing 9.5% Y-o-Y growth
- Wholesale revenue increased by 77.4% Y-o-Y to RUB 35.8 bln primarily driven by distribution of pharmaceutical products
- Gross Profit stood at RUB 312.0 bln with a margin of 22.8% (down 114 bps Y-o-Y) on higher shrinkage, lower trading margin and growing share of low-margin wholesale segment partially offset by improved commercial terms and an increased share of the high-margin drogerie format
- SG&A expenses as percentage of sales increased by 79 bps to 21.3% on higher depreciation, rental and personnel costs
- Reported EBITDA was RUB 83.1 bln with a 6.1% margin, down 117 bps Y-o-Y. Adjusted EBITDA margin[2] was 6.8%
- Net income decreased by 49.0% Y-o-Y and stood at RUB 17.1 bln. Net income margin decreased by 146 bps Y-o-Y to 1.2%;
- Capex in 2019 increased by 9.0% to RUB 58.6 bln on the back of the accelerated redesign and expansion programme
- Net cash generated from operating activities decreased by 12.8% to RUB 56.4 bln as a result of the negative movement of working capital and higher interest paid
- As of 31 December 2019 Net Debt was RUR 175.3 bln compared to RUB 137.8 bln as of December 31, 2018. The net debt increase was due to higher gross debt, while the lower cash position related to unfavourable calendarisation of payment days in the 2019 calendar year vs 2018
- Net Debt to EBITDA ratio was 2.1x.

IMPLICATIONS OF IFRS 16

IFRS 16 balances the presentation of leased assets with owned assets. With this, rent expenses are replaced with depreciation and interest payments. The lease capitalised is reduced on straight line basis but interest is charged on outstanding lease liabilities, thus interest is higher in the earlier years and decreases over time. As a result, the impact on net income is highly dependent on average lease maturity – the higher the maturity of the store, the lower the interest charges. As Magnit's leased store base is relatively young, with an average of 3.5 years, the impact on net income is high but will decrease significantly going forward. The share of lease contracts with rental periods of 10 years or over is around 80%, while the share of contracts with at least half the duration left is almost 75%.

(1) EBITDA, Adjusted EBITDA and LFL metrics are calculated by the Company and are not audited.

(2) Adjusted for the accident at Voronezh DC, costs related to the management structure, inventory sell-off, consulting fees and LTI expense.

FY 2019 Key Financial Results, RUB mln

	IAS 17			IFRS 16		
	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change
Total revenue	**1,368,705**	1,237,015	10.6%	**1,368,705**	1,237,015	10.6%
Retail	**1,332,929**	1,216,851	9.5%	**1,332,929**	1,216,851	9.5%
Wholesale	**35,777**	20,164	77.4%	**35,777**	20,164	77.4%
Gross Profit	**311,999**	296,074	5.4%	**311,999**	296,074	5.4%
Gross Margin, %	**22.8%**	23.9%	-114 bps	**22.8%**	23.9%	-114 bps
SG&A[1], % of sales	**-21.3%**	-20.5%	-79 bps	**-19.8%**	-19.1%	-63 bps
EBITDA adjusted[2]	**92,974**	89,557	3.8%	**157,172**	144,962	8.4%
EBITDA Margin adjusted	**6.8%**	7.2%	-45 bps	**11.5%**	11.7%	-24 bps
EBITDA pre LTI[3]	**85,111**	89,557	-5.0%	**149,309**	144,962	3.0%
EBITDA Margin pre LTI, %	**6.2%**	7.2%	-102 bps	**10.9%**	11.7%	-81 bps
EBITDA	**83,112**	89,557	-7.2%	**147,310**	144,962	1.6%
EBITDA Margin, %	**6.1%**	7.2%	-117 bps	**10.8%**	11.7%	-96 bps
EBIT	**36,324**	53,040	-31.5%	**59,216**	71,809	-17.5%
EBIT Margin, %	**2.7%**	4.3%	-163 bps	**4.3%**	5.8%	-148 bps
Net finance costs	**-15,095**	-8,926	69.1%	**-47,509**	-39,331	20.8%
FX gain / (loss)	**781**	-1,415	-155.2%	**873**	-1,523	-157.3%
Profit before tax	**22,010**	42,699	-48.5%	**12,579**	30,954	-59.4%
Taxes	**-4,901**	-9,133	-46.3%	**-3,015**	-6,784	-55.6%
Net Income	**17,108**	33,566	-49.0%	**9,564**	24,170	-60.4%
Net Income Margin, %	**1.2%**	2.7%	-146 bps	0.7%	2.0%	-126 bps

(1) Selling, general and administrative expenses.

(2) Adjusted for the accident at Voronezh DC, costs related to the management structure, inventory sell-off, consulting fees and LTI expense.

(3) Long-Term Incentive Programme.

Financial Review
(continued)

Total revenue in FY 2019 increased by 10.6% and stood at RUB 1,368.7 bln. Net retail sales in FY 2019 grew by 9.5% Y-o-Y and amounted to RUB 1,332.9 bln, driven by a combination of 12.7% growth in selling space (2,377 store additions) and 0.4% LFL sales growth. Wholesale revenue in FY 2019 increased by 77.4% to RUB 35.8 bln, primarily driven by the increased distribution of pharmaceutical products. The share of the wholesale segment increased from 1.6% in FY 2018 to 2.6% in FY 2019.

Gross Profit in FY 2019 stood at RUB 312.0 bln with a margin of 22.8%. This was down by 114 bps Y-o-Y due to higher shrinkage, lower trading margin and the growing share of the low-margin wholesale segment, which was only partially offset by improved commercial terms and an increase in share of the high-margin drogerie format.

Supply-chain costs as a percentage of sales remained flat Y-o-Y. Shrinkage increased Y-o-Y, although it steadily improved every quarter due to management initiatives related to renegotiation of quality standards with suppliers, changes in delivery schedules and other supply chain solutions.

The drogerie format reached a record high share of net retail sales at 8.2%, compared to 7.5% a year ago, which had a positive impact on the gross margin. On the other side, the growth of this format combined with better on-shelf availability resulted in higher inventory level.

SG&A expenses in FY 2019 reached RUB 291.6 bln and increased as a percentage of sales by 79 bps Y-o-Y:

- Payroll related expenses increased by 17 bps driven by the introduction of the LTI programme representing 0.15% of total sales, changes in the management structure, higher FTE per store to improve the quality of customer service partially offset by productivity gains
- Rent expenses as a percentage of sales increased by 24 bps to 4.6% driven by a growing share of leased selling space (77.2% in FY 2019 versus 74.5% a year ago), partially offset by the improvement of lease terms with landlords resulting in lower rental costs per sq. m of selling space
- Depreciation of assets was RUB 46.8 bln, 28.1% higher than in FY 2018. Under the new methodology, the Company has adjusted the useful life of assets in line with the period of corresponding lease agreements. As a result, the useful life of reconstructions has been reduced from 30 years to 10 years and depreciation has been recalculated accordingly. Depreciation of assets was also impacted by a non-cash impairment provision in the amount of RUB 1.0 bln as a result of an impairment test of operating stores
- Utilities expenses increased slightly, up 9 bps on higher cleaning and electricity costs. Growth in cleaning expenses was primarily driven by the country-wide growth in tariffs, as well as additional focus on the important new CVP resulting in higher standards and frequency of cleaning. Increase in electricity costs was related to annual indexation in July 2019
- Marketing and advertising expenses decreased by 13 bps Y-o-Y on the back of more efficient tactics and tools of promo campaigns
- Taxes other than income tax as a percentage of sales improved by 7 bps compared to FY 2018, due to an increased share of rented stores and abolishment of tax on movable property since 2019
- Packaging and raw materials as a percentage of sales reduced by 5 bps driven by improved purchasing terms and lower write-offs on the back of limits optimisation
- Other expenses as a percentage of sales increased by 2 bps in FY 2019, predominantly due to insurance costs resulting from the introduction of an insurance programme covering the entire network of stores and distribution centres.

As a result, operating profit for the Company in FY 2019 stood at RUB 36.3 bln, 31.5% lower than a year ago.

Reported EBITDA was RUB 83.1 bln, with a 6.1% margin – down 117 bps Y-o-Y, driven by gross margin dynamics and increased SG&A expenses partially offset by higher Y-o-Y other operating income. LTI expenses in the reported period stood at 0.15% of sales – as a result EBITDA pre-LTI was 6.2%.

Selling, general and administrative expenses (SG&A), RUB mln

	IAS 17			IFRS 16		
	2019	2018	Change	2019	2018	Change
Payroll and related taxes	121,677	107,833	12.8%	121,677	107,833	12.8%
as a % of Sales	8.9%	8.7%	17 bps	8.9%	8.7%	17 bps
Rent	63,195	54,152	16.7%	982	551	78.3%
as a % of Sales	4.6%	4.4%	24 bps	0.1%	0.0%	3 bps
Depreciation & amortization	46,788	36,517	28.1%	88,094	73,154	20.4%
as a % of Sales	3.4%	3.0%	47 bps	6.4%	5.9%	52 bps
Utilities	24,737	21,274	16.3%	24,737	21,274	16.3%
as a % of Sales	1.8%	1.7%	9 bps	1.8%	1.7%	9 bps
Advertising	7,715	8,601	-10.3%	7,715	8,601	-10.3%
as a % of Sales	0.6%	0.7%	-13 bps	0.6%	0.7%	-13 bps
Other expenses	8,723	7,587	15.0%	8,723	7,587	15.0%
as a % of Sales	0.6%	0.6%	2 bps	0.6%	0.6%	2 bps
Bank services	6,516	6,059	7.5%	6,516	6,059	7.5%
as a % of Sales	0.5%	0.5%	-1 bps	0.5%	0.5%	-1 bps
Repair and maintenance	5,748	4,421	30.0%	5,748	4,421	30.0%
as a % of Sales	0.4%	0.4%	6 bps	0.4%	0.4%	6 bps
Taxes, other than income tax	3,240	3,804	-14.8%	3,240	3,804	-14.8%
as a % of Sales	0.2%	0.3%	-7 bps	0.2%	0.3%	-7 bps
Packaging and raw materials	3,215	3,531	-8.9%	3,215	3,531	-8.9%
as a % of Sales	0.2%	0.3%	-5 bps	0.2%	0.3%	-5 bps
Total SG&A	291,555	253,779	**14.9%**	270,648	236,815	**14.3%**
as a % of Sales	21.3%	20.5%	79 bps	19.8%	19.1%	63 bps
SG&A excl D&A	244,767	217,262	12.7%	182,554	163,661	11.5%
as a % of Sales	17.9%	17.6%	32 bps	13.3%	13.2%	11 bps

Financial Review
(continued)

In 2019 the Company recorded a number of significant one-off costs, including costs related to an accident at Voronezh DC, changes in the management structure, a passive stock sell-off and consulting fees, for a total amount of 0.57% of sales. EBITDA margin adjusted for the above one-off factors was 6.8% for 2019.

Net finance costs increased by 69.1% to RUB 15.1 bln compared to FY 2018 (RUB 8.9 bln) due to a combination of a higher average amount of borrowings and an increased cost of debt compared to the previous year.

Income tax for FY 2019 was RUB 4.9 bln. The effective tax rate was 22.3% in FY 2019 compared with 21.4% in FY 2018.

As a result, net income in FY 2019 decreased by 49.0% Y-o-Y and stood at RUB 17.1 bln. Net income margin decreased by 146 bps Y-o-Y to 1.2%.

Increased share of the drogerie format, up to 8.2% of net retail sales, leading to lower stock turnover, supplier inflation, organic growth of the Company's store network (12.7% selling space growth Y-o-Y), an improvement in on-shelf availability across all formats, and assortment changes in the large formats resulting in RUB 36.7 bln increase of inventories to RUB 218.9 bln as of December 31, 2019.

The Company has changed its accounting policy regarding the allocation of vendor rebates, as management believes that the new approach provides more relevant information for categories of products and it aligns to the typical industry practice and aids comparability. The Group has retrospectively applied this methodology, implementing changes to the allocation of vendor rebates between closing inventories and cost of goods sold[2].

Financial Position Highlights as of 31.12.2019 (IFRS 16), RUB mln

	FY 2019	FY 2018[1]
Non-current assets	**697,347**	660,523
Inventories	**218,874**	182,141
Cash and cash equivalents	**8,901**	26,748
Other current assets	**23,568**	13,805
Assets	**948,689**	883,216
Equity	**188,533**	212,442
Long-term borrowings	**119,632**	93,736
Other long-term liabilities	**340,125**	309,258
Trade and other payables	**161,631**	131,101
Short-term borrowings and short-term portion of long-term borrowings	**64,578**	70,837
Other short-term liabilities	**74,189**	65,841
Equity and liabilities	**948,689**	883,216

Gross debt increased by RUB 19.6 bln and stood at RUB 184.2 bln as of 31 December 2019, due to the acceleration of our redesign programme and store openings, investments in the buy-back programme and two dividend payments within 2019 vs one within 2018. Net debt was RUB 175.3 bln compared to RUB 137.8 bln as of December 31, 2018. The main reason for the increase in leverage was the growth of gross debt as well as a lower cash position related to the unfavourable calendarisation of payment days in the 2019 calendar year vs 2018. The Company's debt is fully RUB denominated, matching its revenue structure. As of December 31, 2019 65% of the total was long-term debt. The Net Debt to EBITDA ratio was 2.1x.

The Company's cash flows from operating activities, before changes in working capital, for FY 2019 decreased by 4.3% or RUB 3.9 bln and stood at RUB 86.2 bln. The change in working capital increased to RUB 12.8 bln from RUB 11.2 bln in FY 2018 mainly due to higher inventories as well as an increase of trade payables days.

Net interest and income tax paid in FY 2019 increased by RUB 2.9 bln or 20.4% to RUB 17.0 bln. Net interest expenses increased by 45.7% Y-o-Y to RUB 14.1 bln in FY 2019 due to a combination of a larger average amount of borrowings and a higher cost of debt compared to the previous year.

Debt composition and leverage as of 31.12.2019, RUB mln

	FY 2019	Share, %	1H 2019	Share, %	FY 2018	Share, %
Gross debt	**184,211**		198,313		164,573	
Long term debt	**119,632**	64.9%	120,789	60.9%	93,736	57.0%
Short term debt	**64,578**	35.1%	77,524	39.1%	70,837	43.0%
Net debt	**175,310**		181,401		137,826	
Net debt / EBITDA	**2.1x**		2.1x		1.5x	

Cash Flow Statement for FY 2019, RUB mln

	IAS 17			IFRS 16		
	FY 2019	FY 2018	Change	FY 2019	FY 2018	Change
Operating cash flows before working capital changes	**86,208**	90,061	-4.3%	**148,517**	143,620	3.4%
Changes in working capital	**-12,796**	-11,230	13.9%	**-10,911**	-12,161	-10.3%
Net Interest and income tax paid	**-16,968**	-14,093	20.4%	**-49,377**	-44,499	11.0%
Net cash from operating activities	**56,444**	64,737	-12.8%	**88,228**	86,959	1.5%
Net cash used in investing activities	**-57,781**	-53,208	8.6%	**-56,323**	-50,906	10.6%
Net cash generated / (used) from/(in) financing activities	**-16,510**	-3,119	429.4%	**-49,752**	-27,643	80.0%
Net cash increase / (decrease)	**-17,846**	8,410	-312.2%	**-17,846**	8,410	-312.2%

The Group revisited the amount paid in tax in previous years and amended its tax declarations with regard to deductible expenses. Income tax paid for FY 2019 decreased from RUB 4.4 bln in FY 2018 to RUB 2.9 bln.

Net cash generated from operating activities in FY 2019 decreased by 12.8% to RUB 56.4 bln as a result of a negative movement in working capital and higher interest paid.

Net cash used in investing activities predominantly composed of capital expenditures increased by 8.6% from RUB 53.2 bln in FY 2018 to RUB 57.8 bln in FY 2019. Capex in 2019 increased by 9.0% or RUB 4.8 bln and stood at RUB 58.6 bln, due to the accelerated redesign (2,341 stores in 2019 vs 1,352 stores in 2018) and expansion programme (2,841 stores on gross basis in 2019 vs 2,384 stores in 2018).

Net cash used in financing activities increased from RUB 3.1 bln in FY 2018 to RUB 16.5 bln in FY 2019, reflecting dividend payments in the amount of RUB 30 bln and a buyback of RUB 5.1 bln, as well as dynamics in the proceeds from borrowings and the repayment of loans.

(1) Inventories, deferred tax and retained earnings have been restated under the new accounting policy described further.

(2) Note 4.1 of the audited financial statements under IFRS.

Principal Risks and Uncertainties

Risk management at PJSC Magnit is a part of the comprehensive internal control and risk management system. The internal audit and risk management policy[1] defines the main principles and overall approach towards the organisation of risk management, and also describes key elements of the risk management process.

Risk management is an ongoing process conducted on a permanent basis, due to the continuous nature of decision-making in this area.

Key elements of risk management:

- risk identification
- risk assessment
- the development and implementation of risk management procedures
- constant monitoring of risk status.

(1) Approved by the decision of the Board of Directors on 12.12.2019 (minutes w/o # from 13.12.2019).

Main risk management principles

Continuity and integrity

Internal control and risk management are continuous processes covering all areas of the Company's business activities, at all management levels.

Integration into organisational processes

The internal control and risk management system is an integral part of the Company's business, management and corporate culture. It is integrated into every organisational process of Magnit, including policy development, strategic and business planning, and change management.

Clear division of duties and responsibilities between internal control and risk management bodies

The responsibilities and powers of the internal control and risk management bodies are separated in order to eliminate or reduce the risk of error or fraud.

Risk orientation

The internal control and risk management system includes risk analysis and monitoring in each area of Company's business activities, while taking into account the risk/profitability ratio. Maximum efforts are made to improve risk management standards and approaches, particularly regarding the acceptable level of risk for different areas of activity. For the sake of efficiency, control procedures are imposed upon areas of activity in order of their importance.

Methodological framework integrity

The internal control and risk management system ensures the methodological integrity and coherent functioning of Magnit's risk management processes. This includes the establishment of universal approaches and standards for the whole Company.

Segregation of decision-making levels

The internal control and risk management system is an integral part of the Company's business, management and corporate culture. It is integrated into every organisational process of Magnit, including policy development, strategic and business planning, and change management.

Responsibility

All subjects of internal control and risk management system, and within their competence, are responsible for compliance with risk management standards and approaches, as well as for the proper implementation of controlling procedures in their respective areas of business activity.

Balance

Controlling procedures and risk management functions must be equipped with the necessary resources and authorisation for their successful execution. Spending on the implementation and realisation of controlling procedures must therefore be adequate to the assessed potential risk.

Constant development and adaptation

The internal control and risk management system is constantly being improved.

Reasonable certainty

Realisation of risk management procedures is considered efficient as long as it allows to reduce the risk down to acceptable level.

The internal control and risk management system has three levels – strategic, operational and controlling. The Company's principal managing bodies comprising of the Board of Directors, CEO, President and management committees are involved in the risk management process at the strategic and operational level. The Board of Directors evaluates financial and non-financial risks, determines risk appetite, develops a risk management-oriented corporate culture and evaluates internal control and risk management system a minimum of once per year.

At the control level, the internal audit department together with the heads of functional units maintain the proficiency level of accountable employees. They monitor their knowledge and keep track of trends in international risk management practices. A database of mandatory information in risk assessment and management is maintained for those employees accountable for decision-making.

The internal control and risk management scheme, as well as more details on the risk management system, are provided in the Corporate Governance on page 114.

Principal Risks and Uncertainties
(continued)

Key risks

The Company defines and ranks the most important risks impacting the business activity. The Company regularly assesses these risks, develops procedures aimed at the mitigation or prevention of negative impacts, and monitors the implementation and effectiveness of risk impact procedures.

Risks	Type of risk	Source of risk	Impact	Mitigating activities
1 Risk of deterioration of socio-economic and macro conditions				
– increased isolation of Russia and the deterioration of macroeconomic factors (deflation, Ruble devaluation) – deepening sanctions – growing unemployment – decrease in general living standards, with a corresponding change in consumption behaviour – increase in tax and non-tax deductions for households	Strategic	External	Revenue LFL	CVP analysis of the business processes: – adaptation and extension of the product range – increased attention to the quality of services and the provision of new services to retain current and attract new groups of customers
2 Risk of business transformation				
– Margin reduction during the transformation of category management (incorrect pricing, promo, assortment revision, high purchasing prices, sale of obsolete stock with a discount) – shortage or loss of qualified personnel during the transformation of the organisational structure and incentive schemes	Strategic	Internal and external	Strategy execution Revenue EBITDA	– collegial decision making – hiring external consultants to speed up the process – incentive programmes (STI, LTI)
3 Risk of adverse regulatory changes				
– requirements for limiting trade margins – restrictions on the maximum market share – pension reform consequences – additional tax burden and costs due to changes in legislation – EGAIS (alcohol registration system), PLATON (road transportation payments), technical regulations – changing rules for licensing and obtaining permits	Regulatory	External	Market share Revenue EBITDA	– monitoring changes in legislation by specialists – participation of experts in the discussion of legislative innovations – adaptation of business processes for obtaining the necessary licenses and permits, technical documents
4 Risk of increased competition				
– increase in price pressure – traffic outflow – decrease in sales per sq. m	Strategic	External	Revenue LFL	– monitoring competitors' actions – utilising marketing tools, conducting promotions – increasing the attractiveness of existing stores through reconstruction and remodelling – evaluation of the attractiveness and potential of the proposed store openings using GIS-analysis (Geographic Information Systems) technologies
5 Risk of excessive loss of inventory for the following reasons				
– inefficiency of logistic processes – goods acceptance processes – storage and accounting of inventories – employees' fraud and theft – natural disasters (fires, flooding, etc.)	Operational	Internal	EBITDA	– modifying the Company's business processes through the adequate redistribution of powers and responsibilities – involving internal security in the investigation of thefts with the subsequent initiation of criminal cases – preventing fraudulent actions by employees through the mechanisms of the Code of Business Ethics – including costs for the modification of accounting systems in the budget
6 Risk of making poor investment decisions				
– return on investment of new stores and reconstructions is below the WACC[1] – the growth of number of unprofitable stores – excess CAPEX per object (excess requirements, excessive standards, low-quality construction and installation works)	Strategic	Internal and external	CAPEX EBITDA ROIC	– collective decision-making on investment projects – standardisation of norms and models through Investment Policy – use of GIS-analysis technologies – introduction of tender procedures – budget control of expenses for the implementation of the investment programme – post-investment analysis
7 Risks associated with IT infrastructure				
– discrepancy between the existing infrastructure capacity and Company requirements necessary to support business processes, both existing and planned (IT, contractors, personnel, logistics) – the inability of IT systems to ensure business continuity – Insufficient IT capabilities to provide high-quality, relevant and objective information for the business – risks related to IT security systems	Operational	Internal	Revenue EBITDA	– development of a detailed plan for priority IT investments – collective decision-making on investments in IT infrastructure

(1) WACC (weighted average cost of capital) - the rate that a company is expected to pay on average to all its security holders to finance its assets.

Sustainable Development

Approach

Magnit is a leading Russian retailer with over 20 thous. stores in 3,742 cities and townships in Russia. We have millions of daily touchpoints with our stakeholders: customers, employees, suppliers, authorities and of course investors. Therefore, it makes an enormous difference how we operate and conduct our business.

We have always strived to operate as a responsible corporate citizen and conduct our operations in a sustainable way. To enhance and systemise this approach to levels expected of a company of our size and influence in society, in 2019 we started developing a comprehensive Sustainability strategy, which will allow us to improve on these issues and measure ourselves in a more efficient way against the best industry standards.

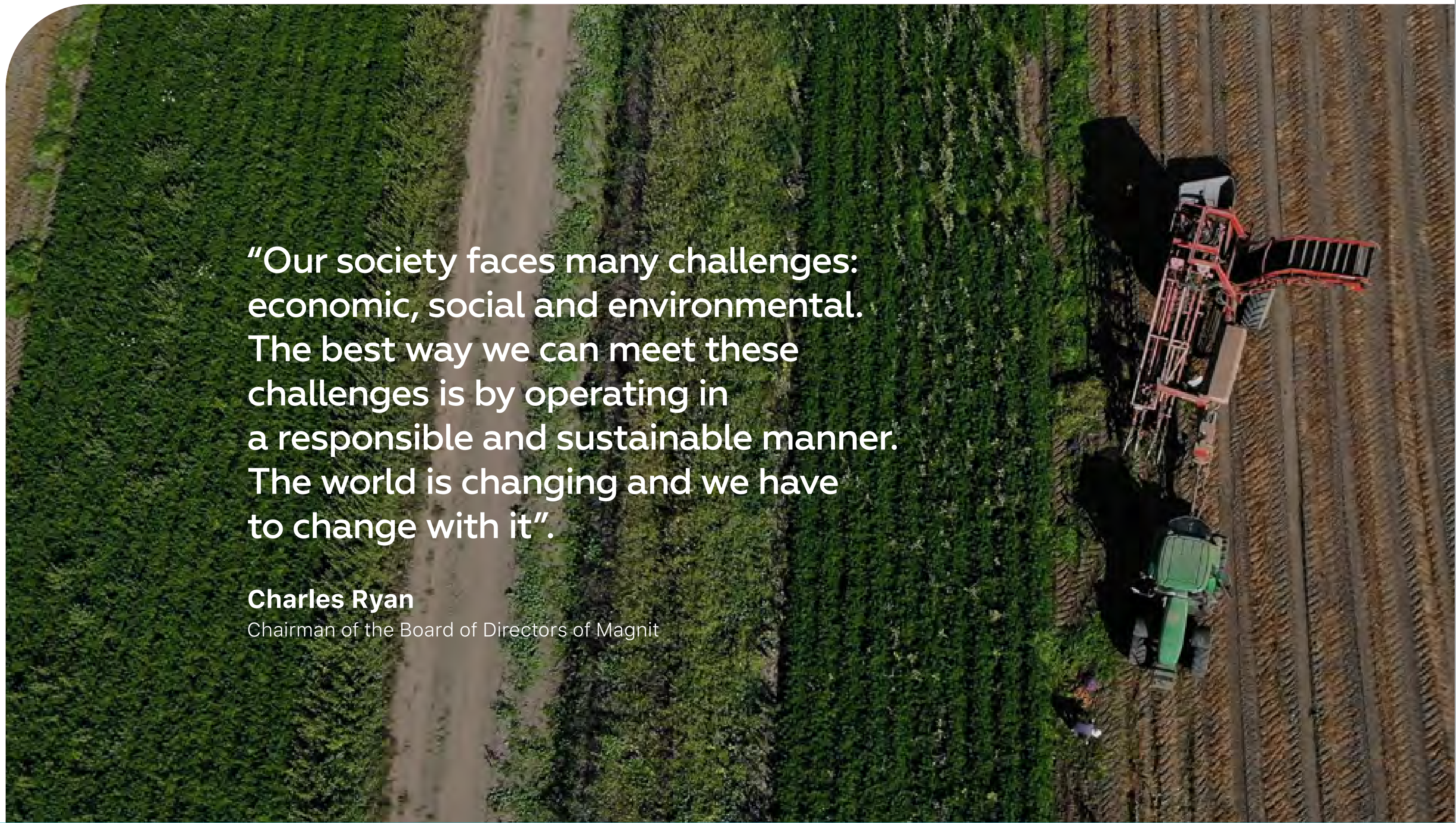
Sustainability Strategy

Our new strategy is firmly based on the 10 principles of the UN Global Compact and the 17 UN Sustainable Development Goals, as well as stakeholder expectations which we surveyed extensively in 2019.

We have set ourselves an ambitious goal of embedding sustainability into every aspect of the business and its processes, having it motivate our employees and inspire our customers, help us develop the communities where we operate and set an example for the industry.

We have drafted and are now implementing a whole new set of policies and statements that govern our sustainability approach, each of which regulates the procedures for Magnit's interaction with stakeholders within a specific subject area. The new documents include a Climate Change Policy and Policies for Packaging Waste, Own Brand Packaging and Quality and Food Safety as well as Responsible Supply Chain. Employees are a crucial stakeholder group. With this in mind we have drafted an extensive Human Rights Policy encompassing a wide range of important areas such as diversity, discrimination, forced or child labour, harassment, trade unions, working hours, wages and health and safety. For our relationships with customers and local communities, we now have new policies on Charity,Sponsorships and Volunteering as well as Health and Wellness.

The Sustainability Strategy including our commitments for 2025 will be announced in May 2020.



"Our society faces many challenges: economic, social and environmental. The best way we can meet these challenges is by operating in a responsible and sustainable manner. The world is changing and we have to change with it".

Charles Ryan
Chairman of the Board of Directors of Magnit

We have set ourselves 5 key Ambitions that will guide our work, goals and commitments

1. We want to be the leader in environmental impact reduction in the Russian retail industry
2. We want to make a positive impact on the quality of life of all Russian people
3. We want to be the number 1 employer in the Russian retail industry
4. We strive towards a 100% responsible supply chain
5. We want to have best in class Corporate Governance in the Russian retail industry

Sustainable Development
(continued)

Partnerships

We look forward to building a vast network of partners from all our stakeholder groups. Much more will be achieved with effective partnering, than with any entity working in isolation, in achieving the ambitious goals we have set. There is still a lot to do to build the necessary infrastructure, both legislative and physical, to make sustainable activities possible in Russia, and we look forward to working closely with the various federal, regional and municipal authorities on this front. We have already launched several partnerships with our largest suppliers in areas such as plastic waste and battery collection and are looking to expand these and other cooperation initiatives on food waste and healthy product offerings.

We have started to actively cooperate with various international industry associations and multinational collaboration efforts on sustainability such as the Global Consumer Goods Forum or the UN Global Compact.

Managing sustainability at Magnit

The sustainability work is monitored by the Board of Directors with regular reporting to the Strategy and Capital Markets Committees as well as the whole Board of Directors.

We have established a Sustainability Steering Committee, which is headed by our CEO, Jan Dunning and has all key business area heads represented. This Committee will coordinate Magnit's sustainability activities including the interaction with stakeholders, and will make recommendations on the strategic direction for improving long term business sustainability in response to social, environmental, resource and energy challenges. The Committee reports to the Board of Directors. Under the supervision of this Committee there are 18 working groups building a sustainable business model in all areas of our operations; retail, production, sourcing and logistics and closely matching the various streams of our five focus areas.

"I want to have sustainability in the DNA of our business, for every employee to be motivated and inspired by it. Now there is a perfect opportunity to do it as we are transforming our business into a modern retailer fit for the future".

Jan Dunning
CEO of Magnit

FOCUS AREAS

Based on extensive peer analysis as well as determining where we can have the most impact, we have identified 5 different focus areas for our work, each with multiple working streams and commitments we will undertake to achieve by 2025. The focus areas are:

Environment
This focus area includes streams for CO_2 reduction, packaging waste, food waste as well as energy and water usage. As we have already been quite active in CO_2, energy and water usage reduction for some years, we are continuing these in full but we will now put an extra emphasis on the packaging waste and food waste initiatives.

Sustainable Sourcing
Sustainable sourcing includes streams for procurement of products and raw materials from responsible sources, being best in local sourcing, food and non-food safety as well as being responsible in our own agricultural and production processes as well as with private label third party producers.

Employees
The main themes in this area are providing a fair, safe and rewarding workplace to each one of our 308 thous. employees, as well as actively developing and managing the talent we have in-house

Local Communities
The main emphasis in the near term is on corporate volunteering and emergency help. Other streams include developing local communities, partnerships, responsible marketing and charity.

Health and Wellness
Promoting healthy lifestyles through nutrition and sports is the main theme of this focus area which includes making available health related products and services.

Sustainability Report 2019

We have also decided to publish our first Sustainability Report this year, in addition to this Annual Report. It will contain all relevant non-financial results for 2019, the baseline for all relevant KPIs, as well as measures we intend to take to achieve our commitments stated in our Sustainability Strategy.

The Sustainability Report will be published in May 2020.

We strive not to duplicate information so below we have included, in this Annual Report only, the measurable data required by Russian legislation. The much more comprehensive data set will be in our Sustainability Report.

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

Fuel consumption by the Group's enterprises in 2016–2019, L

	2016		2017		2018		2019	
Fuel types	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit
Diesel fuel	187,424,202	0	165,931,088	0	162,401,920	0	162,291,251	0
Gasoline	15,615,499	0	15,976,296	0	12,008,559	0	11,454,317	0

Fuel consumption by the Group's enterprises in 2016–2019, RUB mln

	2016		2017		2018		2019	
Fuel types	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit
Diesel fuel	5,982.7	0	5,930.9	0	6,906.5	0	7,468.8	0
Gasoline	540.6	0	577.4	0	447.9	0	477.2	0

The decline in energy consumption has been reached by the implementation of the energy-efficiency measures

Energy consumption by the Group's enterprises in 2016–2019

	2016		2017		2018		2019	
Type of energy resource	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit
Thermal energy, GCal	1,017,938	608	971,213	634	1,233,970	464	630,187	378
Electricity, kWh	2,496,087,912	480,659	2,606,902,834	280,769	2,317,611,650	217,864	2,304,517,304	238,980
Natural gas, m³	183,777,157	73,856	182,699,112	36,983	203,422,886	24,942	237,266,923	13,808

Energy expenditures by the Group's enterprises in 2016–2019, RUB mln

	2016		2017		2018		2019	
Type of energy resource	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit	All companies of the Group	PJSC Magnit
Thermal energy	1,441.4	0.9	1,444.0	0.9	1,926.4	0.7	1,033.0	0.6
Electricity	11,357.2	2.2	12,878.1	1.4	11,935.7	1.1	12,651.8	1.3
Natural gas	1,042.6	0.4	1,088.3	0.2	1,272.3	0.2	1,632.4	0.1

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

Corporate Governance Framework

PJSC Magnit has an efficient corporate governance framework that complies with Russian laws, the Rules of the Moscow Exchange and the London Stock Exchange rules, as well as international best practices. The Company continuously enhances its corporate governance and ensures the protection of shareholders and other stakeholder rights.

Governance, management and control at the Company are divided between the shareholders (via General Meeting of Shareholders), the Board of Directors, the Collective Executive Body (the Management Board) and the Sole Executive Bodies (the President and the Chief Executive Officer) pursuant to applicable Russian corporate law, Magnit's Articles of Association and internal policies.

Chairman's Review

Dear shareholders,

Welcome to the Corporate Governance Report for 2019, which I am pleased to present on behalf of the Board.

Chairman’s Statement on Magnit’s Corporate Governance
(continued)

We strive to follow the highest standards and align our corporate governance system with international best practices. We already comply with most of the recommendations of the Russian Corporate Governance Code and endeavour to comply with the UK Corporate Governance Code. Over the past two years we have made significant progress in achieving these goals and further improvements are planned.

2019 was a transformative year for Magnit, facilitated by the Company’s management team and the recently strengthened Board of Directors.

At the start of the year, a new position of President was established with the appointment of Jan Dunning, who has a remarkable track record spanning 20 years in the retail industry. His main responsibilities as President are the development and implementation of the strategy.

As of 2019, the Board of Directors of Magnit consists of nine members (versus seven in 2018), which we believe is more appropriate for the size and the scale of Magnit’s operations.

During the year, we also extended the Board’s powers, by granting it the right to exercise operating control over significant affiliated companies and define the list of such companies.

We believe that, as a result of the changes to the composition of our Board of Directors, we have improved the balance of skills and experience needed for our board to remain effective.

In addition, the Committees of the Board of Directors are now headed only by independent non-executive directors and consist mostly of independent directors, which not only conforms to international best practices, but also reiterates the Company’s aspirations for greater transparency and accuracy in the strategic decision-making process.

In addition to refreshing our Board of Directors, in 2019 we also took the opportunity to strengthen the composition of our Management Board. This resulted in the appointment of five new managers to some of the Company’s strategic positions. The selection process was conducted in line with Magnit’s belief in the principles of diversity and inclusion.

In the reporting year, we continued to improve the framework of our Corporate Governance system. The Code of PJSC Magnit, which regulates the terms for transactions involving financial instruments, was adopted and several amendments were made to the Company’s Articles of Association. The efficient operation of the Committees of the Board of Directors permitted, among other things, the adoption of a revised Strategy and updated KPIs, and supported the refining of our remuneration principles.

We continued to implement a long-term incentive programme for key executives and top managers. The programme encourages managers to meet and exceed their individual and corporate KPI targets.

To centralise decision making across the Group’s core operations, decision-making powers were transferred from JSC Tander to PJSC Magnit.

In 2019, we also significantly enhanced our transparency and disclosure levels across our website and key information materials.

The Board of Directors considers the interests of both internal and external stakeholders when making decisions. The Company’s management regularly meets with investors, suppliers and manufacturers. In 2019 a large-scale stakeholder survey was also conducted, and the results were taken into account when developing a new communication strategy for the Company. This year the Board undertook an internal effectiveness review, which confirmed that its policies and practices were appropriate for the Company’s scale and the nature of its operations, while properly accounting for the needs and interests of the Group’s stakeholders.

At Magnit, we are committed to the highest standards of corporate governance, in line with international best practices.

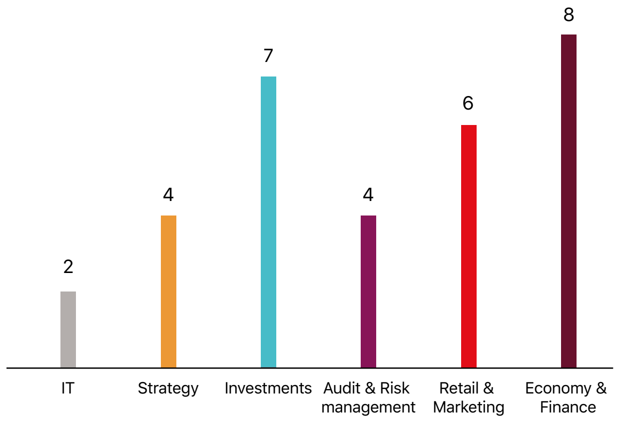
Our goal is to build on our compliance with the Russian Corporate Governance Code, by endeavouring to also comply with the UK Corporate Governance Code. During 2019, we made significant progress towards these goals and we plan to deliver further improvements in 2020.

Charles Ryan
Chairman of the Board of Directors

Composition of the Board of Directors and the Management Board

Name	Diversity: Nationality	Diversity: Tenure, years
Charles Ryan	USA	2
James Simmons	USA	2
Timothy Demchenko	UK	2
Jan Dunning	Netherlands	1
Florian Jansen	Germany	1
Walter Koch	Germany	1
Evgeny Kuznetsov	Russia	1
Alexey Makhnev[1]	Russia	2
Alexander Vinokurov	Russia	1

Competence of the Board of Directors



(1) Mr. Makhnev previously was a member of the Board of Directors from 25 June 2009 to 5 June 2015.

Board of Directors

Charles Ryan

Chairman of the Board of Directors

AGE
52*

CITIZENSHIP
USA

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

CURRENT EMPLOYMENT
2008 - Present – Chairman of the Board of Directors, UFG Asset Management

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, U.S. – Russia Business Council
2007 - present – Co-Founder and Principal Partner, Almaz Capital Partners
2008 - present – Member of the Advisory Council, Capital Group International
2009 - present – Member of the Board of Directors, Trans-Siberian Gold plc
2011 - present – Member of the Board of Directors, 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 – Member of the Board of Directors, Acronis
2018 - present – Chairman of the Board of Directors, PJSC Magnit

EXPERIENCE
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 privatisation programme 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.

* The age of all members of the Board of Directors and the Management Board further in the Report is presented as of 31 December 2019.

James Simmons

Deputy Chairman

AGE
41

CITIZENSHIP
USA

EDUCATION
2000 – Princeton University (Bachelor of Science in Engineering)
2007 – Harvard Business School (MBA)

CURRENT EMPLOYMENT
2015 – present – Managing Partner, Mazovia Capital

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2015 – present – Member of the Board of Directors, ClearCheck Global Holdings
2015 – present – Member of the Board of Directors, Mazovia Capital
2017 – present – Chairman of the Board of Directors, Digital Care
2018 – present – Deputy Chairman of the Board of Directors, PJSC Magnit[1]

EXPERIENCE
Mr. Simmons is a managing partner at Mazovia Capital, a private investment group active in financial services, software, real estate and venture capital. Mr. Simmons serves as Chairman of Digital Care, a leading European provider of value-added services for consumer electronics devices. He also serves on the Board of ClearCheck Global Holdings, an automotive software business present in Latin America and Europe.

Prior to joining Mazovia Capital, Mr. Simmons worked for 15 years in private equity and investment banking in Russia, Europe and the U.S. Mr. Simmons holds a B.S.E. from Princeton University, where he graduated magna cum laude, and earned an MBA from Harvard Business School, where he was a Baker Scholar.

(1) Since 17 July 2019. Prior to that a Member of the Board of Directors.

Board of Directors
(continued)

Tim Demchenko
Member of the Board of Directors

AGE
46

CITIZENSHIP
UK

EDUCATION
1999 – London Business School (Master of Finance)
2016 – Harvard Business School (Executive Education)

CURRENT EMPLOYMENT
2008 – present - Global Head of Private Equity and Special Situations, VTB Capital Plc.

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2018 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
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 USD 2 bln 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.

Jan Dunning
Member of the Board of Directors,
Chairman of the Management Board,
President and CEO

AGE
60

CITIZENSHIP
Netherlands

EDUCATION
1983 – University of Groningen (Bachelor's Degree)
1989 – University of Amsterdam (Bachelor of History)
2007 – London Business School (Executive Programme)
2008 – INSEAD (Marketing Programme)

CURRENT EMPLOYMENT
2019 – present – Chairman of the Management Board, President and Chief Executive Officer, PJSC Magnit

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2019 – present – Member of the Board of Directors, PJSC Magnit

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 Dunning was appointed the President of Magnit and joined Magnit Management Board. In May 2019, Mr. Dunning was elected a Member of Magnit Board of Directors. In June 2019, Jan Dunning assumed the role of the Chief Executive Officer of Magnit.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.103775%.*

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
21.05.2019	Acquisition	82,355
05.06.2019	Acquisition	23,404

* Hereinafter, information on participatory interest in the Company's charter capital (percentage of the Company's ordinary shares) is given as of 31 December 2019.

Board of Directors
(continued)

Florian Jansen
Member of the Board of Directors

AGE
38

CITIZENSHIP
Germany

EDUCATION
2006 – University of Witten/Herdecke, Witten, Germany (Business & Economics, Diploma (Master equivalent)
2010 – London School of Economics, London (Dual MPA, Economic and Public Policy)
2010 – Columbia University, New York City (Dual MPA, Economic and Public Policy)

CURRENT EMPLOYMENT
2011 – present – Chief Executive Officer, Kupishoes OOO
2015 – present – Chief Executive Officer, Brillant 2102. GmbH

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2016 – present – Member of the Board of Directors, OOO Novaya Meditsina
2019 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
Florian Jansen is the co-founder and the CEO of Lamoda Group, which is a part of a public company Global Fashion Group. Lamoda is a leading technology online platform and fashion and lifestyle retailer, offering more than 3,000 brands to more than 10 mln customers in Russia and the CIS. The company employs more than 7,100 people including employees of a modern automated warehouse complex, its own delivery service and a large-scale technology centre.

Prior to taking the lead in Lamoda Group, Florian Jansen worked at McKinsey & Company for several years. Florian holds Master's degrees from the German University of Witten / Herdecke, the London School of Economics and Columbia University, New York. He is interested in startups such as DOC+, FoodFox (now Yandex.Eats), Manifest or Exclaim, and continues to serve as an independent technology investor.

Walter Koch
Member of the Board of Directors

AGE
57

CITIZENSHIP
Germany

EDUCATION
1988 – University for applied Sciences, Aalen, Germany (Precision engineering)
2000 – INSEAD (Management education)

CURRENT EMPLOYMENT
2010 – present - Owner, Senior Advisor, Twinsuccess – Restructuring & Change Management
2012 – present - Chief Executive Officer, Master-tees GmbH

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2019 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
Starting from 1999, Walter Koch obtained senior positions with the largest European home appliances manufacturers such as AEG and Electrolux, being in charge of Logistics, SCM and After Sales Service.

During 2007 to 2010 Mr. Koch served as Executive Vice-President and COO of Sanitec Corporation (Helsinki, Finland). From 2011 to 2016 he held the position of an Independent Director on the Board of PJSC Mvideo in Russia.

Presently Mr. Koch owns and operates an independent consulting firm and in May 2019 he got elected as an Independent Director of PJSC Magnit.

Board of Directors
(continued)

Evgeny Kuznetsov
Member of the Board of Directors

AGE
50

CITIZENSHIP
Russia

EDUCATION
1991 – Barnaul Pedagogical Institute (Foreign Languages)
1996 – University of Oregon (MBA in Finance)

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2019 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
For 20 years Evgeny Kuznetsov served as a Partner and Portfolio Manager at Genesis Investment Management, LLP, a London-based institutional fund manager specializing in Emerging Markets. Evgeny joined Genesis in 1996 as an investment analyst and over the following twenty years conducted research and made portfolio investments in various countries and regions, including Russia, Eastern Europe, Asia and Latin America.

Alexey Makhnev
Member of the Board of Directors

AGE
43

CITIZENSHIP
Russia

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

CURRENT EMPLOYMENT
2009 – present – Vice Chairman, VTB Capital
2018 – present – Advisor to the First Deputy President and 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, Mvideo PJSC
2018 – present – Member of the Board of Directors, VTB Real Estate LLC
2018 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
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 as an independent director.

Over the past 18 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.

Management Board

Alexander Vinokurov

Member of the Board of Directors

AGE
37

CITIZENSHIP
Russia

EDUCATION
2004 – University of Cambridge (Bachelor and Master of Economics)

CURRENT EMPLOYMENT
2017 – present – President, Marathon Group LLC

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2019 – present – Member of the Board of Directors, PJSC Magnit

EXPERIENCE
In 2004, Alexander graduated with honors from the Faculty of Economics of the University of Cambridge. He received a BA and a MA in economics.

Later that year he began his career with the investment banking division of Morgan Stanley (London).

In 2006, Alexander returned to Russia as Vice-President of TPG Capital, co-founding the company's Russian office.

In 2011, Alexander assumed the post of President of Summa Group, which has significant investments in port and rail logistics, engineering, construction, telecommunications, oil and gas, oil trading and agriculture.

In 2014, Alexander Vinokurov became CEO of A1, Alfa Group's investment arm specialising in the acquisition of the assets that are undervalued due to challenging economic situations.

On 15 May 2017, Alexander left his post as President of A1 to join Marathon Group.

With the exception of Jan Dunning, all members of the Board of Directors had not participated in the authorized capital of PJSC Magnit, had not owned ordinary shares of PJSC Magnit, and had not made transactions with ordinary shares of PJSC Magnit for the reporting year 2019.

Jan Dunning

Member of the Board of Directors,
Chairman of the Management Board,
President and CEO

AGE
60

EDUCATION
1983 – University of Groningen (Bachelor's Degree)
1989 – University of Amsterdam (Bachelor of History)
2007 – London Business School (Executive Programme)
2008 – INSEAD (Marketing Programme)

CURRENT EMPLOYMENT
2019 – present – Chairman of the Management Board, President and Chief Executive Officer, PJSC Magnit

CURRENT MEMBERSHIP IN THE BOARD OF DIRECTORS
2019 – present – Member of the Board of Directors, PJSC Magnit

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 Dunning was appointed the President of Magnit and joined Magnit Management Board. In May 2019, Mr. Dunning was elected a Member of Magnit Board of Directors. In June 2019, Jan Dunning assumed the role of the Chief Executive Officer of Magnit.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.103775%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
21.05.2019	Acquisition	82,355
05.06.2019	Acquisition	23,404

Management Board
(continued)

Anna Bobrova

Member of the Management Board,
HR Director

AGE
44

EDUCATION
2000 – Lomonosov Moscow State University (Psychology)

EXPERIENCE
Anna has almost 20 years of experience in HR and has successfully implemented projects aimed at development and performance enhancement of line staff and management, increase of service level in stores, as well as built and managed modern IT systems in employee management of the retail sector.

Prior to Magnit, in 2003 – 2009 Ms. Bobrova worked in the HR department of Metro, from 2011 to 2013 was the Director of HR and Organizational Development at X5 Retail Group. Anna Bobrova held managerial positions in HR in JSC SIA International Ltd (2015 – 2019), Rimera Group (2013 – 2015) and Rosatom (2009 - 2011).

In August 2019 assumed the position of HR Director. Anna was appointed a member of the Management Board of PJSC Magnit on 10 September 2019.

SHAREHOLDING INFORMATION
Does not own any interest in PJSC Magnit's charter capital, does not own PJSC Magnit's ordinary shares and did not conclude any transactions with PJSC Magnit's ordinary shares during the reporting period.

Andrey Bodrov

Member of the Management Board,
Chief Investment and Strategy Officer

AGE
37

EDUCATION
2003 – MGIMO University of Moscow (Bachelor of International Relations)
2005 – MGIMO University of Moscow (Master of Law)

EXPERIENCE
Andrey Bodrov worked for many leading International and Russian financial institutions including Morgan Stanley, Deutsche Bank, VTB Capital and Renaissance Capital with a primary focus on the Retail & Consumer sectors. During his over ten years investment banking career Andrey was involved in many landmark transactions in the Russian market (including M&A, capital markets, advisory, structured finance etc.).

Prior to joining Magnit, Andrey worked as a Mergers & Acquisitions Director in Lenta since February 2016.

From September 2019 until present Mr. Bodrov occupies a position of the Chief Investment and Strategy Officer. Andrey Bodrov is responsible for Magnit's investments, strategy, capital allocation and M&A. Andrey Bodrov was elected as a Member of the Management Board of PJSC Magnit on 13 December 2019.

SHAREHOLDING INFORMATION
Does not own any interest in PJSC Magnit's charter capital, does not own PJSC Magnit's ordinary shares and did not conclude any transactions with PJSC Magnit's ordinary shares during the reporting period.

Maria Dei

Member of the Management Board,
Supply Chain Director

AGE
36

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.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.001617%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
24.05.2019	Acquisition	1,648

Ruslan Ismailov

Member of the Management Board,
Retail Chain Director

AGE
42

EDUCATION
1998 – Moscow University of Consumer Cooperation (International Economics)

EXPERIENCE
Ruslan Ismailov joined Magnit as the Retail Chain Director on 27 May 2019. On 4 June 2019, he was appointed a Member of the Management Board.

Mr. Ismailov has over 15 years of experience in managing consumer companies.

He started his career in 2003 in Metro Cash&Carry retail chain, worked his way from a department manager to a hypermarket director. In 2009, Ruslan Ismailov held the position of the Deputy Chief Executive Officer of Mosmart multi-format retail chain. Prior to joining our company, Ruslan worked as a divisional director and headed the Supermarket format for four years.

SHAREHOLDING INFORMATION
Does not own any interest in PJSC Magnit's charter capital, does not own PJSC Magnit's ordinary shares and did not conclude any transactions with PJSC Magnit's ordinary shares during the reporting period.

Management Board
(continued)

Evgeny Melnikov
Member of the Management Board,
IT Director

AGE
39

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 17 October 2018, Evgeny was appointed a member of the Management Board of PJSC Magnit.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.001617%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
24.05.2019	Acquisition	1,648

Elena Milinova
Member of the Management Board,
Chief Financial Officer

AGE
43

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 by Geotransgaz and Sollers ST. In 2007-2014, Elena Milinova headed the financial unit of KAMAZ PJSC as the Deputy CEO for Economics and Finance and Member of the Group's Board. In 2014-2016, she worked as the Chief Financial Officer in X5 Retail Group.

In August 2017, Elena Milinova became a Financial Director of the 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 22 June 2018.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.007068%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
28.05.2019	Acquisition	6,593

Vladimir Sorokin
Member of the Management Board,
Deputy CEO – Commercial Director

AGE
48

EDUCATION
1994 – St. Petersburg State University of Trade and Economics (Engineering)
2006 – Higher School of Economics (Finance)

EXPERIENCE
From 1994 to 2000, Vladimir Sorokin worked in Gillette, 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 15 January 2019, Vladimir joined Magnit Management team as a Deputy Chief Executive Officer – Commercial Director, and a member of the Management Board of PJSC Magnit.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.018135%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
24.05.2019	Acquisition	16,482

Jyrki Talvitie
Member of the Management Board,
Director for Strategic Communications

AGE
53

EDUCATION
1991 – Helsinki University (Master of Law)
2002 – London Business School (Executive 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.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.000469%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
05.06.2019	Acquisition	478

Management Board
(continued)

Anton Zavalkovsky
Member of the Management Board,
Real Estate Director

AGE
49

EDUCATION
1997 – State Academy of Consumer Goods and Services (Economics, Accounting and Auditing)
2018 – Autonomous non-profit organization for continuing professional education "INTERCON-INTELLECT Russian Union of Auditors Training Centre"
(CPE ANCO "Intercon-Intellect ATC RUA"),
Moscow (Crisis Management).

EXPERIENCE
Mr. Anton Zavalkovsky joined Magnit as Director for Real Estate Management and Non Commercial Purchases in July 2019. On 18 July 2019, he was appointed a member of the Management Board.

In 2018-2019, Mr. Zavalkovsky occupied a position of the Managing director in OJSC Baikal Pulp and Paper Mill. In 2016-2017, he held a position of an Advisor in LLC VTB DC. In 2012-2015, Anton Zavalkovsky was elected as the Chief Executive Officer of Investlesprom.
In 2010-2011, Anton worked in Lenta LLC as Deputy Chief Executive Officer. From 2011 to 2012, he was transferred to a position of the First Deputy Chief Executive Officer.

SHAREHOLDING INFORMATION
Does not own any interest in PJSC Magnit's charter capital, does not own PJSC Magnit's ordinary shares and did not conclude any transactions with PJSC Magnit's ordinary shares during the reporting period.

Elena Zhavoronkova
Member of the Management Board,
Chief Legal Officer

AGE
49

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 22 June 2018, she was appointed a Member of the Management Board. Previously, she served as a Vice President for Legal Affairs in PJSC Polyus. In 2010-2014, Elena Zhavoronkova held a similar position in Evraz. From 2008 to 2010 Ms. Zhavoronkova 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.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.003089%.

Information about transactions to acquire/dispose of the Company's shares concluded over the reporting period:

Date	Transaction type	Transaction volume, (pc.)
28.05.2019	Acquisition	1,648

Structure of Corporate Governance Bodies

PJSC Magnit has built robust systems of corporate governance and internal controls on its financial and economic activities.

The Company's highest decision-making body is the General Meeting.

The Board of Directors is elected by shareholders at the General Meeting and is accountable to them. It provides strategic oversight and monitors the activities of the executive bodies: the CEO (Chairman of the Management Board), President and the Management Board. The position of President was first introduced in 2019.

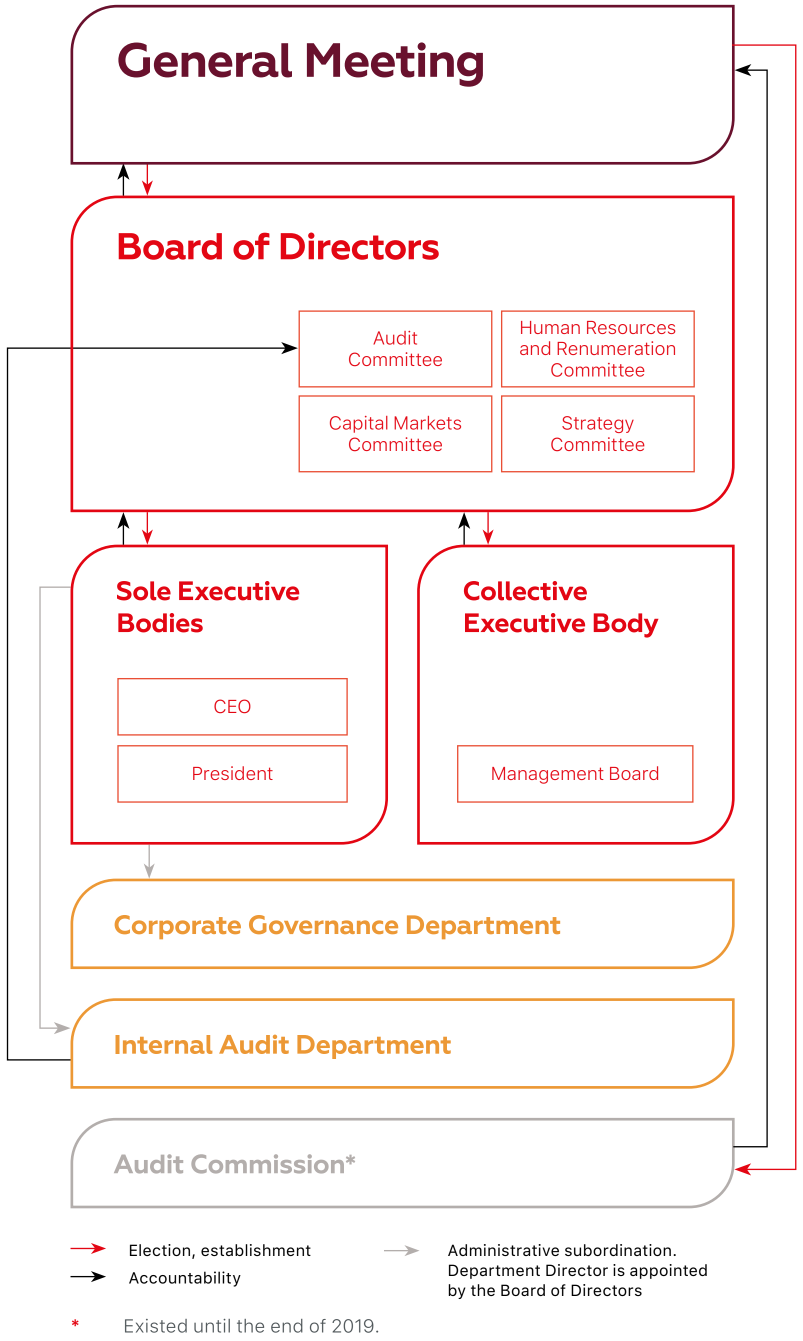
The executive bodies handle the day-to-day management of the Company and perform tasks assigned by the shareholders and the Board of Directors.

There are four committees under the Board of Directors:
– the Audit Committee
– the Strategy Committee
– the HR and Remuneration Committee
– the Capital Markets Committee.

The Internal Audit Department analyses and evaluates the risk management and internal control systems, as well as corporate governance.

The Corporate Governance Department performs the functions of the Corporate Secretary, ensures the efficient operation of the remaining corporate governance bodies and is responsible for all necessary disclosures.

In 2019, the Audit Commission was abolished after the corresponding amendments to the Articles of Association, as it duplicated the functionality of the Internal Audit Department and the Audit Committee. This was approved in December 2019, at an EGM which made the necessary amendments to the Articles of Association of the Company.



Regulations

Magnit maintains its corporate governance framework in line with the following regulations:

- Russian laws
- relevant United Kingdom laws
- relevant European Union laws
- Moscow Exchange listing rules
- London Stock Exchange listing rules
- Corporate Governance Code recommended by the Bank of Russia[1].

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

The Company's activities are governed by its **Articles of Association** of 21 June 2018 (with amendments as of 31 May 2019 and 25 December 2019) and internal regulations[2], including:

Document	Effective date
Regulations on the Committees of the Board of Directors	18 July 2019
Code of PJSC Magnit On Terms and Conditions of Transactions with Financial Instruments	25 June 2019
Regulations on the Board of Directors	06 December 2018 (with amendments as of 31 May 2019)
Regulations on the Sole Executive Bodies (President and CEO)	31 May 2019
Regulations on the Collective Executive Body (Management Board)	31 May 2019
Code of Business Ethics	24 March 2019
Regulations on Internal Audit	31 October 2018
Regulations on the General Shareholders Meeting	21 June 2018
List of Insider Information	26 February 2018
Regulations on the Corporate Governance Department	30 May 2016
Regulations on the Dividend Policy	30 May 2016
Internal Control and Risk Management Policy	13 December 2019
Anti-Bribery and Corruption Policy	25 February 2014
Regulations on the Information Policy	06 September 2012
Anti-alcohol and Anti-drug Policy	01 January 2020
Safe Use of Vehicles Policy	01 January 2020
Fire Safety Policy	01 January 2020
Occupational Safety Policy	01 January 2020
Environmental Protection and Industrial Safety Policy	01 January 2020

(1) For report on compliance with the principles and recommendations of the Code see Appendix 1.

(2) For more details, see the website of the Company magnit.com/en/disclosure/internal-regulations/.

Compliance with the principles and recommendations of the Corporate Governance Code[1]

Corporate governance principles	Number of principles recommended by the Code	2016 Complied with	2016 Partially complied with	2016 Not complied with	2017 Complied with	2017 Partially complied with	2017 Not complied with	2018 Complied with	2018 Partially complied with	2018 Not complied with	2019 Complied with	2019 Partially complied with	2019 Not complied with
Shareholder rights and equal conditions for shareholders to exercise their rights	13	8	2	3	9	2	2	9	2	2	8	2	3
Board of Directors	36	30	4	2	31	3	2	33	1	2	33	1	2
Corporate Secretary	2	2	0	0	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	8	2	0
Risk Management and Internal Control System	6	6	0	0	6	0	0	6	0	0	6	0	0
Corporate disclosure	7	4	3	0	4	3	0	4	3	0	4	3	0
Significant corporate actions	5	3	2	0	3	2	0	3	2	0	3	2	0
TOTAL GRADE	79	60	13	6	62	12	5	64	11	4	64	10	5
	-	76%			78%			81%			81%		

(1) Statistics provided are 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 17 February 2016.

Corporate Governance Framework Development

PJSC Magnit continues to steadily develop its corporate governance system. By improving its corporate governance system PJSC Magnit aims to reassure its shareholders and investors that the Company scrupulously implements its strategy and management decisions.

In 2019, the Company continued to improve its corporate governance framework. The key changes include:

- the deadline for shareholders submitting proposals for inclusion on the agenda of the annual General Meeting of Shareholders or to nominate candidates to the Board of Directors of the Company was extended
- due to the existence of an internal audit function, the structure of the Company's internal control bodies has been optimised by excluding from PJSC Magnit's Articles of Association the provisions on the Audit Commission
- Magnit Group's corporate governance framework was improved:
  - PJSC Magnit became the single executive body of the JSC Tander in order to centralize decision making for Magnit Group
  - the position of the President of PJSC Magnit was introduced, as the sole executive body along with the position of CEO. The President is responsible for the development and execution of Magnit Group's strategy
  - the Management Board was expanded
- the authority of the Board of Directors to manage Magnit Group was expanded, due to decisions made regarding significant controlled companies
- the Code of PJSC Magnit on the Terms and Conditions of Transactions with Financial Instruments was approved
- amendments were made to the internal regulations of the Company, specifying certain issues regarding the activities of the Board of Directors and the executive bodies of PJSC Magnit; provisions were specified on the rights of the members of the Board of Directors to receive information and reports on the activity of controlled companies; and provisions were introduced related to the establishment of the post of President of PJSC Magnit
- adoption of the Sustainability Strategy and long-term goals for sustainable development
- the development of a Climate Change Policy
- the development of a Packaging Waste Policy
- the development of a Responsible Supply Chain Policy
- the development of an Own Brand Packaging Policy.

A long term incentive programme was launched for members of the Company's executive bodies and other key executives in the Magnit Group. The incentives include shares of PJSC Magnit. The programme was approved by the Board of Directors on 25 September 2018.

Most of these changes correspond to Corporate Governance Code recommendations.

In 2020, the Company plans to increase its focus on sustainable development. To this end, policies will be developed that affect both corporate governance and the activities of the Company, including:

- a Quality and Food Safety Policy
- a Human Rights Policy
- a Charity, Sponsorship and Volunteer Policy
- a Health and Wellness Policy.

General Meeting of Shareholders

The General Meeting is the highest decision-making body of the Company. Shareholders of PJSC Magnit may significantly affect the Company's business by participating in the General Meeting of Shareholders.

The key capabilities of the General Meeting of Shareholders include:

- the approval of the Annual Report and accounting statements
- the distribution of profits, including dividend payments,
- the election of the Board of Directors
- approval of major and related party transactions.

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.

Shareholders of PJSC Magnit held two General Meetings in 2019: one annual General Meeting (AGM) and one extraordinary General Meeting (EGM).

General Meeting resolutions

General Meeting	Quorum, %	Key resolutions
AGM, 30 May 2019[1]	75.24	– Approval of annual report and annual financial report for year 2018; – Approval of the distribution of profit (including the payment (declaration) of dividends) based on the 2018 results – Payment of remuneration and compensation of expenses to members of the Audit Commission – Election of members of the Board of Directors* and members of the Audit Commission – Amendments to the Articles of Association and to the Regulations on the Board of directors – Approval of a new edition of the Regulations on the collective executive body (Management Board) and Regulations on the sole executive bodies (President and CEO).
EGM, 24 December 2019[2]	70.40	– Payment of dividends on PJSC Magnit shares following the results for the first 9 months of 2019 – Approval of the amendments to the Articles of Association of PJSC Magnit.

* In 2019, the Board of Directors left: Paul Foley, Gregor Movat, Alexander Prysyazhnyuk.

(1) ir.magnit.com/en/shareholder-center/agm-egm-voting/annual_2019/.

(2) ir.magnit.com/en/shareholder-center/agm-egm-voting/extraordinary_2019/.

Board of Directors

Board of Directors Responsibilities

The Board of Directors of PJSC Magnit manages the activities of the Company, defines strategic goals and implements effective management practices and also elects the CEO and President. The main objective of the Board of Directors is to increase the value of the business. When making decisions, the Board of Directors takes into account the interests of all shareholders and other stakeholders.

Introduction and training of members of the Board of Directors

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

- 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 systems, the distribution of responsibilities between the Company's executive bodies, and the work of the Board of Directors
- familiarisation 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.

Composition of the Board of Directors

The Board of Directors includes nine members, of whom five are independent.

The current composition of the Board of Directors is based on the principle of diversity and inclusiveness and has all the necessary competencies for the effective management of the Company.

Members of the Board of Directors all have impeccable professional and personal reputations.

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

The Board of Directors' activities in 2019

In the reporting year, the Board of Directors held 18 meetings and considered 109 issues. The key issues related to changes in the corporate governance system and the implementation of the long-term incentive programme.

Performance evaluation of the Board of Directors

In 2019 and 2020, the HR and Remuneration Committee of the Board of Directors conducted a performance evaluation of the current Board of Directors.

The Committee evaluated:

- The work of the Board of Directors, including:
  - the suitability of the structure of the Board of Directors for the functions it performs
  - the qualitative composition of the Board of Directors
  - the internal dynamics (working process) of the Board of Directors
  - the performance of the Company's Secretary
  - the performance of the Board of Directors in executing its key responsibilities.
- The performance of the Chairman of the Board of Directors, including:
  - the overall management of the Board of Directors
  - the development the Board of Directors as the governance body of the Company
  - the management of the meetings of the Board of Directors
  - interacting with the Company's Management Board
  - engaging with the Company's shareholders and investors
  - their personal qualities
  - their management skills
  - their communication skills
  - their quality of execution in the role of the Chairman of the Board of Directors
  - their quality of execution in the role of a member of the Board of Directors
  - their professional skills.
- The work of the Committees of the Board of Directors, including:
  - the 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
  - the performance of the Committee in its main functions
  - holding of meetings of the Committee.
- The conformity of independent members of the Board of Directors, to the independent director criteria as defined by the Regulations on the PJSC Magnit Board of Directors, the Corporate Governance Code, and the Listing Rules of PJSC Moscow Exchange.

Motivation system of the Board of Directors members was analysed.

The audit confirmed that the performance of the current composition of the Board of Directors is at a level corresponding to the specifics and scope of the Company, the needs of the Company and the interests of shareholders.

Committees of the Board of Directors

In 2019, four Committees of the Board of Directors were in operation:

- the Audit Committee
- the Strategy Committee
- the HR and Remuneration Committee
- the Capital Markets Committee.

The Committees are formed from among the members of the Board of Directors, who are elected based on their relevant professional experience and knowledge. When electing members of the Committees (including the chairmen of the Committees), the following aspects must be taken into consideration: the education and professional training of the candidates, their work experience within the Committee's area of activity, their document handling skills, as well as other necessary proficiencies and experience.

The Regulations on the Committees of the Board of Directors of PJSC Magnit regulates the composition and activities of the Committees.

In 2019, committees held 12 in-person meetings. Attendance at meetings by committee members was 100%.

The work of the committees goes beyond formal meetings, due to the fact that the Company is at the stage of large-scale transformation. The Committees constantly interacts with management in order to increase the efficiency of cooperation between the executive bodies of the Company and the Board of Directors.

Committee members (as of 31.12.2019)

Name	Status	Audit Committee	Strategy Committee	HR and Remuneration Committee	Capital Markets Committee
Florian Jansen	Independent Non-Executive Director	●	Chairman	●	
Walter Koch	Independent Non-Executive Director		●	●	
Jan Dunning	Executive Director		●		●
Evgeny Kuznetsov	Independent Non-Executive Director	Chairman		●	Chairman
James Simmons	Independent Non-Executive Director	●		Chairman	●

Committees of the Board of Directors
(continued)

Audit Committee

Key functions:

- verification and monitoring of financial statements’ integrity
- verification of the internal control and risk management systems
- monitoring the effectiveness of internal audits;
- monitoring relations with the external auditor.

4 formal meetings in 2019

100% meeting attendance in 2019

Key results:

In the reporting year, the Audit Committee reviewed the results of evaluating the effectiveness of the internal control and risk management system of PJSC Magnit and its subsidiaries and the results of the work of the structural unit conducting the internal audit for the reporting year (including reviewing and recommending to the Board of Directors for approval an action plan of such structural unit for 2020). The Committee also recommended to the Board of Directors the approval of the new version of the Policy in the field of internal control and risk management of PJSC Magnit (approved by the decision of the Board of Directors on 12.12.2019).

Strategy Committee

Key functions:

- strategic and investment planning
- identification of priority focus areas
- endorsement and verification of the business plan and budget.

2 formal meetings in 2019

100% meeting attendance in 2019

Key results:

In the reporting year, the Strategy Committee reviewed the plan for opening stores and the budget for 2020, issues of the strategy of own production and own brands, CVP, IT and other key areas of activity.

HR and Remuneration Committee

Key functions:

- development and monitoring of the remuneration policy (including long- and short-term incentives)
- endorsement and monitoring of senior management appointments (CEO-1/CEO-2 levels)
- development of the talent management strategy
- annual evaluation of the Board of Directors and management performance.

3 formal meetings in 2019

100% meeting attendance in 2019

Key results:

In the reporting year, the HR and Remuneration Committee assessed the compliance of the members of the Board of Directors in terms of the availability of the necessary experience, knowledge, compliance with the independence criteria, as well as the assessment of candidates for the Management Board of the Company, examined issues related to short-term and long-term incentive programmes for management and key employees of the Company.

Capital Markets Committee

Key functions:

- development and strengthening of corporate governance systems
- preparation, development and introduction of IR strategies
- evaluation of the dividend policy and recommendations for the Board of Directors.

3 formal meeting in 2019

100% meeting attendance in 2019

Key results:

In the reporting year, the Capital Markets Committee reviewed and recommended to the Board of Directors for approval the Regulation on the committees of the Board of Directors in a new edition; addressed issues on communication strategies and ESG initiatives.

Corporate Secretary

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

The main objective of the Department is to maintain effective communication with the shareholders, coordinate the Company's actions to protect rights and interests of the shareholders and ensure the effective operation of the Board of Directors.

This approach is consistent with the recommendations of the Russian Corporate Governance Code and the Moscow Exchange Listing Rules.

The Department is headed by the Corporate Governance Director, who is an officer of the Company.

Ekaterina Kister
Corporate Governance Director

AGE
41*

EDUCATION
2000 – Kuban State University (Faculty of Law)

EXPIRIENCE
Joined PJSC Magnit in 2016, from JSC Tander where she worked for 11 years.

SHAREHOLDING INFORMATION
Participatory interest in the Company's charter capital (percentage of the Company's ordinary shares): 0.000917%.

The main functions of the Corporate Governance Department are:

- to participate in improving the Company's corporate governance system and practices
- to participate in preparing for, and conducting, general meetings of shareholders
- to support the work of the Board of Directors and its committees
- to participate in implementing the Company's disclosure policy and ensure safekeeping of the Company's documents
- to ensure interaction between the Company and its shareholders and participate in preventing corporate conflicts
- to ensure interaction between the Company and regulatory authorities, organisers of trading activity, the registrar and other professional participants of the securities market within the remit of the Corporate Governance Department
- to immediately inform the Board of Directors of any breaches of laws and the Company's by-laws, where ensuring compliance with such laws and by-laws is the responsibility of the Corporate Governance Department
- to ensure that the procedures established by laws and the Company's by-laws to protect the shareholders' rights and legitimate interests are put into practice and oversee their implementation.

On 27 May 2016 (minutes of 30.05.2016), PJSC Magnit's Board of Directors approved a resolution related to internal rules governing its Corporate Governance Department and appointed Ekaterina Kister to the position of Corporate Governance Director.

* As of 31.12.2019.

Executive Bodies

Management Board

The Management Board is the collective executive body of PJSC Magnit, which, along with sole executive bodies, 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 in accordance with the Russian legislation, the Articles of Association, and the Management Board Regulations.

The Management Board is headed by the Chairman of the Management Board, who is also the CEO of the Company.

The President of the Company is a member of the Management Board by virtue of his position and, in case of absence of the Chief Executive Officer, shall hold the position of Chairman of the Management Board.

The Board of Directors determines and annually reviews the composition of the Management Board. Board members can be elected an unlimited number of times.

Further details regarding the powers of the Management Board can be found in the Company's Articles of Association and Management Board Regulations.

For biographies of Management Board members, please see Management Board composition on page 97.

Sole Executive Bodies: President and CEO

The current activities of the Company are managed by two sole executive bodies of the Company: the President and the CEO, acting independently of each other.

If only the President or only the CEO remains in the Company, then all the functions of the sole executive bodies are transferred to him.

There is a high degree of overlap between the roles of President and CEO. The President is responsible for the development and implementation of the Company's strategy.

Sole executive bodies are elected separately by the Board of Directors for a three-year term and can be elected an unlimited number of times.

On 31 May 2019, the Board of Directors appointed Jan Dunning as the President of the Company, and on 26 June 2019 also as the CEO.

For biography of Jan Dunning, please see Management Board composition on page 97.

Internal Control and Risk Management System

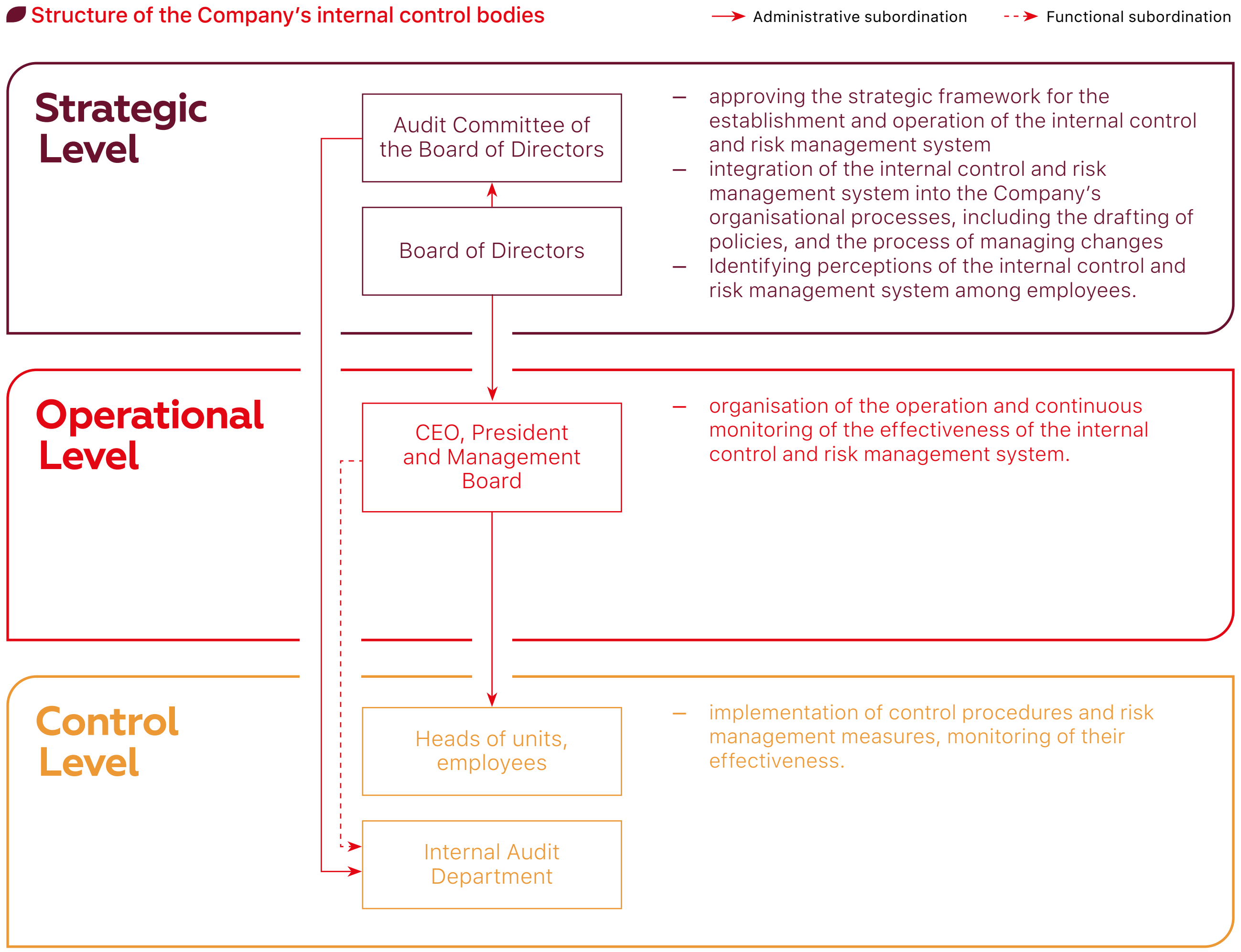
The internal control and risk management system of Magnit is responsible for:

- ensuring the efficiency and productivity of the Company's activities and the safeguarding of its assets
- complying 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 key regulating document is the Regulations on internal control and risk management, updated in 2019 (decision of the Board of Directors from 12 December 2019, minutes of 13.12.2019).

The internal control and risk management system consists of three levels, each playing its part in the process of elaborating, approving and applying corresponding measures and evaluating the system:

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. According to the COSO model, the Company creates a controlled environment including the risk assessment system, implements control procedures and assesses their efficiency and monitors changes in the organisational structure and business processes.

The communication between the participants in the internal control and risk management system, as well as the decision making in corresponding areas, is implemented via the Company's information systems. The relevant information is defined, recorded and transmitted in such form to enable employees to perform their functional duties. Meanwhile, the Company adheres to the principle of the separation of duties.

The internal control and risk management system adapts to changes in the Company's goals and internal and external factors, as well as business processes. The risk management process is carried out on an ongoing basis and is cyclical due to the continuous nature of risk management decision making.

For further detail on risk management and principal risks, see chapter Principal Risks and Uncertainties on page 76.

Internal Audit Department

The Internal Audit Department is designed to support the Board of Directors and the executive bodies in enhancing management efficiency and improving financial and operational performance.

The main tasks of the Department include conducting systematic and consistent analyses, assessing risk management and internal control systems, as well as the corporate governance system.

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

The key document regulating the activity of the Internal Audit Department is the Regulations on Internal Audit at PJSC Magnit where the main responsibilities of the department are defined as:

- supporting the Company's business 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
- 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 efficient use of resources.

Responsibilities of the Internal Audit Department include:

- preparing the annual internal audit plan based on defined risk appetite and conducting corresponding internal audits
- tracking major changes within the Company in order to update the audit plan, identify risk areas and inform management
- preparing and conducting training on internal control to maintain the qualifications of department employees
- providing support for the development of the internal control and risk management system
- providing a monitoring system to implement the recommendations of the Internal Audit Department and monitor their execution
- assisting in the selection of external auditors and consultants as well as preparing and presenting the 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 monthly, quarterly and annual reports on the results of the Department's work and regularly submitting them to the Company's management, Board of Directors, and Audit Committee to discuss results and recommendations. Timely notifying the Audit Committee and Board of Directors 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).

Internal Control and Risk Management System
(continued)

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. At the Committee meetings, results of internal audits are presented and the efficiency of internal audits is discussed.

In 2019, 19 internal audits were conducted, resulting in development and authorisation of 115 measures. Of these, 9 measures were executed in 2019, and the rest will be implemented from the beginning of 2020.

In 2020, the Company plans to conduct courses, training programmes and seminars aimed at professional development of the Department's employees.

Efficiency assessment
In 2019, an efficiency assessment of the internal audit and risk management system of PJSC Magnit and its affiliates was conducted by the Internal Audit Department.

The assessment was completed through an analysis of all aspects of internal control and risk management processes: the internal (control) environment, objective setting, event identification, risk assessment, risk response, means of control, information, communications, and monitoring.

The assessment highlighted the parameters of internal control and risk management process and identified the current state of the parameters, describing the effectiveness of organisation and functioning of the internal control and risk management system.

According to the assessment, the current level of organisation and functioning of the internal control and risk management system was deemed well-established and in line with the Company's needs.

External audit

To verify and confirm the reliability of its annual financial statements, each year the Company hires a professional audit organisation that has no connection to the Company or its shareholders through ownership 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, a member of Self-regulatory Organization of Auditors "The Commonwealth" (AAC SRO) (Ernst & young LLC is included in the control copy of the register of auditors and audit organizations with the registration number ORNZ 12006020327) and one of the global leaders in the provision of professional services, was approved at the AGM held on 30 May, 2019 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 2019 consolidated financial statements of PJSC Magnit and its subsidiaries in accordance with IFRS in the reporting year.

The auditor's remuneration paid for the audit and review of PJSC Magnit financial statements amounted to RUB 56.8 mln (excluding VAT). In addition, the auditor provided non-audit services to PJSC Magnit in the amount of RUB 122.5 mln (excluding VAT) during the reporting year, including calculation of the weighted average share price for Long-term incentive programme (LTI), consultation on the launch of a common service centre, consulting on the development of a Sustainability Strategy and the publication of the ESG report, and other services.

RAS Audit
The audit firm Faber Lex Limited Liability Company, location: Krasnodar, 144/2 Krasnykh Partizan Street, was approved at the AGM held on May 30, 2019 as the auditor of the Company's accounting (financial) statements for 2019 prepared in accordance with Russian Accounting Standards.

AF Faber Lex LLC is a member of the Russian Union of Auditors (Association) Self-Regulatory Organisation of Auditors (RUA SRO) with the main registration number entry (ORNZ) 10203002910.

Based on the results of the PJSC Magnit audit, the auditor expressed an opinion on the true and fair reflection of the Company's financial position in the accounting (financial) statements.

The auditor's remuneration paid by the Group in the reported period amounted to RUB 6.6 mln (excluding VAT), including the payment of RUB 865 thous. (excluding VAT) to PJSC Magnit.

AF Faber Lex LLC did not provide non-audit services to the Group during the reporting year.

Audit Commission

Until December 2019, the Company had the Audit Commission as a permanent elected internal control body, accountable to the General Meeting.

The main task of the Audit Commission was to oversee the Company's financial and business operations and to verify compliance with legislative and other acts governing the Company's activities and the legality of transactions.

The Audit Commission was abolished in 2019 as it duplicated the functionality of the Internal Audit Department and the Audit Committee.

Ethics and Anti-corruption

PJSC Magnit adheres to the principle of zero tolerance of corruption.

The anti-corruption system regulates the management of regulatory and reputation risks, protects the Company from corruption, and develops corporate culture and corporate governance practices.

The Company has an Anti-Corruption Policy[1], also in 2019, the Company adopted an updated Code of Conduct[2]. All company employees are required to comply with ethical standards of conduct and corporate standards, including:

- to not give or extort bribes
- maintain a positive reputation of the Company
- avoid conflicts of interest.

The Company monitors compliance with anti-corruption procedures. All violations of employees are analysed, and result in disciplinary measures up to and including dismissal.

In 2019, the list of corporate anti-corruption measures was expanded:

- The executives of the Company were obliged to declare a conflict of interest when applying for a job, when transferring to higher posts and annually
- New distance learning courses on anti-corruption and business ethics were developed; familiarisation with these materials is monitored
- For executives, face-to-face events were conducted to explain the provisions of the Code of the Business Ethics and the Anti-Corruption Policy
- The topic of inadmissibility of violations in the field of combating corruption was covered and actively promoted in internal communications.

The high level of transparency of PJSC Magnit is recognised by external experts. Accordingly to the latest available research by Transparency International[3], the Company achieved the first place in transparency ranking of the largest Russian companies by revenue.

The Company has created a safe environment that allows internal and external parties to report any corruption or ethical violations, as well as to propose measures to improve control mechanisms. The Company has a hotline on ethics and anti-corruption. Information on utilising this hotline is located in the section Ethics and Anti-Corruption on the Company's website[4].

The Company guarantees that persons who provide information via the indicated communication channels shall be provided anonymity and protection against any form of pressure (including dismissal, prosecution or other types of discrimination).

In 2019, 1,384 appeals were received through this communication channel, of which 10% are targeted. Of these, 2.1% contained information about significant violations. Each case is checked by the Department of Economic Security. Based on the audit results, management decisions are made while reporting on the results of inspections is provided to the management of the Company.

The work of the ethics and anti-corruption hotline is regularly reviewed by the Audit Committee and the Board of Directors.

Confidential Hotline for Employees, Buyers, Contractors and Partners:

- telephone number 8 (800) 600-04-77
- email: ethics@magnit.ru
- the form for submitting appeals via the corporate website: magnit.com/en/anti-corruption/.

(1) Approved by the Board of Directors 25.02.2014 (minutes of 25.02.2014), magnit.com/en/disclosure/internal-regulations/.
(2) Approved by the Board of Directors 21.03.2019 (minutes of 24.03.2019), magnit.com/en/disclosure/internal-regulations/.
(3) transparency.org.ru/special/trac2018russia/docs/report-en.pdf.
(4) magnit.com/en/anti-corruption/.

Information Disclosure

PJSC Magnit believes that information transparency is the basis for interaction with stakeholders.

The Company has adopted an Information Policy. The main principles of disclosure are regularity, efficiency, reliability and balance.

The Company's information policy is implemented by executive bodies. The Capital Market Committee of the Board of Directors gives recommendations on improving disclosure. In 2019, the Committee revised the scope and quality of the disclosed data. As a result, the Company updated its information materials, revised the format of press releases, and began to develop a new corporate website.

The following documents are published on the official website of the Company:
– Articles of Association and internal documents
– information on the structure of equity
– information on governing bodies;
– information about the auditor and registrar
– other required information.

The Company maintains an IR website with a regularly updated investor calendar, dividend history for the past five years, key performance indicators, contact details, and other relevant information.

In addition, the Company discloses information via the Interfax disclosure server e-disclosure.ru/portal/company.aspx?id=7671.

PJSC Magnit regularly holds presentations and meetings between members of the executive bodies and other key managers of the Company and investors and analysts. The Company also offers visits to its stores, production facilities and agricultural complexes.

Representatives of the Company participate in investor conferences, both in Russia and abroad. For any current issues, investors can contact internal IR specialists.

Another important disclosure channel is the annual report. In 2019 the Company significantly increased the level of disclosure in the Annual Report and in 2020 the Company will release its first GRI Sustainability Report.

Types of messages disclosed in 2019

Type of disclosure	Quantity
On bond issues	46
On agendas and resolutions by the issuer's governance bodies	47
On reporting disclosures of various types (quarterly reports, lists of affiliated persons, annual reports, consolidated financial statements, annual accounting statements)	16
Acquisition of the issuer's own shares by its subordinate organisation	73
On the change in the share of members of management bodies in the issuer's authorised capital	16
On yields accrued and paid on issue-grade securities	12
Performance	6
Other	13
TOTAL	**229**

Remuneration Report

Director's Remuneration

In 2019, the directors' remuneration policy was regulated by the Regulations on the Board of Directors of PJSC Magnit[1].

According to these Regulations, Directors are entitled to the following types of remuneration for the membership in the Board of Directors within the reported period:
– base remuneration
– additional remuneration.

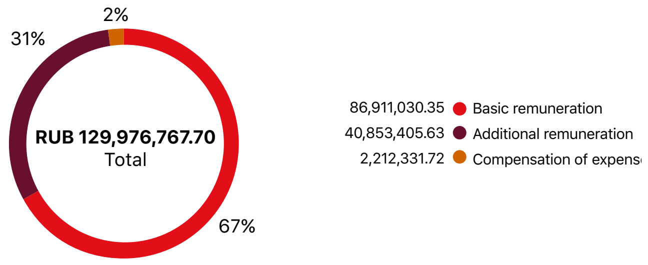
Remuneration paid to members of the Board of Directors in 2019: RUB 129,976,767.70[2].

The structure of the annual remuneration of members of the Board of Directors

Position	Basic	Additional	Compensation of expenses related to:
Chairman of the Board of Directors	150,000 Euro	200,000 Euro	– travel to and from the venue of the meeting of the Board of Directors, as well as being at the venue of the meeting – participation in the meeting of the Board of Directors by telephone, use of a teleconference system, sending a written opinion, absentee voting – execution of the functions of a member of the Board of Directors – recruitment of consultants and experts and obtaining opinions on the activities of the Board of Directors.
Chairman of the Audit Committee	150,000 Euro	100,000 Euro	
Chairman of the Strategy Committee	150,000 Euro	100,000 Euro	
Chairman of the Capital Markets Committee	150,000 Euro	100,000 Euro	
Chairman of the HR and Remuneration Committee	150,000 Euro	75,000 Euro	**Up to EUR 50,000* per year**

* the issue of compensation for expenses exceeding EUR 50,000 is considered at the General Meeting of Shareholders.

Remuneration paid for the reporting year, RUB



(1) Regulations were approved at the EGM on 5 December 2018 (minutes of 6 December 2018), with amendments approved at the AGM on 30 May 2019 (minutes of 31 May 2019).

(2) Does not include remuneration for the performance of the functions of the sole executive body paid to a person that performed the function of the sole executive body in the specified period and at the same time was a member of the Board of Directors.

The structure of the annual remuneration of the CEO and the President
(continued)

Remuneration of the sole executive bodies (CEO and President)

In 2019, the policy of remuneration and compensation of expenses of the CEO and the President was regulated by two documents:
- the Regulations on the Chief Executive Officer (general director)[1]
- the Regulations on Sole Executive Bodies (the President and the Chief Executive Officer)[2].

In accordance with these Regulations, the amount of remuneration of the CEO and the President is set in their employment contracts.

Remuneration of members of the Management Board

In 2019, the policy of remuneration and compensation of expenses to members of the Management Board was regulated by two versions of the Regulations on the collective executive body (Management Board):
- edition approved by the AGM on 21 June 2018 (minutes of 21 June 2018)
- edition approved by the AGM on 30 May 2019 (minutes of 31 May 2019).

The article relating to remuneration did not change in these editions.

Remuneration paid to members of the collective executive body in 2019: RUB 1,518,529,230.50.

(1) Regulations were approved at the AGM on 24.06.2010 (minutes of 28.06.2010).
(2) Regulations were approved at the AGM on 30.05.2019 (minutes of 31.05.2019).
(3) Includes remuneration of the President of PJSC Magnit Jan Dunning for the period during which the President did not have the status of the sole executive body.

The structure of the annual remuneration of the CEO and the President

Base salary	Bonus	LTI	Compensation of expenses
According to the terms of the employment contract	The motivation programme sets the maximum value of the bonus equal to the annual salary. The constituent parts are paid depending on the fulfilment of the Company's and personal KPIs	The remuneration amount depends on the Group's financial results, time worked during the programme, as well as the responsibility of the employee for achieving the result.	– VHI policy for an employee and family members (partner and children) – accident insurance – business trips – communication – transport – rental housing.

The structure of the annual remuneration of members of the Management Board

PJSC Magnit	JSC Tander			
	Base salary	Bonus	LTI	Compensation of expenses
Remuneration for the employment at PJSC Magnit	According to the terms of the employment contract	The motivation programme sets the maximum value of the bonus equal to the annual salary. The constituent parts are paid depending on the fulfilment of the Company's and personal KPIs	The remuneration amount depends on the Group's financial results, time worked during the programme, as well as the responsibility of the employee for achieving the result.	– VHI policy for an employee and family members (partner and children) – accident insurance – business trips – communication – transport – rental housing.

In accordance with his employment contract, Jan Dunning received a signing bonus and the fixed rights for 164,710 of ordinary shares to be transferred to him within the period of three years, subject to continued work in the Company. Share-based payment is deferred, and involves 82,355 of shares transferred on 21 May 2019.

Remuneration of members of the Management Board, total, RUB

	All companies of the Group	PJSC Magnit
Base salary	344,216,534.78	62,568,031.27
Bonus[3]	1,160,270,130.50	1,180,579,891.13
Compensation of expenses	14,042,565.22	–
TOTAL	**1,518,529,230.50**	**1,243,147,922.40**

KPI

In 2019, the following corporate indicators were set:
- Revenue
- LFL sales growth
- EBITDA
- NPS
- Net Income[1].

The Board of Directors establishes and approves the list and weight of corporate KPIs at the beginning of the year.

The weight ratio between corporate and individual KPIs for CEO-1 level is approved by the Board of Directors.

LTI

In addition to the short-term incentive scheme, the Group has a long-term incentive programme. The programme objectives are:
- motivation of participants to increase the share price of the Company
- motivation of participants for the cumulative growth of the consolidated EBITDA of the Group in the amount of at least 10% CAGR relative to 2018
- retention of highly skilled employees
- increasing the attractiveness of the Company for new employees.

The programme started in 2018 and will last 7 years. The first allocation of shares occurred in 2019 according to the results of 2018, the last allocation will occur in 2025 according to the results of 2022.

In total, the programme will use no more than 3,510,638 shares of the Company.

An agreement is concluded with each programme participant, under the conditions of which the maximum number of shares that a participant can receive is indicated. The right to receive shares of the option-based part arises if the market share price is more than RUB 4,700 per share. Payments are made if the target EBITDA is reached and the terms of the contract are met.

Programme structure

	Share-based part participants receive part of the shares.	Option-based part participants receive the right to redeem part of the shares.
Order	Shares are provided in annual tranches based on the results of the year, each representing 20% of the total shareholder part. Shares are delivered in three stages within the period of 7 years: 1/3 at the end of the first year + 1/3 in the following year + 1/3 in two years.	The repurchase of shares is based on the results of each year and takes place in three stages within the period of 7 years: 1/3 based on the results of the first year + 1/3 the following year + 1/3 in two years.
Conditions		Growth of the share price of the Company on the option price exercise date.
	The Group's consolidated EBITDA growth of 10% CAGR compared with the EBITDA for the year ended 31.12.2018. The programme participant continues to work in the Group on the exercise date of the option.	

LTI remuneration

Name	Position	Shares
Jan Dunning	Chairman of the Management Board President CEO	23,404
Vladimir Sorokin	Deputy Chief Executive Officer Commercial Director	16,482
Maria Dei	Supply Chain Director	1,648
Elena Zhavoronkova	Chief Legal Officer	1,648
Evgeny Melnikov	IT Director	1,648
Elena Milinova	Chief Financial Officer	6,593
Jyrki Talvitie	Director for Strategic Communications	478
Other employees of the Company		24,405
Employees who left the Company in 2019		28,952

Based on the results of 2018, 31 employees received 76,306 shares in total. In addition, 28,952 shares were transferred to employees who left the Company in 2019.

(1) Only for CEO and CFO.

Shareholder and Investor Engagement

Authorised and issued share capital

As of 31 December 2019, the authorised capital of Public Joint-Stock Company Magnit amounted to RUB 1,019,113.55 and consisted of 101,911,355 ordinary registered uncertified shares[1] with a 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 a par value of RUB 0.01 each (declared shares).

As of 31 December 2019, 28 entities were registered in the share register, including 25 individuals, one nominal holder (National Settlement Depositary) and two other legal entities.

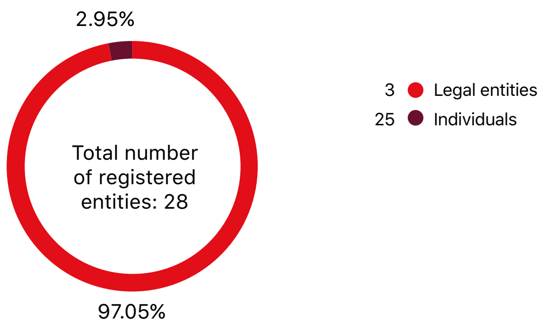
As of 31 December 2019, PJSC Magnit does not hold any treasury shares. As of 31 December 2019, JSC Tander, owned by the Company owned 4,361,272 voting shares in PJSC Magnit, which amounts to 4.28% of the total number of ordinary registered shares, which were acquired in 2018-2019 in order to implement its LTI programme.

As at the 31 December 2019, no other organisations controlled by the Company owned voting shares in PJSC Magnit.

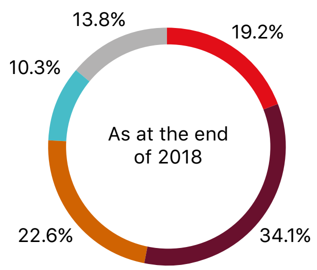
The Company has both an ordinary share listing on the Moscow Exchange (MOEX) and a GDR listing on the London Stock Exchange (LSE).

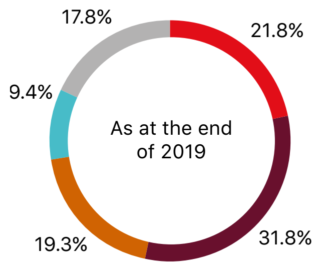
In accordance with the listing rules of PJSC Moscow Exchange as of 31 December 2019, the share of the free-float in the Company's shares was 71,00%[3]. As at the end of 2019, Magnit's market capitalisation was RUB 365.6 bln[4] on MOEX and USD 6,142.71 mln[5] on the LSE.

Structure of share capital as at the end of 2019[2]



Breakdown of free-float* by geography





- Russian Federation
- USA and Canada
- United Kingdom
- European Union
- Rest of the World

* Institutional investors

Source: Shareholder Identification report

Authorised and issued share capital history

24 April 2006	The Company completed the process of an initial public offering in the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX).
13 February 2008	PJSC Magnit announced a secondary share placement. 11,300,000 shares were offered for additional issuance, including shares placed with pre-emptive rights for existing shareholders as well as previously placed shares owned by the selling shareholder.
22 April 2008	Global Depositary Receipts (GDR) commenced conditional trading on the London Stock Exchange (LSE). Later in April Magnit's GDRs were included in the official list of the UK Listing Authority.
2 September 2009	PJSC Magnit announced another public offering of 11,154,918 ordinary shares. The offering price was USD 65 per ordinary share and USD 13 per GDR.
6 October 2011	The Board of Directors of PJSC Magnit decided to increase the authorised capital by issuing 10,813,516 additional shares. The public placement was completed on 15 December 2011.
15 November 2017	The Board of Directors of PJSC Magnit decided to increase the authorised capital by issuing 7,350,000 additional shares. The public placement was completed on 15 January 2018.
21 August 2018	The Board of Directors of PJSC Magnit approved the total amount of funds allocated for share buybacks as follows (taking into account the changes approved by the Board on the 4th of October, 2018): – up to RUB 16,500,000,000 – for LTI programme – up to RUB 5,700,000,000 – as payment for transactions related to acquisition of SIA Group. The programme was launched on 5 September 2018 and completed on 1 March 2019.
28 November 2018	JSC Tander concluded an agreement with Serengate Advisors Limited under which the latter received 1,513,601 shares, which amounted to 1.485213% of the total number of shares of PJSC Magnit, as payment for the transaction related to the acquisition of SIA Group.

Significant changes in the share capital structure in 2019[6]

			Prior to date of change		After date of change	
Date of change	Title	Ownership type	Number of shares	Share of authorised capital, %	Number of shares	Share of authorised capital, %
05.02.2019	VTB Capital plc.	Direct	1,379	0.00135	7,800,000	7.65371
05.02.2019	VTB Infrastructure Investments LLC	Direct	7,868,427	7.72085	68,427	0.06714

(1) State registration number: 1-01-60525-P of 4.03.2004.
(2) Shareholding structure is provided in accordance with the list of shareholders registered in the register of PJSC Magnit shareholders as of 31.12.2019.
(3) The share of the free-float is determined based on an analysis of the share capital ownership structure, and by deducting the number of shares which are not in the free-float from the total number of the Issuer's shares.
(4) Capitalisation in RUB is calculated using the following formula: number of shares outstanding x share price as at the end of 2019.
(5) Capitalisation in USD is calculated using the following formula: 5 x number of shares outstanding x GDR price as at the end of 2019.
(6) 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.

Shareholder and Investor Engagement
(continued)

Listing of shares on the Moscow Exchange

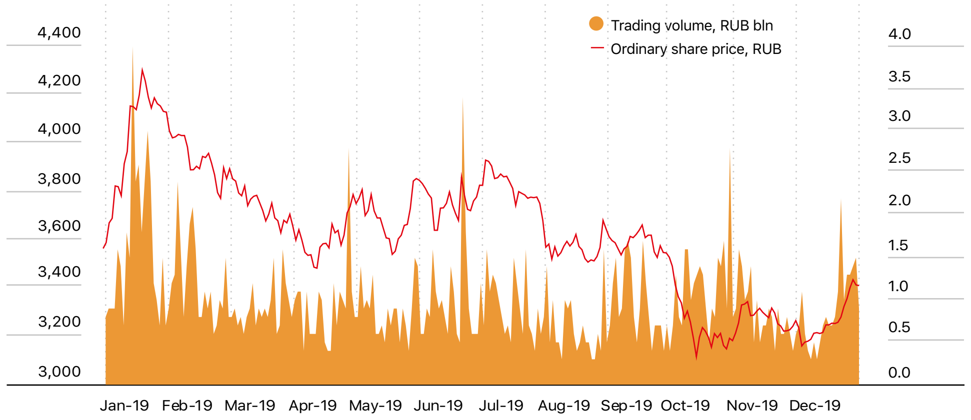
The Company's shares have been trading on the Moscow Exchange (MGNT) since 24 April 2006 (ticker MGNT) and are included in the first quotation list.

Magnit shares are included in the following indices on Moscow Exchange: 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.

GDR listing

The Company's global depositary receipts (GDR) have traded on the main market of the London Stock Exchange (MGNT) since 22 April 2008. One share represents five depositary receipts. As of 31 December 2019, 27.78% of the Company's total shares were listed on the London Stock Exchange in the form of GDRs.

Share trading on the Moscow Exchange in 2019



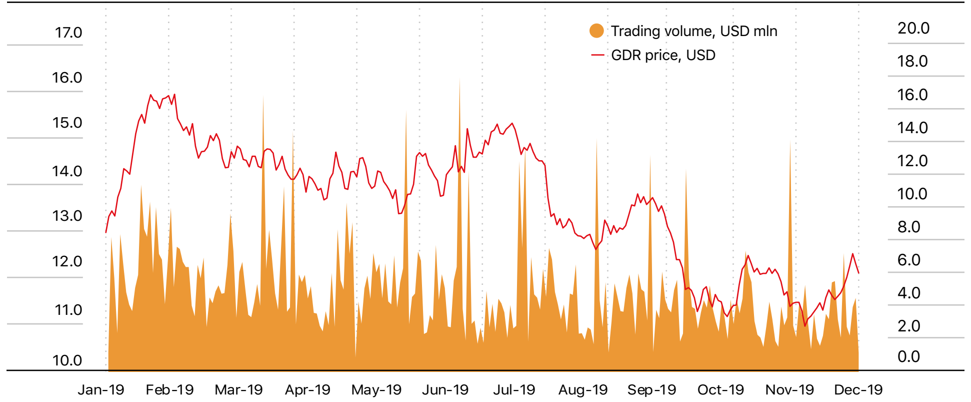
Source: Moscow Exchange

Share price and trading volume on the Moscow Exchange in Q1-Q4 2019

Period	Share price, RUB			Volume[1], RUB mln			Market capitalisation at end of period, RUB bln
	Min	Max	As at end of period	Period total	Daily average	Daily median	
Q1	3,576.0	4,300.0	3,640.0	75,878.2	1,264.6	952.6	371.0
Q2	3,496.0	3,865.0	3,735.0	59,177.9	954.5	886.6	380.6
Q3	3,520.5	3,935.0	3,587.0	55,561.3	854.8	747.4	365.6
Q4	3,136.5	3,559.5	3,449.0	60,489.4	945.1	832.1	351.5

Source: Thomson Reuters

GDR quotes on London Stock Exchange in 2019



Source: London Stock Exchange

Indices

Magnit is included in a broad number of different indices. More information is provided by the following key ETF groups:

VanEck
vaneck.com

SPDR
ssgafunds.com

Vanguard
investor.vanguard.com

MSCI
msci.com

iShares
ishares.com

Columbia Threadneedle Investments
columbiathreadneedleus.com

MOEX and RTS
moex.com/ru/index/IMOEX

GDR price and trading volume on LSE in Q1-Q4 2019

Period	GDR price[1], USD			Volume[2], USD mln			Market capitalisation at end of period, USD mln
	Min	Max	As at end of period	Period total	Daily average	Daily median	
Q1	12.94	15.95	14.10	536.8	8.52	7.6	7,184.8
Q2	13.35	15.20	14.58	401.6	6.58	6.0	7,426.8
Q3	12.57	15.32	13.07	296.3	4.6	4.1	6,657.4
Q4	10.90	12.93	12.06	245.9	3.8	3.5	6,142.7

Source: Thomson Reuters

Analyst coverage and consensus forecasts

As of the 31 December 2019, 15 investment banks produced equity research on Magnit compared to 13 in 2018. Two new banks initiated coverage, namely HSBC and Raiffeisenbank.

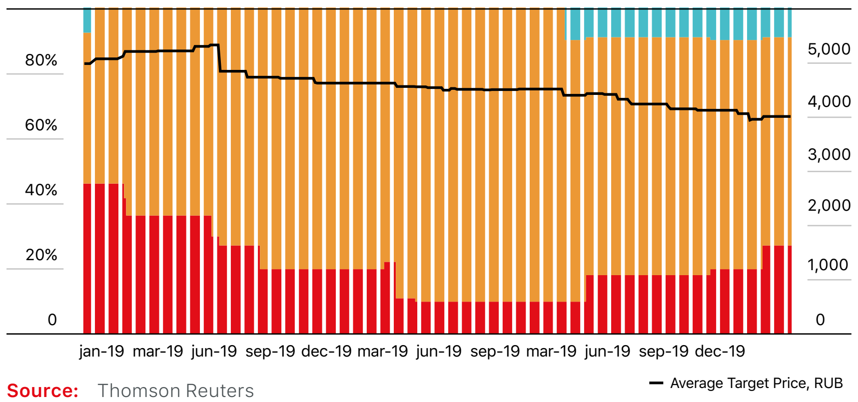
Bank	Analyst	Phone	E-mail
Alfa Bank	Evgeniy Kipnis	+7 495 795 37 13	ekipnis@alfabank.ru
Aton	Victor Dima	+7 495 213 03 44	victor.dima@aton.ru
Bank of America Merrill Lynch	Ilya Ogorodnikov	+7 495 662 60 73	ilya.ogorodnikov@baml.com
BCS	Dmitry Skryabin	+7 495 213 15 09	dskryabin@bcsgm.com
Citi	Alastair Birkby	+44 20 7986 51 80	alastair.birkby@citi.com
Gazprombank	Marat Ibragimov	+7 495 980 41 87	marat.ibragimov@gazprombank.ru
Goldman Sachs	Maxim Nekrasov	+7 495 645 40 13	maxim.nekrasov@gs.com
HSBC	Bulent Yurdagul	+90 212 376 46 12	bulentyurdagul@hsbc.com.tr
JP Morgan	Elena Jouronova	+7 495 967 38 88	elena.jouronova@jpmorgan.com
Raiffeisen	Egor Makeev	+7 495 221 98 51	egor.makeev@raiffeisen.ru
Renaissance Capital	Kirill Panarin	+7 499 956 42 16	kpanarin@rencap.com
Sberbank CIB	Mikhail Krasnoperov	+7 495 933 98 38	mikhail_krasnoperov@sberbank-cib.ru
SOVA Capital	Artur Galimov	+7 495 223 23 23	artur.galimov@sovacapital.com
UBS	Ulyana Lenvalskaya	+7 495 648 20 93	ulyana.lenvalskaya@ubs.com
Wood & Company	Lukasz Wachelko	+48 22 222 15 60	lukasz.wachelko@wood.com

(1) Calculations are based on daily trading volumes in currency, which are calculated as the daily trading volume in securities multiplied by the closing price.

Year's Highlights

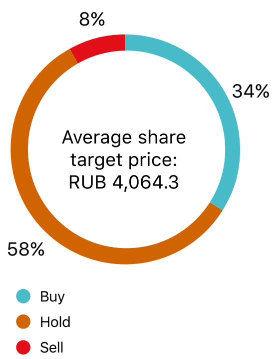
Shareholder and Investor Engagement
(continued)

Analyst recommendations and average target price of local shares

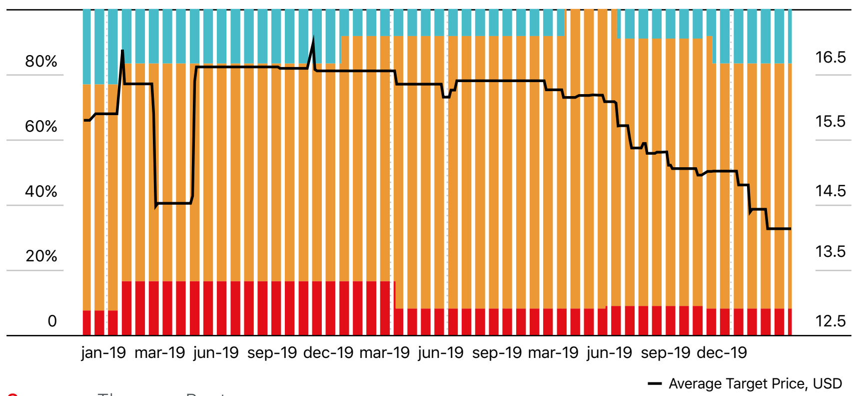


Source: Thomson Reuters

Company collected recommendations and consensus on ordinary shares for 2019

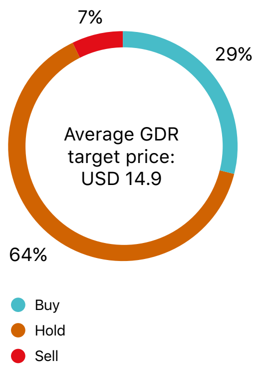


Analyst recommendations and average target price of GDRs



Source: Thomson Reuters

Company collected recommendations and consensus on GDRs for 2019



Consensus for key financial indicators for 2019, RUB bln

	Sales and growth	Gross profit and margin	EBITDA and margin	Net Income and margin
Consensus average	1,368.1	317.8	87.4	21.0
	10.6%	23.2%	6.4%	1.5%
Reported	1,368.7	312.0	83.1	17.1
	10.6%	22.8%	6.1%	1.3%

Source: Company collected recommendations and consensus for 2019 based on open sources

Bonds

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

In 2019, PJSC Magnit had five outstanding issues of bonds (BO-003R-01, BO-003R-02, BO-003R-03, BO-003R-04, BO-003R-05) with a total nominal volume of RUB 50 bln (the volume in circulation at the end of the reporting year was RUB 50 bln).

Parameters of the BO-003R-01, BO-003R-02, BO-003R-03, BO-003R-04, BO-003R-05 series bonded loans of PJSC Magnit

Issue identification number and assignment date	4B02-01-60525-P-003P, 1.02.2019	4B02-02-60525-P-003P, 21.02.2019	4B02-02-60525-P-003P, 25.06.2019	4B02-04-60525-P-003P, 29.10.2019	4B02-05-60525-P-003P, 23.12.2019
Volume of issue, RUB	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)	10,000,000,000 (ten bln)
Number of securities	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)	10,000,000 (ten mln)
Nominal value of each security, RUB	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)	1,000 (one thousand)
Placement price	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
Placement date	05.02.2019	26.02.2019	27.06.2019	05.11.2019	26.12.2019
Placement method	public placement	public placement	public placement	public placement	public placement
Maturity date	1092nd day from the placement date	728th day from the placement date	546th day from the placement date	910th day from the placement date	1092th day from the placement date
Number of coupons	6	4	3	5	6
ISIN code	RU000A1002U4	RU000A1004G9	RU000A100H02	RU000A100ZS3	RU000A1018X4
Coupon rate	8.70%	8.50 %	7.85%	6.90%	6.60%

Shareholder and Investor Engagement
(continued)

Credit ratings

In 2019, leading rating agencies assigned credit ratings to the Company. S&P affirmed its rating of the Company and ACRA assigned a new rating.

Rating agency	Rating recipient	Rating	Forecast	Date of rating (issued / reaffirmed)
Standard& Poors	Issuer at international scale	BB	Stable	23.12.2019
ACRA	Issuer at national scale	AA (RU)	Stable	23.09.2019
	Bonds BO-003R-01, BO-003R-02, BO-003R-03		-	
	BO-003R-04	AA (RU)	-	05.11.2019
	BO-003R-05	AA (RU)	-	25.12.2019

Dividends

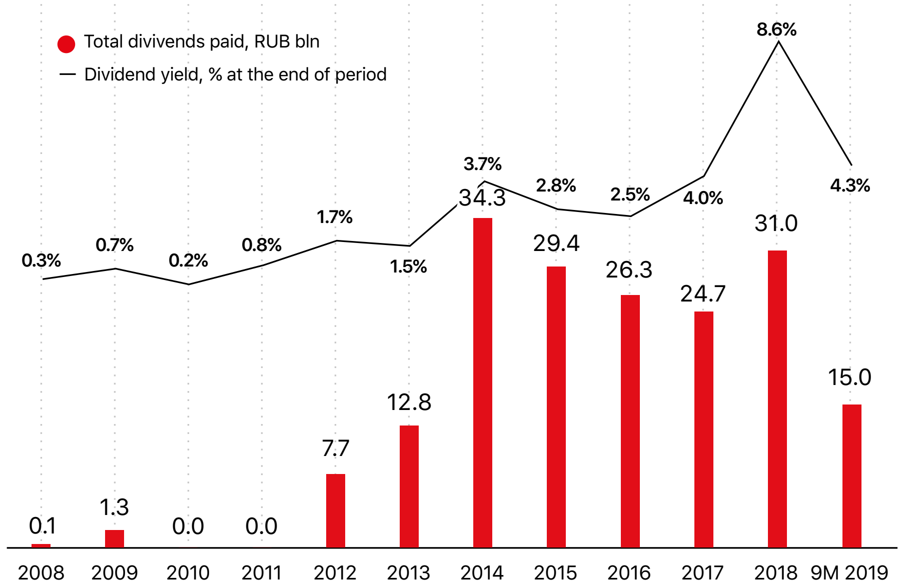
The key objective of the Company's dividend policy is to provide increasing shareholder returns and ensure further growth of the Company's capitalisation. The dividend policy is also focused on optimising the balance between retained profit and shareholder returns.

Regulations on the dividend policy of PJSC Magnit (new edition) of 27 May 2016 (minutes of 30.05.2016) (magnit.com/en/shareholders-and-investors/dividends/)

The core principles underpinning Magnit's dividend policy are as follows:

- **Transparency:** 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
- **Timeliness:** establishing time limits for dividend payments
- **Justifiability:** 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 investment programmes
- **Fairness:** equal rights for shareholders in acquiring information about the decisions on payment, size and procedures for payment of dividends
- **Consistency:** strict implementation of the procedures and principles of the dividend policy
- **Progression:** continuous improvement of the dividend policy in line with the evolution of the Company's strategic goals
- **Sustainability:** commitment to ensuring a stable level of dividend payments.

Dividends paid in 2008-2019



Dividend per share, RUB

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	9M 2019
1.46	14.82	6.57	22.93	81.35	135.21	362.94	310.47	278.13	251.01	304.16	147.19

A dividend payment in the amount of RUB 166.78 on the ordinary registered shares of PJSC Magnit in relation to the 2018 financial results was approved by the Annual General Meeting of Shareholders on 30 May 2019 (minutes dated 31 May, 2019).

The Extraordinary General Meeting of Shareholders on 24 December 2019 (minutes dated 25 December 2019) approved the payment of an interim dividend on the ordinary registered shares of PJSC Magnit, based on the results of the first nine months of 2019 in the amount of RUB 147.19.

Shareholders and investor engagement

Magnit pays due attention to the attractiveness of its investment proposition and constantly seeks to increase the level of openness and transparency of its activities. The Company is interested in attracting new and retaining existing investors and maintains a constant dialogue with the investment community.

The Company uses various formats of interaction, including distributing press releases announcing operational and financial results; organising conference calls, face-to-face meetings; conducting road shows and site visits; and participating in investment conferences and other events.

In the first quarter of 2019, the Board of Directors approved a new Investor Relations strategy as part of the Group's Communication strategy.

4 conference calls and 6 publications regarding the financial and operating results were conducted by senior management in 2019.

The Company's management held two roadshows and together with the IR team participated in 30 different investors' events covering 243 institutional investors in 2019.

The list of the most frequently asked questions by investors and analysts is presented below:

- LFL indicators and their dynamics
- Sales density indicators
- CVP implementation including assortment, redesign programme, loyalty programme, organisational model, etc.
- Changes in strategy
- Innovations and improvements within the Company
- Expansion plans and M&A opportunities
- Sustainability of margins
- Working capital improvement
- LTI programme
- Management KPIs
- Management Board changes.

During the reporting year, the Company continued to improve its investor relations approach:

- The Company significantly enhanced the Annual Report and made progress towards issuing a separate Sustainability Report
- Conference calls are now held solely in English
- Transcripts of the calls are regularly published on the Company's website
- The composition and structure of press releases, presentations and databook has been enhanced
- Official documents, policies and regulations have been translated into English and published on the website
- The Company has started to compile its' consensus of analyst forecasts and recommendations based on public reports.

IR department activity, 2019

6 Financial and operational results releases

4 Conference calls

2 Roadshows

30 Number of investor events (e.g. conferences, consumer days, tours, forums, etc), where Magnit participated

243 Number of institutional investors covered

Shareholder and Investor Engagement
(continued)

Investor calendar 2019-2020

Event	Location	Date
FY 2018 Unaudited Results and Conference Call	Krasnodar	FEBRUARY 07, 2019
NDR Roadshow	London	FEBRUARY 19 – FEBRUARY 22, 2019
NDR Roadshow	San-Francisco, New York, Boston	MARCH 5 – MARCH 7, 2019
FY 2018 Audited Financial Results	Krasnodar	MARCH 15, 2019
Goldman Sachs 2nd CEEMEA Consumer and Retail Day	London	APRIL 4, 2019
Goldman Sachs CEEMEA Corporate Days	Frankfurt	APRIL 8 – APRIL 9, 2019
UBS EMEA Investor Day in Singapore	Singapore	APRIL 10 – APRIL 11, 2019
1Q 2019 Trading Update and Financial Highlights and Conference Call	Krasnodar	APRIL 30, 2019
Morgan Stanley EEMEA Conference	London	MAY 14, 2019
JP Morgan Global Consumer and Retail Conference	London	MAY 15 – MAY 16, 2019
BAML Russia Consumer Trip	Moscow	MAY 16, 2019
J.P. Morgan Russian Internet and Consumer Investor Tour	Moscow	MAY 22, 2019
Aton Consumer Day	Moscow	MAY 24, 2019
Alfa Consumer Trip	Moscow	MAY 27 – MAY 29, 2019
BAML Miami GEM	Miami	MAY 28 – MAY 31, 2019
Sberbank CIB "The Inside Track"	Moscow	JUNE 4 – JUNE 5, 2019
HSBC GEMs Conference	New York	JUNE 10 – JUNE 12, 2019
UBS LATEMEA One on One Conference 2019	London	JUNE 18 – JUNE 19, 2019
RenCap Russia&CIS Investor Conference	Moscow	JUNE 24 – JUNE 26, 2019
2Q/1H 2019 Trading Update and Financial Highlights and Conference Call	Krasnodar	JULY 25, 2019
1H 2019 Reviewed Financial Results	Krasnodar	AUGUST 20, 2019
UBS Russia Investor Days	Stockholm	AUGUST 30, 2019
HSBC GEMs Investor Forum	London	SEPTEMBER 3, 2019
UBS Russia Investor Days	Frankfurt	SEPTEMBER 2, 2019
Goldman Sachs Global Retailing Conference	New York	SEPTEMBER 4, 2019
Citi`s GEM Conference	New York	SEPTEMBER 5, 2019
Moscow Exchange Forum 2019	New York	OCTOBER 3 – OCTOBER 4, 2019
J.P. Morgan`s CEEMEA Consumer Tour in Russia	Moscow	OCTOBER 4, 2019
Moscow Exchange Forum 2019	London	OCTOBER 16, 2019
Goldman Sachs CEEMEA Corporate Days	Singapore	OCTOBER 23, 2019
3Q/9M 2019 Trading Update and Financial Highlights and Conference Call	Krasnodar	OCTOBER 29, 2019
HSBC Global Investment Forum	New York	NOVEMBER 5 – NOVEMBER 6, 2019
Goldman Sachs CEEMEA 1x1 Conference	London	NOVEMBER 11 – NOVEMBER 12, 2019
Jefferies West Coast Consumer Conference	San Francisco	NOVEMBER 13, 2019
VTB Capital "Russia Calling"	Moscow	NOVEMBER 20 – NOVEMBER 22, 2019
UBS Global Emerging Markets One-on-One Conference	New York	DECEMBER 3 – DECEMBER 4, 2019
Wood`s Winter Wonderland – EME Conference	Prague	DECEMBER 4, 2019
4Q/12M 2019 Trading Update and Financial Highlights and Conference Call	London	FEBRUARY 06, 2020
FY 2019 Audited Financial Results	Krasnodar	MARCH 16, 2020
1Q 2020 Trading Update and Financial Highlights and Conference Call	Krasnodar	APRIL 29, 2020
2Q/6M 2020 Trading Update and Financial Highlights and Conference Call	Krasnodar	JULY 30, 2020
1H 2020 Reviewed Financial Results	Krasnodar	AUGUST 20, 2020
3Q/9M 2020 Trading Update and Financial Highlights and Conference Call	Krasnodar	OCTOBER 29, 2020

Magnit Corporate Events
Events 2019
Events 2020

Appendices to the Annual Report

Report on Complying 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 on the Company's compliance with the principles and recommendations of the Corporate Governance Code (hereinafter referred to as the "Code") for 2019.

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	**The company shall ensure fair and equitable treatment of all shareholders in exercising their corporate governance rights.**			
1.1.1	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, e-mail, or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	Full	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general meeting of shareholders is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed nominees to the company's board of directors and the revision committee.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of, and during, the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders. 3. The company gave duly authorised shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, for all general meetings held in the reporting period.	Full	
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's governing bodies, and to make proposals for the agenda of the general meeting.	1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's governing bodies due to misprints or other insignificant flaws in the shareholder's proposal.	Partial	Criterion 1 is not complied with. The annual general shareholders meeting for 2018 considered the issue of increasing the deadline to submit proposals to the agenda of the annual general meeting to up to 60 and 45 days in accordance with proposals from shareholders and the Board of Directors. The shareholders decided to increase this period to 45 days, considering it sufficient to make proposals regarding the agenda of the annual general meeting. During the reporting period, there were no instances in which shareholders would not have had enough time to submit proposals within this period. Nevertheless, in the event of the receipt of relevant proposal from shareholders, the matter of extending this period to 60 days will be submitted for review again within the statutory time period.
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	1. An internal document (internal policy) of the company contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commission.	No	The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting for 2020. The registrar JSC Novy Registrator performs the functions of the ballot committee for PJSC Magnit based on the agreement, the terms of which do not prevent any of the Company's shareholders from requesting a copy of the completed ballot from the Registrar's representatives before the termination of the meeting. Neither the Company registrar nor the Company dismissed such a request at the general shareholders meeting in 2019.
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.	1. During general meetings of shareholders held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on, and discussion of, the agenda items. 2. Candidates to the company's governing and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote. 3. When passing resolutions on preparing and holding general meetings of shareholders, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.	Partial	Criterion 3 is not complied with. The Company's management and the Registrar are discussing the option of using telecommunication devices to provide shareholders with remote access to general meetings. There are plans to consider the feasibility and necessity of this practice prior to the annual general shareholders meeting for 2020. The Board of Directors did not consider the issue of providing shareholders with remote access to take part in general meetings during the reporting period because the majority of Company shareholders (over 97%) are clients of nominal holders and participate in the meeting by sending electronic documents to the registrar containing their expression of will on the agenda items of the general meeting.
1.2	**Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.**			
1.2.1	The company has developed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	Full	
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.	1. The company's dividend policy clearly identifies financial/ economic circumstances under which the company shall not pay out dividends.	Full	
1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.2.4	The company makes every effort to prevent its shareholders profiting from the company through any means other than dividends and liquidation value.	1. To prevent its shareholders profiting from the company through any means other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognise such deals as interested party transactions.	None	At the annual general shareholders meeting held for 2018, at the proposal of the shareholders, the matter of charter amendment was considered in terms of establishing additional requirements for the approval of transactions of the Company or controlled entities with the affiliates of significant shareholders. The shareholders did not support such amendments to the Company charter. The Company charter specifies a number of transactions that require consent (approval) from the Board of Directors (or the Company's Management Board) in cases where the law does not provide for such requirement. A similar approach is used in the Company's subsidiaries. This measure reduces possible additional risks associated with the failure to comply with this recommendation of the Code. In the event that the relevant proposal is received from shareholders, the matter of establishing such control mechanisms in the internal documents of the Company will be reviewed again.
1.3	**The corporate governance system and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.**			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for managing potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	Full	
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	None	The current legislation provides for the right of shareholders to participate in the management of a joint-stock company by participating in general shareholder meetings with the right to vote on all matters within its competence. The Company shareholders, including those controlled by the Company, are not restricted in the exercise of their rights established by securities. Moreover, the actual share of quasi-treasury shares is extremely small. The participation of these shares in voting at general shareholders meetings does not result in the artificial redistribution of corporate control in the Company.

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.4	**Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.**			
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	Full	
2.1	**The board of directors provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control system, oversees the activities of the company's executive bodies, and performs other key functions.**			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including due to improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	Full	
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	1. At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), as well as criteria and performance (including interim) of the company's strategy and business plans.	Full	
2.1.3	The board of directors defines the company's principles of, and approaches to, setting up a risk management and internal control system.	1. The board of directors defined the company's principles of, and approaches to, setting up a risk management and internal control system. 2. The board of directors assessed the company's risk management and internal control system in the reporting period.	Full	
2.1.4	The board of directors defines the company's policy on remuneration payable to, and/or reimbursement (compensation) of costs incurred by, members of the board of directors, executive bodies, and other key executives of the company.	1. The company has developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	Full	
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 set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's regulations on the information policy. 2. The company identified persons responsible for implementing the information policy.	Full	
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.	Full	
2.2	**The board of directors is accountable to the company's shareholders.**			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	Full	
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling its shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	Full	
2.3	**The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.**			
2.3.1	Only persons of impeccable business and personal reputation who have the knowledge, expertise, and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of directors' professional qualifications. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, business reputation, absence of conflicts of interest, etc.	Full	
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	1. Whenever the agenda of the general meeting of shareholders included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102 - 107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	Full	
2.3.3	The board of directors has a balanced composition, in terms of directors' qualifications, experience, expertise, and business skills, and it has the trust of shareholders.	1. As part of the assessment of the board of directors' performance carried out in the reporting period, the board of directors reviewed its requirements for professional qualifications, experience, and business skills.	Full	
2.3.4	The company has a sufficient number of directors to organise the board of directors' activities in the most efficient way, including the ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of assessment of the board of directors' performance carried out in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	Full	
2.4	**The board of directors includes a sufficient number of independent directors.**			
2.4.1	An independent director is a person who is sufficiently professional, experienced, and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders, or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty, or competitor of the company, or is related to the government, may not be considered as independent under normal circumstances.	1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102-107 of the Code, or were deemed independent by resolution of the board of directors.	Full	
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on the independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of each incumbent director listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.3	Independent directors make up at least one third of elected directors.	1. Independent directors make up at least one third of directors.	Full	
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.	Full	
2.5	**The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.**			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights, and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	Full	
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	Full	
2.5.3	The chairman of the board of directors takes all steps necessary or the timely provision to directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials for the agenda of a board meeting.	Full	

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.6	**Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.**			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	1. The company's internal documents stipulate that a director should notify the board of directors of any existing conflict of interest as to any agenda item of a meeting of the board of directors or its committee, prior to discussing the relevant agenda item. 2. The company's internal documents stipulate that a director should abstain from voting on any item in connection with which they have a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	Partial	Criterion 1 is not complied with. The fact that the obligation of the members of the Board of Directors to provide notification about conflicts of interest before discussion of the relevant agenda item begins is not formally documented and does not result in such information being concealed. The chairman of the Board of Directors requests information about the existence of any conflicts of interest and reports them to the Board of Directors prior to the discussion of the relevant agenda item. In addition, at the annual general shareholders meeting for 2018, it was decided to amend the Regulation on the Board of Directors of the Company, which establishes the obligation imposed on the members of the Board of Directors to regularly fill out an independent director questionnaire compiled by the Company, including all matters that require consideration in assessing their independence for the purposes of the applicable law and listing rules, in order to eliminate conflicts of interest and reduce the risks related to non-compliance with this criterion. The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered at or before the annual general shareholders meeting for 2020.
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	1. The company has adopted and published an internal document that clearly defines the rights and duties of directors.	Full	
2.6.3	Directors have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies of other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and request information on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents. 2. The company has in place a formalised induction programme for newly elected members of the board of directors.	Full	
2.7	**Meetings of the board of directors, preparation for such meetings, and participation of directors ensure efficient performance by the board of directors.**			
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	Full	
2.7.2	The company's internal regulations formalize a procedure for arranging and holding meetings of the board of directors, enabling members of the board of directors to properly prepare for such meetings.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and stipulates, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.	Full	
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at meetings of the board of directors held in person.	None	The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered at or before the annual general shareholders meeting for 2020. 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 on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.	1. The company's charter provides for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors.	Full	
2.8	**The board of directors sets up committees for preliminary consideration of the most important matters related to the company's activities.**			
2.8.1	An audit committee comprised of independent directors is set up to preview matters related to controlling the company's financial and business activities.	1. The board of directors set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analysing, assessing, and auditing accounting (financial) statements. 4. In the reporting period, meetings of the audit committee were held at least once a quarter.	Full	
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	Full	
2.8.3	To preview matters related to talent management (succession planning), professional composition, and efficiency of the board of directors, a nomination (appointments and HR) committee was set up, predominantly comprised of independent directors.	1. The board of directors has established a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee) predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	Full	
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is in line with the company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the company's board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.8.5	Committees are composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee, and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Full	
2.8.6	Committee chairmen inform the board of directors and its chairman on the performance of their committees on a regular basis.	1. In the reporting period, committee chairmen reported to the board of directors on the performance of committees on a regular basis.	Full	
2.9	**The board of directors ensures performance assessment of the board of directors, its committees, and members of the board of directors.**			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as at bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the meeting of the board of directors held in person.	Full	
2.9.2	Performance of the board of directors, its committees and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	None	During the reporting period, the Board of Directors conducted a self-assessment of its operations, which showed that the operational effectiveness of the Board of Directors fully complies with the Company's objectives. The Company currently sees no need to hire an external consultant to conduct an independent assessment, although the Company does not rule out this option if the Board of Directors deems the self-assessment insufficient. The matter of whether these provisions can and need to be included in the corporate governance practice is expected to be considered before the annual general shareholders meeting for 2020.

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
3.1	**The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support efficient performance of the board of directors.**			
3.1.1	The corporate secretary has the expertise, experience, and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	Full	
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, dismissal, and additional remuneration of the corporate secretary.	Full	
4.1	**Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies, and other key executives of the company is in compliance with the approved remuneration policy of the company.**			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies, and other key executives creates sufficient incentives for them to work efficiently while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies, and other key executives, which clearly defines the approaches to remuneration of the above persons.	Full	
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. In the reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.	Full	
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates all types of expenses, benefits, and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies, and other key executives of the company, and regulates (regulate) all types of expenses, benefits, and privileges provided to such persons.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.4	The company defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies, and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by directors, executive bodies, and other key executives of the company.	Full	
4.2	**Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of shareholders.**			
4.2.1	The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for its directors.	1. Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.	Full	
4.2.2	Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans.	1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.	Full	
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure resulting from the change of control or any other reasons.	1. The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure resulting from the change of control or any other reasons.	Full	

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.3	**The company considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of executive bodies and other key executives of the company.**			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the remuneration system for members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	Partial	Criterion 3 is not complied with. The recommendations of the Corporate Governance Code concerning the existence of a procedure to ensure that bonus payments wrongfully received by members of executive bodies and other key officers are returned to the Company have not yet been reflected in the Company's internal documents. Moreover, the system of key performance indicators and practice of setting targets established in the Company are designed to eliminate the possibility of excessive amounts of variable remuneration being wrongfully charged. When members of executive bodies and other key officers of the Company wrongfully receive bonus payments, the situation will be settled on a case by case basis. As of the end of the reporting year, there were no cases of members of executive bodies or other key officers of the Company wrongfully receiving bonus payments. However, the matter of whether these Code provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting held in accordance with performance in 2020.
4.3.2	The company has in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive programme for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this programme takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	Partial	Criterion 2 is not complied with. The Board of Directors approved the Long-Term Incentive Plan. The plan is designed to motivate management to increase the market capitalisation of the Company supported by EBITDA growth. The plan includes remuneration in the form of shares and options in annual tranches. Remuneration will depend on the share price. The plan is designed for five years. There are no restrictions on the disposal of shares received under the plan. However, the matter of whether these Code provisions can and need to be reflected in the Long-Term Incentive Plan is expected to be considered before the annual general shareholders meeting for 2020.
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.1	**The company has in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company's goals.**			
5.1.1	The company's board of directors determined the principles of, and approaches to, setting up a risk management and internal control system at the company.	1. Functions of different management bodies and business units of the company in the risk management and internal control system are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	Full	
5.1.2	The company's executive bodies ensure establishment and continuous operation of an efficient risk management and internal control system at the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of business units and departments accountable to them.	Full	
5.1.3	The company's risk management and internal control system ensures an objective, fair, and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures and code of ethics.	Full	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its setup and efficient functioning determined by the board of directors.	1. In the reporting period, the board of directors or the board's audit committee assessed the performance of the company's risk management and internal control system. Key results of this assessment are included in the company's annual report.	Full	
5.2	**The company performs internal audits for regular independent assessment of the reliability and efficiency of its risk management and internal control system, as well as corporate governance practice.**			
5.2.1	The company has set up a separate business unit or engaged an independent external organisation to carry out internal audits. Functional and administrative reporting lines of the internal audit unit are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company has set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organisation with the same line of reporting.	Full	
5.2.2	The internal audit division assesses the performance of the internal control, risk management system, and corporate governance systems. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal control and risk management.	Full	

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.1	**The company and its operations are transparent for its shareholders, investors, and other stakeholders.**			
6.1.1	The company has developed and implemented an information policy ensuring efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered the matters related to the company's compliance with its information policy at least once in the reporting period.	Partial	Criterion 1 is not complied with. The recommendations of the Corporate Governance Code concerning the compliance of the Company's information policy with the recommendations of the Code have not yet been reflected in the Company's internal documents. The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting for 2020. However, the Company ensures the timely disclosure of complete and reliable information, including its financial standings, economic indicators, and ownership structure, to help the Company's shareholders and investors make informed decisions. Information is disclosed in accordance with the requirements of Russian legislation as well as the applicable laws of the United Kingdom of Great Britain and Northern Ireland and the European Union.
6.1.2	The company discloses information on its corporate governance system and practice, 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 principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of directors and their membership in the board of directors' committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code

(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2	**The company makes timely disclosures of complete, updated, and reliable information to allow shareholders and investors to make informed decisions.**			
6.2.1	The company discloses information based on the principles of regularity, consistency, and promptness, as well as availability, reliability, completeness, and comparability of disclosed data.	1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organised markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, the relevant information was disclosed in the reporting period both in the Russian language and one of the most widely used foreign languages.	Full	
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website.	Partial	Criterion 2 is not complied with. The Company has not determined the procedure for disclosing specific additional information about the Company's capital structure, as specified by Recommendation 290 of the Code, namely: statements of the Company's executive bodies indicating that the Company has no information about the existence of share holdings exceeding five percent, other than those already disclosed by the Company, or information about the acquisition or potential acquisition by certain shareholders of a degree of control that is disproportionate to their participation in the Company's authorised capital, including pursuant to shareholder agreements. The matter of whether these provisions can and need to be included in the Company's internal documents and corporate governance practice is expected to be considered before the annual general shareholders meeting for 2020. Even though information about the absence of such knowledge on the part of the Company is not disclosed as a statement of the executive bodies, this does not result in any information being concealed with regard to the Company's capital structure in accordance with Clause 290 of the Code. The Company avoids a formal approach in the disclosure of material information about its activities.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	1. The company's annual report contains information on the key aspects of its operational and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	Full	
6.3	**The company provides information and documents requested by its shareholders in accordance with the principles of fairness and ease of access.**			
6.3.1	The company provides information and documents requested by its shareholders in accordance with the principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	Partial	The recommendations of the Corporate Governance Code concerning the disclosure of information about legal entities controlled by the Company to shareholders have not yet been reflected in the Company's internal documents. The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting for 2020. However, the Company discloses at its own initiative a large amount of information about JSC Tander, a significant legal entity it controls, in addition to information required to be disclosed by applicable laws. In practice, such information is easily available.
6.3.2	When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitive edge.	1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	Full	

Report on Complying with the Principles and Recommendations of the Corporate Governance Code
(continued)

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1	**Actions that materially affect or may affect the company's share capital structure and its financial position, and accordingly the position of its shareholders ('material corporate actions') are taken on fair terms ensuring that the rights and interests of shareholders and other stakeholders are observed.**			
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's charter provides for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	1. The company's charter include a list of transactions or other actions classified as material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders. 2. According to the company's charter, material corporate actions include at least: company reorganisation, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or delisting of the company's shares.	Partial	Criterion 1 is only partially complied with. Criterion 2 is not complied with. The list of material corporate actions and criteria for their determination have not been formally incorporated in the Company's internal documents. The matter of whether these provisions can and need to be included in the Company's internal documents is expected to be considered before the annual general shareholders meeting for 2020. However, the Company's corporate governance practices imply that corporate actions regarded by the Code as material shall be approved by the Board of Directors or the general meeting of shareholders based on a proposal from the Board of Directors; the position of the Board of Directors on all agenda items of the general shareholders meeting, including items that may be regarded as material corporate actions, is disclosed to shareholders as part of preparations for said general meeting.
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Full	
7.1.3	When taking material corporate actions affecting the rights and legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to the specifics of the company's operations, the company's charter contains less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	Full	

No	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2	**The company takes material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when taking such actions.**			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances, and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	Full	
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or an interested party transaction. 2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company. 3. The company's internal documents provide for an expanded list of grounds on which the company's directors and other persons as per the applicable law are deemed to be interested parties to the company's transactions.	Partial	Criteria 1 and 2 are only partially complied with. The Company's internal documents provide for the procedure of engaging experts to obtain professional advice on matters considered at meetings of the Board of Directors without specifying the purpose of engaging such experts. Current law stipulates cases of the mandatory engagement of an independent appraiser. Moreover, applicable law does not rule out the option of engaging an appraiser in any of the specified cases (determining the value of property that is disposed of or acquired in a major transaction or a related party transaction, or assessment of the cost of acquisition and redemption of company shares). Criterion 3 is not complied with. The recommendations of the Corporate Governance Code concerning the expansion of the list of grounds on the basis of which members of the Company's Board of Directors and other persons in accordance with the law are recognised as related parties in Company transactions have not been reflected in the Company's internal documents. However, after the Code came into effect, significant changes were made to the legislation on joint-stock companies regarding related party transactions. For example, the scope of related parties was reduced, the procedure for concluding related party transactions was simplified, and the list of transactions to which the rules on the conclusion of related party transactions do not apply, despite the formal existence of vested interest, was expanded. The annual general shareholders meeting for 2018 considered the matter of introducing additional controls over transactions with shareholders holding more than 10% of voting rights in the authorised capital of the Company, however, this proposal was not supported by the majority of shareholders. Nevertheless, if the relevant proposal is received from shareholders, the matter will be submitted for review again within the statutory time period.

Major transactions

List of transactions concluded in 2019 that are recognized as major transactions in accordance with the Federal Law "On Joint-Stock Companies"

Transaction date	February 27, 2019
Subject of the transaction and other material terms of the transaction	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 50,000,000,000 (fifty 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.
Parties to the transaction	PJSC Magnit (the "Shareholder"), JSC Tander (the "Company")
Amount of the transaction in monetary terms, rubles	50,000,000,000
Size of the transaction as a per-centage 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, %	38.58
Deadline for performance of obli-gations under the transaction	30 days from the date of signing the contract
Information about the performance of the above obligation	Obligations fulfilled
Management body that consented to the transaction or its subsequent approval	The Board of Directors of PJSC Magnit gave consent to the transaction on February 13, 2019 (Minutes dated February 13, 2019)

Related party transactions

During the reporting year, there were no transactions that are recognised as related party transactions in accordance with the legislation of the Russian Federation.

Consolidated Financial Statements of PJSC Magnit and its subsidiaries

Independent Auditor's Report

Opinion

We have audited the consolidated financial statements of PJSC Magnit and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, 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 2019 and its consolidated financial performance and its consolidated cash flows for 2019 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 (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Independent auditor's report

(continued)

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 consolidated 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 on a sample basis. 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. As a result, we believe that this matter is one of most significance in our audit. Information on goods for resale is disclosed in Note 12 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.
Impairment testing of property, plant and equipment and right-of-use assets	
Impairment testing for property, plant and equipment and right-to-use assets was one of the key audit matters because the balance of property, plant and equipment and right-to-use assets forms a significant portion of the Group's assets at the reporting date, and the process of management's assessment of the recoverable amount is complex and requires significant judgments, including judgements about future cash flows, capital expenditures and the discount rate. Information about property, plant and equipment, right-to-use assets and results of impairment testing is disclosed in Notes 8 and 9 to the consolidated financial statements.	Our audit procedures included an assessment of key management assumptions used by the Group, including those in respect of forecasted revenue and operating expenses. We also analyzed discount rates used by management of the Group. We engaged our internal valuation experts in performing these procedures. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumption and assessed the Group's disclosures of these assumptions to which impairment testing is most sensitive, i.e., those that have the most significant impact on the recoverable amount of property, plant and equipment and right-of-use assets.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill from acquisition of the SIA Group	
As at 31 December 2019, the balance of goodwill is 26,879,317 thousand rubles, including 25,511,824 thousand rubles related to acquisition of MF-SIA LLC. As a result of this transaction, the Group obtained control over the SIA Group. Impairment testing of goodwill was one of the key audit matters because assessment of the recoverable amount of goodwill includes numerous assumptions made by the Group's management, including the estimated effect of synergies, determination of a cash-generation unit for impairment testing purposes, forecasted revenue and gross margin, long-term growth rates and discount rates. Information about goodwill is disclosed in Note 11 to the consolidated financial statements.	Our audit procedures included an assessment of assumptions used by the Group and reasonableness of forecasted data. We assessed the judgment used by management in testing goodwill for impairment with respect to goodwill allocation to the relevant cash-generating unit. We also performed the sensitivity analysis of the impairment test with respect to changes in the key assumptions and assessed the Group's disclosures of those assumptions that have the most significant impact on the recoverable amount of cash generating unit to which goodwill is allocated.
Transition to IFRS 16 Leases	
Effective 1 January 2019, the Group adopted IFRS 16 Leases. When adopting the new standard, the Group applied a full retrospective approach. The adoption of IFRS 16 was one of the key audit matters because the effect of transition to the new standard is significant to the consolidated financial statements, the Group has large number of lease contracts and significant judgments were made by the management in assessing initial value of right-to-use assets and related liabilities with respect to ability to extend these lease contracts and, thus, determine a lease term. Information about the adoption of IFRS 16 Leases is disclosed in Note 4.2 to the consolidated financial statements.	We analyzed the Group's accounting policy with respect to IFRS 16. We analyzed the list of lease agreements to which IFRS 16 is applied and compared, on a sample basis, data in agreements with data that were used during the implementation and application of the transition provisions of IFRS 16. We analyzed management's judgments made to determine the lease term in agreements with extension options. We tested the mathematical accuracy of calculations of adjustments at the transition date to IFRS 16. We analyzed information on the adoption of IFRS 16 disclosed in the consolidated financial statements.

Other information included in The Annual report of PJSC Magnit for 2019

Other information consists of the information included in the Annual Report of PJSC Magnit for 2019 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 2019 is expected to be made 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.

Independent auditor's report

(continued)

Responsibilities of management and 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.

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 Company's 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 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 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 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 A.Y. Grebeniuk.

A.Y. Grebeniuk
Partner
Ernst & Young LLC

16 March 2020

Details of the audited entity
Name: PJSC Magnit
Record made in the State Register of Legal Entities on November 12, 2003, 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-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PJSC Magnit Consolidated statement of financial position

as at 31 December 2019

(In thousands of Russian rubles)

	Notes	31 December 2019	31 December 2018 Restated (Notes 2)	1 January 2018 Restated (Notes 2)
Assets				
Non-current assets				
Property, plant and equipment	8	352,985,987	344,837,482	326,661,210
Investment property		–	–	600,000
Right-of-use assets	9	313,566,212	286,177,692	266,737,158
Intangible assets	10	3,914,677	1,677,149	1,516,456
Goodwill	11	26,879,317	26,879,317	1,367,493
Long-term financial assets		314	150,552	350,645
Long-term receivables		–	800,468	–
		697,346,507	**660,522,660**	**597,232,962**
Current assets				
Inventories	12	218,873,586	182,140,503	156,709,275
Trade and other receivables	13	13,993,440	6,811,318	1,399,186
Advances paid	14	5,769,958	5,447,803	4,004,689
Taxes receivable, excluding income tax		1,464,207	66,747	598,270
Prepaid expenses		656,210	522,021	640,440
Short-term financial assets		553,697	488,996	215,308
Income tax receivable		1,130,420	467,769	1,153,657
Cash and cash equivalents	15	8,901,298	26,747,754	18,337,417
		251,342,816	**222,692,911**	**183,058,242**
Total assets		**948,689,323**	**883,215,571**	**780,291,204**

The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

	Notes	31 December 2019	31 December 2018 Restated (Notes 2)	1 January 2018 Restated (Notes 2)
Equity and liabilities				
Equity attributable to the shareholders of the parent				
Share capital	16	1,020	1,020	1,020
Share premium	16	87,379,413	87,257,340	87,635,960
Treasury shares	16	(16,454,110)	(12,051,463)	–
Share-based payments reserve	31	1,623,268	–	–
Retained earnings		115,983,222	137,235,129	140,502,834
Total equity		**188,532,813**	**212,442,026**	**228,139,814**
Non-current liabilities				
Long-term loans and borrowings	21	119,632,362	93,736,140	86,338,130
Long-term lease liabilities	9	320,600,953	290,581,189	266,335,407
Long-term advances received		244,623	408,734	–
Long-term government grants	22	3,206,076	2,975,361	1,100,568
Deferred tax liabilities	29	16,073,679	15,292,458	13,729,813
		459,757,693	**402,993,882**	**367,503,918**
Current liabilities				
Trade and other payables	18	161,631,006	131,101,185	99,142,151
Accrued expenses	19	17,020,105	13,084,885	11,574,953
Taxes payable, excluding income tax	20	4,291,007	4,791,836	6,283,720
Dividends payable	17	14,452,943	13,629,822	831
Short-term advances received		696,526	665,285	562,691
Contract liabilities		1,056,711	1,447,052	315,696
Short-term government grants	22	62,857	62,340	55,423
Short-term loans and borrowings	21	64,578,456	70,837,201	40,121,925
Short-term lease liabilities	9	36,609,206	32,160,057	26,590,082
		300,398,817	**267,779,663**	**184,647,472**
Total liabilities		**760,156,510**	**670,773,545**	**552,151,390**
Total equity and liabilities		**948,689,323**	**883,215,571**	**780,291,204**

The Chief Executive Officer
of PJSC Magnit
J.G. Dunning

16 March 2020

The accompanying notes on pages 13-79 are an integral part of these consolidated financial statements.

PJSC Magnit Consolidated statement of comprehensive income

for the year ended 31 December 2019

(In thousands of Russian rubles)

	Notes	2019	2018 Restated (Notes 2)
Revenue	23	1,368,705,394	1,237,015,457
Cost of sales	24	(1,056,706,053)	(940,941,519)
Gross profit		**311,999,341**	**296,073,938**
Rental and sublease income		3,143,997	2,942,620
Selling expenses	25	(15,686,379)	(16,069,946)
General and administrative expenses	26	(254,961,673)	(220,744,798)
IInterest income		272,595	210,316
Finance costs	27	(47,781,649)	(39,541,807)
Other income	28	16,396,467	10,514,535
Other expenses		(1,676,061)	(907,548)
Foreign exchange gain/(loss)		872,834	(1,523,135)
Profit before tax		**12,579,472**	**30,954,175**
Income tax expense	29	(3,015,250)	(6,783,907)
Profit for the year	**30**	**9,564,222**	**24,170,268**
Total comprehensive income for the year, net of tax		**9,564,222**	**24,170,268**

	Notes	2019	2018 Restated (Notes 2)
Profit for the year			
Attributable to:			
Shareholders of the parent		9,564,222	24,170,268
		9,564,222	**24,170,268**
Total comprehensive income for the year, net of tax			
Attributable to:			
Shareholders of the parent		9,564,222	24,170,268
		9,564,222	**24,170,268**
Earnings per share (in RUB per share) - basic and diluted profit for the year attributable to the shareholders of the parent	30	97,98	238,96

The Chief Executive Officer
of PJSC Magnit
J.G. Dunning

The accompanying notes on pages 172-245 are an integral part of these consolidated financial statements.

16 March 2020

PJSC Magnit
Consolidated statement of cash flows

for the year ended 31 December 2019
(In thousands of Russian rubles)

	Notes	2019	2018 Restated (Notes 2)
Cash flows from operating activities			
Profit before income tax		**12,579,472**	**30,954,175**
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8, 9	87,117,847	72,354,587
Amortization of intangible assets	10	976,589	798,926
Loss from disposal of property, plant and equipment		358,190	549,026
Loss from disposal of intangible assets		23,164	10,754
Gain from disposal of investment property		–	(1,180)
Gain from sales of investments		(47,511)	–
Accrual/(reversal) of provision for expected credit losses (ECL)	26	405,773	(97,118)
Share-based payments reserve		2,452,342	–
Gain from cancellation of lease contracts	9	(1,985,180)	(1,804,180)
Foreign exchange (gain)/loss		(872,834)	1,523,135
Finance costs	27	47,781,649	39,541,807
Investment income		(272,595)	(210,316)
Operating cash flows before working capital changes		**148,516,906**	**143,619,616**
Cash flows from financing activities		(6,787,427)	(1,213,236)
Proceeds from loans and borrowings		(322,155)	(1,442,228)
Repayment of loans and borrowings		(132,870)	511,328
Dividends paid		(1,397,460)	1,145,281
Repayment of lease liabilities		(134,189)	118,695
Purchase of treasury shares		(36,733,083)	(23,050,790)
Net cash used in financing activities		31,320,853	10,095,175
Net (decrease)/increase in cash and cash equivalents		3,935,220	511,124
Cash and cash equivalents at the beginning of the year		(500,829)	(1,827,166)
Cash and cash equivalents at the end of the year		(390,341)	1,131,357

	Notes	2019	2018 Restated (Notes 2)
Increase in government grants	22	231,232	1,858,968
Cash generated from operations		**137,605,857**	**131,458,124**
Income tax paid		(2,896,680)	(4,433,235)
Interest paid		(46,732,567)	(40,266,504)
Interest received		251,870	200,720
Net cash from operating activities		**88,228,480**	**86,959,105**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(53,911,476)	(50,498,665)
Purchase of intangible assets	10	(3,237,281)	(957,597)
Cash acquired on business combination	7	–	187,758
Proceeds from sale of property, plant and equipment		672,002	1,079,628
Proceeds from sale of investment property		–	601,180
Loans provided		(539,032)	(1,507,414)
Loans repaid		692,806	166,756
Proceeds from government grants	22	–	22,742
Net cash used in investing activities		**(56,322,981)**	**(50,905,612)**
Cash flows from financing activities			
Proceeds from loans and borrowings	33	695,756,324	600,693,859
Repayment of loans and borrowings	33	(677,163,335)	(572,272,534)
Dividends paid	17,33	(29,993,007)	(13,808,982)
Repayment of lease liabilities	9,33	(33,242,289)	(24,527,812)
Purchase of treasury shares	16	(5,109,648)	(17,727,687)
Net cash used in financing activities		**(49,751,955)**	**(27,643,156)**
Net (decrease)/increase in cash and cash equivalents		**(17,846,456)**	**8,410,337**
Cash and cash equivalents at the beginning of the year	15	26,747,754	18,337,417
Cash and cash equivalents at the end of the year	**15**	**8,901,298**	**26,747,754**

The Chief Executive Officer
of PJSC Magnit
J.G. Dunning

16 March 2020

The accompanying notes on pages 172-245 are an integral part of these consolidated financial statements.

PJSC Magnit Consolidated statement of changes in equity

for the year ended 31 December 2019
(In thousands of Russian rubles)

	Attributable to shareholders of the parent		Attributable to shareholders of the parent			
	Share capital	Share premium	Treasury shares	Provision for share-based payments	Retained earnings	Equity attributable to shareholders of the parent
Balance at 1 January 2018	**1,020**	**87,635,960**	**–**	**–**	**171,670,459**	**259,307,439**
Effect of adoption of IFRS 16 Leases (Note 4.2)	–	–	–	–	(26,771,443)	(26,771,443)
Effect of change in vendor rebates allocation method (Note 4.1)	–	–	–	–	(4,396,182)	(4,396,182)
Balance at 1 January 2018 (restated)	**1,020**	**87,635,960**	**–**	**–**	**140,502,834**	**228,139,814**
Profit for the year	–	–	–	–	24,170,268	24,170,268
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**24,170,268**	**24,170,268**
Dividends declared (Note 17)	–	–	–	–	(27,437,973)	(27,437,973)
Purchase of treasury shares (Note 16)	–	–	(17,727,687)	–	–	(17,727,687)
Business combination (Notes 7)	–	(378,620)	5,676,224	–	–	5,297,604
Balance at 31 December 2018 (restated)	**1,020**	**87,257,340**	**(12,051,463)**	**–**	**137,235,129**	**212,442,026**
Balance at 1 January 2019	**1,020**	**87,257,340**	**(12,051,463)**	**–**	**137,235,129**	**212,442,026**
Profit for the year	–	–	–	–	9,564,222	9,564,222
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**9,564,222**	**9,564,222**
Dividends declared (Note 17)	–	–	–	–	(30,816,128)	(30,816,128)
Purchase of treasury shares (Note 16)	–	–	(5,109,648)	–	–	(5,109,648)
Share-based payments (Notes 16, 31)	–	–	–	2,452,342	–	2,452,342
Transfer of rights to equity instruments for share based payments (Note 16)	–	122,073	707,001	(829,074)	–	–
Balance at 31 December 2019	**1,020**	**87,379,413**	**(16,454,110)**	**1,623,268**	**115,983,223**	**188,532,814**

The Chief Executive Officer
of PJSC Magnit
J.G. Dunning

The accompanying notes on pages 172-245 are an integral part of these consolidated financial statements.

16 March 2020

PJSC Magnit Notes to Consolidated Financial Statements for the Year Ended 31 December 2019

(In thousands of Russian rubles)

1. Corporate information

Closed 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 name 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, hypermarkets 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 as at 31 December 2019	Ownership interest as at 31 December 2018
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, vehicles 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 Volshebnaya 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%	100%
LLC Magnit IT Lab**	Innovative software product development	100%	–
LLC TH SIA Group	Pharmaceutical wholesale	100%	100%
LLC MF-SIA	Management activities	100%	100%
JSC SIA International Ltd	Pharmaceutical wholesale	100%	100%
JSC Rink	Production of medical devices	100%	100%
LLC MC SIA Group	Management activities	100%	100%
JSC SIA International – Krasnodar	Commission trade of medicines and medical products	80%	80%
LLC SIA International – Arkhangelsk	Commission trade of medicines and medical products	100%	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%	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%	100%
JSC 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%	100%
LLC SIA International – Voronezh	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Ekaterinburg	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Irkutsk	Commission trade of medicines and medical products	100%	100%

for the year ended 31 December 2019 (In thousands of Russian rubles)

1. Corporate information. (continued)

Company name	Principal activity	Ownership interest as at 31 December 2019	Ownership interest as at 31 December 2018
LLC SIA International – Kazan	Commission trade of medicines and medical products	100%	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%	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%	100%
LLC SIA International – Novosibirsk	Commission trade of medicines and medical products	100%	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%	100%
LLC SIA International – Samara	Commission trade of medicines and medical products	100%	100%
LLC SIA International – Saint Petersburg	Commission trade of medicines and medical products	100%	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%	100%
LLC SIA International – Chelyabinsk*	Commission trade of medicines and medical products	–	100%
LLC SIA International – Chernozemie*	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%

* In 2019 the management of the Group decided to liquidate a number of the SIA Group companies engaged in commission trade of medicines and medical products. Liquidation of these companies did not have a significant impact on the consolidated financial statements of the Group and its operations.

** On 15 January 2019, the Group established a new company, LLC Magnit IT Lab, to develop innovative software products aiming to address the current IT challenges faced by the Group.

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for release by the Chief Executive Officer of PJSC Magnit on 16 March 2020.

2. Basis of preparation

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 rubles ("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 consolidated financial statements are presented in Russian rubles and all values are rounded to the nearest thousand, except when otherwise indicated.

The financial statements have been prepared on a historical cost basis except for the use of fair value as deemed cost for certain property, plant and equipment as at the date of transition to IFRS, and financial instruments and investment property at fair value.

The consolidated financial statements provide comparative information in respect of the previous period. The Group has presented an additional statement of financial position as at 1 January 2018 due to retrospective application of the accounting policies as a result of adoption of IFRS 16 Leases (Note 4.2) and a changed method of allocating vendor rebates (Note 4.1).

for the year ended 31 December 2019 (In thousands of Russian rubles)

2. Basis of preparation. (continued)

The table below shows the cumulative effect (increase/(decrease)) of the adoption of IFRS 16 (Note 4.2), changes in the method of allocating vendor rebates (Note 4.1), and final fair values of identifiable assets and liabilities of SIA Group as at the acquisition date (Note 7) on the consolidated statement of financial position as at 31 December and 1 January 2018 (increase/(decrease)):

	31 December 2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	Effect of final fair value measurement	31 December 2018 as restated
ASSETS					
Property, plant and equipment	350 331 456	(4 317 977)	–	(1 175 997)	344 837 482
Right-of-use assets	–	285 969 493	–	208 199	286 177 692
Land lease rights	2 196 180	(2 196 180)	–	–	–
Intangible assets	3 442 439	(1 765 290)	–	–	1 677 149
Goodwill	24 091 508	–	–	2 787 809	26 879 317
Long-term receivables	–	–	–	800 468	800 468
Deferred tax asset	2 687 401	–	–	(2 687 401)	–
Total non-current assets	**382 899 536**	**277 690 046**	**–**	**(66 922)**	**660 522 660**
Inventory	187 778 882	–	(5 868 454)	230 075	182 140 503
Trade and other receivables	6 961 003	–	–	(149 685)	6 811 318
Advances paid	5 654 981	(207 178)	–	–	5 447 803
Total current assets	**228 688 153**	**(207 178)**	**(5 868 454)**	**80 390**	**222 692 911**
Total assets	**611 587 689**	**277 482 868**	**(5 868 454)**	**13 468**	**883 215 571**
Retained earnings	178 097 010	(36 167 118)	(4 694 763)	–	137 235 129
Equity attributable to the shareholders of the parent	**253 303 907**	**(36 167 118)**	**(4 694 763)**	**–**	**212 442 026**
Liabilities					
Long-term lease liabilities	–	290 581 189	–	–	290 581 189
Deferred tax liabilities	25 550 550	(9 046 636)	(1 173 691)	(37 765)	15 292 458
Total non-current liabilities	**122 670 785**	**281 534 553**	**(1 173 691)**	**(37 765)**	**402 993 882**
Trade and other payables	131 173 426	(44 624)	–	(27 617)	131 101 185
Accrued expenses	13 006 035	–	–	78 850	13 084 885
Short-term lease liabilities	–	32 160 057	–	–	32 160 057
Total current liabilities	**235 612 997**	**32 115 433**	**–**	**51 233**	**267 779 663**
Total liabilities	**358 283 782**	**313 649 986**	**(1 173 691)**	**13 468**	**670 773 545**
Total adjustment to equity and liabilities	**611 587 689**	**277 482 868**	**(5 868 454)**	**13 468**	**883 215 571**

	1 January 2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	1 January 2018 as restated
Assets				
Property, plant and equipment	329,826,903	(3,165,693)	–	326,661,210
Right-of-use assets	–	266,737,158	–	266,737,158
Land lease rights	2,373,022	(2,373,022)	–	–
Intangible assets	2,267,960	(751,504)	–	1,516,456
Total non-current assets	336,786,023	260,446,939	–	597,232,962
Inventory	162,204,502	–	(5,495,227)	156,709,275
Advances paid	4,990,444	(985,755)	–	4,004,689
Total current assets	189,539,224	(985,755)	(5,495,227)	183,058,242
Total assets	**526,325,247**	**259,461,184**	**(5,495,227)**	**780,291,204**
Retained earnings	171,670,459	(26,771,443)	(4,396,182)	140,502,834
Equity attributable to the shareholders of the parent	**259,307,439**	**(26,771,443)**	**(4,396,182)**	**228,139,814**
Liabilities				
Long-term lease liabilities	–	266,335,407	–	266,335,407
Deferred tax liabilities	21,521,720	(6,692,862)	(1,099,045)	13,729,813
Total non-current liabilities	**108,960,418**	**259,642,545**	**(1,099,045)**	**367,503,918**
Short-term lease liabilities	–	26,590,082	–	26,590,082
Total current liabilities	158,057,390	26,590,082	–	184,647,472
Total iabilities	**267,017,808**	**286,232,627**	**(1,099,045)**	**552,151,390**
Total adjustment to equity and liabilities	**526,325,247**	**259,461,184**	**(5,495,227)**	**780,291,204**
Total adjustment to equity andliabilities	**526,325,247**	**259,461,184**	**(5,495,227)**	**780,291,204**

for the year ended 31 December 2019 (In thousands of Russian rubles)

2. Basis of preparation. (continued)

The table below shows the cumulative effect (Increase/decrease) of the adoption of IFRS 16 (Note 4.2) and changes in the method of allocating vendor rebates (Note 4.1) on the consolidated statement of comprehensive income for 2018 (increase/(decrease) for gain and decrease/(increase) for loss):

	2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	2018 as restated
Cost of sales	(940,568,293)	–	(373,226)	(940,941,519)
Gross profit	**296,447,164**	**–**	**(373,226)**	**296,073,938**
General and administrative expenses	(237,709,394)	16,964,596	–	(220,744,798)
Finance expenses	(9,136,262)	(30,405,545)	–	(39,541,807)
Other income	8,710,355	1,804,180	–	10,514,535
Foreign exchange gain/(loss)	(1,415,310)	(107,825)	–	(1,523,135)
Profit before tax	**43,071,995**	**(11,744,594)**	**(373,226)**	**30,954,175**
Income tax expense	(9,207,471)	2,348,919	74,645	(6,783,907)
Profit for the year	**33,864,524**	**(9,395,675)**	**(298,581)**	**24,170,268**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	**33,864,524**	**(9,395,675)**	**(298,581)**	**24,170,268**
Basic and diluted profit for the year attributable to shareholders of the parent	334,81	(92,89)	(2,96)	238,96

The table below shows the cumulative effect of the adoption of IFRS 16 (Note 4.2) and changes in the method of allocating vendor rebates (Note 4.1), and completed fair value measurement of the identifiable assets and liabilities of SIA Group as at the acquisition date (Note 7) on the consolidated statement of cash flows for 2018:

	2018 as previously reported	Effect of adoption of IFRS 16	Effect of change in the vendor rebates allocation method	2018 as restated
Cash flows used in operating activities				
Profit before tax	43,071,995	(11,744,594)	(373,226)	30,954,175
Depreciation and impairment of property, plant and equipment and right-of-use assets	35,521,322	36,833,265	–	72,354,587
Amortization of intangible assets	996,116	(197,190)	–	798,926
Loss from disposal of land lease rights	25,789	(25,789)	–	–
Loss from disposal of intangible assets	27,278	(16,524)	–	10,754
Foreign exchange loss	1,415,310	107,825	–	1,523,135
Finance costs	9,136,262	30,405,545	–	39,541,807
Gain on lease derecognition	–	(1,804,180)	–	(1,804,180)
Operating cash flows before working capital changes	**90,434,484**	**53,558,358**	**(373,226)**	**143,619,616**
Increase in advances paid	(663,651)	(778,577)	–	(1,442,228)
Increase in inventories	(23,424,016)	–	373,226	(23,050,790)
Increase in trade and other payables	10,247,625	(152,449)	–	10,095,176
Cash generated from operations	**78,830,792**	**52,627,332**	**–**	**131,458,124**
Interest paid	(9,860,959)	(30,405,545)	–	(40,266,504)
Net cash from operating activities	**64,737,318**	**22,221,787**	**–**	**86,959,105**
Purchase of property, plant and equipment	(51,603,538)	1,104,873	–	(50,498,665)
Purchase of intangible assets	(2,154,557)	1,196,960	–	(957,597)
Purchase of land lease rights	(847)	847	–	–
Net cash used in investing activities	**(53,208,292)**	**2,302,680**	**–**	**(50,905,612)**
Repayment of lease liabilities	(3,345)	(24,524,467)	–	(24,527,812)
Net cash generated from / (used in) financing activities	**(3,118,689)**	**(24,524,467)**	**–**	**(27,643,156)**

2. Basis of preparation. (continued)

Reclassifications
The Group has changed the presentation of certain items of the consolidated statement of comprehensive income for 2019 and 2018 to present income from operating leases and subleases in the line "Rental and sublease income", and reclassified some warehousing and in-house production costs from the line "General and administrative expenses" to the line "Cost of sales". The comparative information for the year ended 31 December 2018 was reclassified to conform to the current year presentation.

Functional currency
The Russian ruble is the functional currency of all the companies within the Group and the currency in which these consolidated financial statements are presented.

Going concern
In assessing whether the going concern assumption is appropriate for the Group, management considered cash flow projections for 2020, taking into account Russia's current economic environment, the financial situation of the Group, undrawn loan facilities available to it, as well as planned expenditure on opening new stores and maintaining existing ones.

Management believes that operating cash flows and the available sources of credit are sufficient to meet the Group's liabilities during the next year. Thus, these consolidated financial statements have been prepared on a going concern basis.

3. Summary of significant accounting policies

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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the shareholders 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. The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company. 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.

If the Group loses control over a subsidiary, it derecognizes the respective assets (including goodwill), liabilities, non-controlling interests, and other components of equity, and recognizes any resultant gain or loss in profit or loss. Any investment retained is recognized at fair value.

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 are expensed and included in administrative expenses as incurred.

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 held 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 will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held 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 recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized 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 acquire 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:

- Expected to be realised or intended to be 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.

3. Summary of significant accounting policies. (continued)

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 such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 33.

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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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 Group is engaged in both retail and wholesale activities; goods are sold through a network of own stores and distribution centres. Revenue is recognized when control of the goods passes to the customer, i.e., sales to retail customers are recognized at the point of sale in stores and to wholesale customers – at the point of sale in distribution centres, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is reduced by the expected amount of returns to which customers are entitled under Russian law within 14 days of the purchase except for certain categories of goods. The Group uses historical data on the term and frequency of returns from customers to estimate and recognize provisions for such returns at the time of sale. Because the level of returns has been steady for several years, it is highly probable that no significant changes in cumulative revenue recognized will occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Customer loyalty program
For the purpose of promoting sales and building customer loyalty, the Group establishes promotion programs to allow customers accumulate loyalty points and exchange them for goods specially purchased for promotions. The loyalty program gives rise to a separate performance obligation because it provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty points awarded to the customer based on their relative stand-alone selling price and recognizes that portion as a contract liability until the points are redeemed by the customer. Revenue is recognized when the customer redeems their loyalty points against goods. The relative stand-alone selling price of the loyalty points is estimated based on the probability that the customer will redeem their points. The Group updates, on a quarterly basis, its estimate of the number of loyalty points that will be redeemed, and the adjusted balance of contract liabilities is charged against revenue.

Expenses related to loyalty programs in respect of goods specially purchased for promotions, are recognized in selling expenses and classified as advertising expenses.

Revenue from advertising services
Revenue from advertising services is recognized in the reporting period when the services are provided. The Group classifies such revenue within other operating income and recognizes it over the period, as a customer receives the services and obtains benefit from them at the same point of time. The Group recognizes revenue as a proportion of provided services to total services per contract.

Property, plant and equipment
Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives.

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

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

Depreciation is charged so as to write off the cost 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.

3. Summary of significant accounting policies (continued)

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

	Useful life in years
Buildings	10-50
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 consolidated statement of comprehensive income.

Government grants
A government grant is recognized 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 are provided to finance specific expenses, government grants are recognized 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 are provided to finance an asset, government grants are be recognized in profit or loss on a straight-line basis over the expected useful life of that asset.

The benefit of a government loan at a below-market interest rate is treated as a government grant. The loan is recognized at fair value. The benefit of the below-market interest rate 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 consolidated statement of comprehensive income 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 derecognized 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 recognized in the consolidated statement of comprehensive income 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 applicable to property, plant and equipment up to the date of change in use.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The following useful lives are used in the calculation of amortization:

Description	Useful life in years
Licenses	1-25
Software	1-25
Trademarks	1-10
Other	1-7

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income.

3. Summary of significant accounting policies (continued)

Leases

Group as a lessee
The Group's leases mainly include lease agreements for land and retail store premises.

The Group has applied a uniform recognition and measurement approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities in relation to its obligation to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below is a summary of the Group's accounting policies for lease:

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group uses the following useful lives:

	Useful life, years
Buildings	1-34
Land	1-65

Depreciation of right-of-use assets is charged to profit or loss, except for depreciation of right-to-use assets representing right to use leased land plots during the construction process necessary to bring the property into a condition suitable for use in accordance with the objectives of the Group with is included in the carrying value of assets under construction. Right-of-use assets are tested for impairment.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue from lease or sub-lease in the consolidated statement of comprehensive income due to its operating nature.

Impairment of non-current assets
At each reporting date, the Group reviews the carrying amounts of its tangible 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 recognized immediately in the consolidated statement of comprehensive income. 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 recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

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 recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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.

3. Summary of significant accounting policies. (continued)

Provisions
Provisions are recognized 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 recognized 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 (rebates) and other forms of payments that effectively reduce the cost of goods purchased from the vendor. Volume-related rebates 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.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. 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 recognized 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 recognized 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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, 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 recognized 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 utilized.

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 realized, 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 recognized as an expense or income in the consolidated statement of comprehensive income, 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 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.

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 capitalized as part of the cost of that asset, other borrowing costs are recognized 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 capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization 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.

3. Summary of significant accounting policies (continued)

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 recognized 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 recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

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).

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 recognized in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognized 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 consolidated statement of comprehensive income for a period represents the movement in cumulative expense recognized 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 recognized 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 recognized 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 recognized 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.

Financial assets

General
At initial recognition, 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; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVPL).

With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

The Group only measures loans given 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.

3. Summary of significant accounting policies (continued)

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 consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For all financial instruments measured at amortised cost and debt financial assets, interest income is recorded using the effective interest rate method. Interest income is recognized in the consolidated statement of comprehensive income.

Impairment of financial assets
The Group recognizes 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 recognized 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 recognizes 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 major banks and financial institutions.

Derecognition of financial assets and liabilities
A financial asset is removed from the consolidated statement of financial position 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 all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized 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 recognized as a deduction to equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized 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. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Treasury shares carry no voting rights and pay no dividend. Treasury shares are used to settle share-based payments during the period.

Share premium
Share premium represents the difference between the fair value of consideration received and nominal value of the issued shares. Share premium also includes a difference between the carrying amount of treasury shares and fair value of consideration transferred in business combination.

Earnings per share
Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the 12 months ended 31 December 2019 and 2018.

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.

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.

Derecognition of financial liabilities
The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

for the year ended 31 December 2019 (In thousands of Russian rubles)

3. Summary of significant accounting policies (continued)

Offsetting of financial instruments
Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The right to offset should not be caused by a future event and should be legally enforceable in all the following cases:

- operating activity;
- default;
- insolvency or bankruptcy of the Group or any of 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.

4.1. Change in the method of allocating vendor rebates

Following changes in its strategy aimed to improve operating efficiency in 2019 the Group enhanced its inventory management system as well as business processes that allow the Group among other to manage and perform analysis of inventories on a more detailed basis and align it with the new operating and strategic goals of the Group. As part of these changes the Group also changed its methodology of vendor rebates allocation as management believes that the new approach provides more relevant information by categories of products and it aligns to the industry practice and aids comparability. The Group has applied changes of vendor rebates allocation between closing inventories and cost of goods sold methodology retrospectively.

The tables below summarise the impact of applying the new method on the comparatives included in the consolidated financial statements as at and for the year ended 31 December 2019:

Impact on the consolidated statement of financial position (increase/(decrease) per line item):

	31 December 2018	1 January 2018
Current assets		
Inventories	(5,868,454)	(5,495,227)
Total current assets	**(5,868,454)**	**(5,495,227)**
Total assets	**(5,868,454)**	**(5,495,227)**
Equity and liabilities		
Retained earnings	(4,694,763)	(4,396,182)
Total equity	**(4,694,763)**	**(4,396,182)**
Non-current liabilities		
Deferred tax liabilities	(1,173,691)	(1,099,045)
Total non-current liabilities	**(1,173,691)**	**(1,099,045)**
Total equity and liabilities	**(5,868,454)**	**(5,495,227)**

Impact on the consolidated statement of comprehensive income for the year ended 31 December 2018 (increase/(decrease) in income, decrease/(increase) in expenses):

	2018
Cost of sales	(373,226)
Gross profit	**(373,226)**
Profit before tax	**(373,226)**
Income tax expense	74,645
Profit for the year	**(298,581)**
Total comprehensive income for the year, net of tax	**(298,581)**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent	**(298,581)**
Basic and diluted earnings for the year attributable to shareholders of the parent	(2.96)

for the year ended 31 December 2019 (In thousands of Russian rubles)

4.1. Change in the method of allocating vendor rebates (continued)

Impact on the consolidated statement of cash flows for the year ended 31 December 2018:

	2018
Cash flows from operating activities	
Profit before tax	(373,226)
Cash flows from operating activities before changes in working capital	**(373,226)**
Increase in inventory	373,226
Cash generated from operations	**–**

4.2. New and amended standards and interpretations

Except for the changes mentioned above and adoption of new standards and interpretations effective as at 1 January 2019, as described below, the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet 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.

The Group adopted IFRS 16 using the full retrospective method of adoption. This approach requires that the figures for each affected equity component at the beginning of the earliest of the prior periods presented and any other comparatives disclosed for each of the prior periods presented should be adjusted retrospectively as if the standard had always been applied.

In accordance with the full retrospective method, the Group applied IFRS 16 at the date of initial application, as if it had been applied since the commencement dates of the existing leases. The comparative information contained in these consolidated financial statements, has been restated accordingly.

The Group elected to use the following practical expedients permitted in the standard:

- For all types of underlying assets, each lease component and any related components that are not a lease will be accounted for as one lease component.
- Lease payments under contracts with lease term of not more than 12 months in relation to all types of underlying assets, with the exception of land and buildings, will, as before, be recognized as expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

The impact of adoption of IFRS 16 on the consolidated statement of financial position as at 31 December 2018 is presented below (increase/(decrease) per line item):

	31 December 2018	1 January 2018
Assets		
Property, plant and equipment	(4,317,977)	(3,165,693)
Right-of-use assets	285,969,493	266,737,158
Land lease rights	(2,196,180)	(2,373,022)
Intangible assets	(1,765,290)	(751,504)
Advances paid	(207,178)	(985,755)
	277 482 868	**259 461 184**
Equity attributable to shareholders of the parent company		
Retained earnings	(36,167,118)	(26,771,443)
Total equity	**(36,167,118)**	**(26,771,443)**
Liabilities		
Long-term lease liabilities	290,581,189	266,335,407
Deferred tax liabilities	(9,046,636)	(6,692,862)
Trade and other payables	(44,624)	–
Short-term lease liabilities	32,160,057	26,590,082
Total liabilities	**313,649,986**	**286,232,627**
Total equity and liabilities	**277,482,868**	**259,461,184**

for the year ended 31 December 2019 (In thousands of Russian rubles)

4.2. New and amended standards and interpretations (continued)

The impact of adoption of IFRS 16 on the consolidated statement of comprehensive income for 2018 is presented below:

	2018
General and administrative expenses (decrease)	16,964,596
Finance costs (increase)	(30,405,545)
Gain on lease cancellation/reduction	1,804,180
Foreign exchange gain (loss)	(107,825)
Profit before tax (decrease)	**(11,744,594)**
Income tax expense (decrease)	2,348,919
Profit (decrease)	**(9,395,675)**
Total comprehensive income for the year, net of tax, attributable to shareholders of the parent (decrease)	**(9,395,675)**
Basic and diluted profit for the year attributable to shareholders of the parent (decrease)	**(92,89)**

The impact of adoption of IFRS 16 on the consolidated statement of cash flows for 2018 is presented below:

	2018
Cash flows from operating activities	
Profit before tax (decrease)	**(11,744,594)**
Adjustments for:	
Depreciation and impairment of property, plant and equipment and right-of-use assets (increase)	36,833,265
Amortization of intangible assets (decrease)	(197,190)
Loss from disposal of land lease rights (decrease)	(25,789)
Loss from disposal of intangible assets (decrease)	(16,524)
Foreign exchange loss (increase)	107,825
Finance costs (increase)	30,405,545
Gain on lease derecognition (increase)	(1,804,180)
Operating cash flows before working capital changes (increase)	**53,558,358**
Decrease in advances paid (decrease)	(778,577)
Increase in trade and other payables (increase)	(152,449)
Cash generated from operations (increase)	**52,627,332**
Interest paid (increase)	(30,405,545)
Net cash from operating activities (increase)	**22,221,787**
Purchase of property, plant and equipment (decrease)	1,104,873
Purchase of intangible assets (decrease)	1,196,960
Purchase of land lease rights (decrease)	847
Net cash used in investing activities (decrease)	**2,302,680**
Repayment of lease liabilities (increase)	(24,524,467)
Net cash used in financing activities (increase)	**(24,524,467)**

The Group changed presentation of deferred tax assets recognized as a result of the first adoption of IFRS 16 as at 31 December 2018 compared to previously issued interim condensed consolidated financial statements for the six-month period ended 30 June 2019, and presented deferred tax asset of RUB 9,046,636 thousand on a net basis with deferred tax liability as at 31 December 2018.

Effect of first adoption of IFRS 16
The Group's lease agreements are mainly represented by lease agreements for retail store facilities. Prior to adopting IFRS 16, the Group (as lessee) classified each of its leases at the inception as an operating lease. In case of operating leases, lease payments were capitalized until the retail outlet was opened, and were subsequently recognized on a straight-line basis over the lease term as lease expenses in the consolidated statement of comprehensive income. All prepaid and accrued lease payments were recognized, respectively, as "Advances paid" and "Trade and other payables".

Upon adoption of IFRS 16, the Group has adopted a uniform approach for all leases where it is a lessee, except for short-term leases and leases of low-value assets. The Group recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

In accordance with the full retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

4.2. New and amended standards and interpretat (continued)

As at 31 December 2018 (1 January 2018):

- Right-of-use assets of RUB 285,969,493 thousand (RUB 266,737,158 thousand) were recognized separately.
- Lease liabilities of RUB 322,741,246 (RUB 292,925,489 thousand) were recognized and included in "Long-term lease liabilities" and "Short-term lease liabilities".
- Advances paid of RUB 207,178 thousand (RUB 985,755 thousand) and trade and other payables of RUB 44,624 thousand (RUB 0 thousand) related to previously recognized advances and accruals under operating leases were derecognized.
- Deferred tax liabilities were reduced by RUB 9,046,636 thousand (RUB 6,692,862 thousand) to reflect the impact of changes in assets and liabilities on deferred taxes.
- The net effect of these adjustments of RUB 36,167,118 thousand (RUB 26,771,443 thousand) was charged to retained earnings.

Year ended 31 December 2018:

- Depreciation and amortization expense increased in aggregate by RUB 36,636,075 thousand because of depreciation of recognized additional right-of-use assets, net of decrease in the carrying amount of "Property, plant and equipment" and "Intangible assets".
- Rent and utility expenses in "General and administrative expenses" related to leases previously classified as operating leases decreased by RUB 53,600,671 thousand.
- Finance costs increased by RUB 30,405,545 thousand due to recognition of interest expense on additional lease liabilities.
- Other income increased by RUB 1,804,180 thousand due to cancelation of previously recognized operational lease liabilities.
- Income tax expense decreased by RUB 2,348,919 thousand as a result of the tax effect of the above changes in income and expenses.
- Net cash from operating activities increased by RUB 22,221,787 thousand, net cash used in investing activities decreased by RUB 2,302,680 thousand and net cash used in finance activities increased by RUB 24,524,467 thousand, reflecting payments of the principal amount, recognized lease liabilities and lease interest.

IFRIC 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies 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 addresses 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 has to 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 needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing, and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

The interpretation had no impact on the consolidated financial statements of the Group.

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 an 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. These amendments had no impact on the consolidated financial statements of the Group.

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 the 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.

An entity is also required to determine the 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).

These amendments had no impact on the consolidated financial statements of the Group.

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, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements of the Group.

4.2. New and amended standards and interpretat (continued)

Annual improvements, 2015-2017 cycle

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. These amendments had no impact on the consolidated financial statements of the Group, as the Group does not engage in such transactions.

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. These amendments had no impact on the consolidated financial statements of the Group, as the Group does not engage in transactions in which it obtains joint control.

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 recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

As the current policy of the Group complies with the requirements of the amendments, their application had no impact on the consolidated financial statements of the Group.

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.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

As the current policy of the Group complies with the requirements of the amendments, their application had no impact on the consolidated financial statements of the Group.

4.3. Standards issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

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* that was issued in 2005.

IFRS 17 applies 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.

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FRS 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.

Amendments to IFRS 3: 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.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Accordingly, an entity is not required to review such transactions occurred in earlier periods. Early application is permitted and must be disclosed.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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 new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

4.3. Standards issued but not yet effective (continued)

The amendments clarify that materiality depends on the nature or magnitude of information, or both. An entity needs 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 and are effective for annual reporting periods beginning on or after 1 January 2020. Early application is permitted and must be disclosed. The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships affected by the interest rate benchmark reform.

- The amendments modify specific hedge accounting requirements, so that entities would apply those requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.
- The changes will mandatorily apply to all hedging relationships carrying interest rate risk that are affected by the Reform.
- The amendments are not intended to provide relief from any consequences arising from the Reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required.

The amendments apply prospectively and are effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognized in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments. Specific disclosures are required for the effect of the amendments on the entity's hedging relationships.

The Group is evaluating the impact of the amendments on its consolidated financial statements.

IAS 1 Presentation of Financial Statement (the amendments) to specify the requirements for classifying liabilities as current or non-current.
The International Accounting Standards Board (IASB or the Board) issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of reporting period
- That classification is unaffected the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 (early application is permitted). The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

5. 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgements

Lease term for contracts with a renewal option
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Under some of its leases, the Group has the option to lease the assets for an additional term, generally of one to ten years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Interest rate of additional sources of funding
The Group determines lease liabilities by discounting lease payments and applying interest rate implicit in lease contracts. If the rate cannot be readily determined, the Group applies the interest rate of additional sources of funding adjusted by specific lease conditions which the Group will pay:

- under conditions similar to lease conditions;
- in the amount equal to the right-in-use asset;
- in comparable market conditions.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Valuation of inventory
Management reviews inventory balances to determine if the inventories can be sold at a price equal to or greater than their carrying amount plus costs to sell. The review also identifies slow-moving inventories that are written-off if obsolete or during physical inventory counts.

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5. Significant accounting judgements and estimates (continued)

Impairment of assets
The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

Management necessarily applies 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, future cash flows are estimated for each store based on cash flow projections using 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 future return on sales.

Due to their subjective nature, these estimates will likely differ from actual future results of operations and cash flows, and it is possible that these differences could be material.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Useful lives of property, plant and equipment, including leasehold improvements
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 management's business plans and 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 benefits to the Group, historical information on similar assets and industry trends.

As a result of such analysis, the Group's management decided to change the useful lives of certain groups of property, plant and equipment. Thus, the useful life for own buildings has increased from 30 to 50 years. The useful lives for most types of leasehold improvements made by the Group to rented stores changed from 30 to 10 years, aligning them with the terms of leases, the frequency of revision of extension options, planned rebranding and overhauls in accordance with changes in the Group's strategy. As a result of the change in the above useful lives, depreciation charges across the Buildings and Structures category for 2019 increased by RUB 3,335,129 thousand. The change will also affect future periods.

Taxation
The Group is subject to income tax and other taxes. Significant judgment is required in determining the liability for income tax and other taxes due to the complexity of the Russian tax legislation. There are many transactions and calculations for which the ultimate tax position determination is uncertain.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether it is probable that 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.

Expected credit losses for trade and other receivables and contract assets
The Group uses a provision matrix to calculate expected credit losses (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.

Expected credit losses for trade and other receivables and contract assets
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. Past events that caused credit losses and forecasts of future economic conditions also may not be representative for actual default of a customer in future.

6. 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 the shareholders that have significant influence over the Group, and counterparties that are affiliated with the Group through key management (other related parties). Bank VTB PJSC and VTB Capital JSC represent the related parties being shareholders of the group and having significant influence of the Group. Transactions with related parties are made on terms not necessarily available to third parties.

Related party balances as at 31 December 2019 and 2018 consisted of the following:

	Shareholders		Other related parties	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loans payable (Note 21)	33,200,000	28,200,000	–	–
Other payables (Note 18)	94,502	2,633	58	93,288
Advances received	3,585	1,967	–	298
Other receivables	1,834	190	–	24,933
Short-term loans given	–	–	247,761	181,196
Long-term financial assets	–	–	–	50,000
Advances paid (Note 14)	–	–	–	24,364

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6. Balances and transactions with related parties (continued)

The Group's transactions with related parties for the years ended at 31 December 2019 and 2018 consisted of the following:

	Shareholders		Other related parties	
	2019	2018	2019	2018
Loans received	5,218,552	28,200,000	–	1,333,881
Repayment of loans received	2,784,279	898,389	–	1,169,174
Interest expense	2,565,727	898,389	–	71,473
Other expense	42,995	45,599	–	109,053
Investment income	14,611	17,117	30,228	9,024
Repayment of loans given	15,202	16,542	278,721	67,595
Rent and utilities income	26,632	15,931	73	30,909
Other income	19,809	8,052	–	819,223
Purchases of inventory	-	–	911,273	3,608,331
Loans given	–	–	236,780	125,857
Purchase of property, plant and equipment	–	–	171,232	117,922
Purchase of intangible assets	–	–	45,248	38,777
Rent expense	27,368	–	2,683	16,709
Wholesale revenue	–	–	–	68

No guarantees have been given or received.

No significant expense has been recognized in the period for expected credit losses on amounts due from related parties.

The Group entered into a number of agreements with related parties to obtain long-term loans of up to RUB 60,000,000 thousand maturing up to May 2023.

Short-term compensation to the Group's management and Board of Directors in 2019 totaled RUB 2,067,900 thousand (2018: RUB 908,822 thousand). Compensation to management consisted of contractual remuneration, social contributions and payments to members of the Board of Directors. In addition, share-based payments were awarded to key management personnel of the Group for 2019, relevant information is disclosed in Note 31.

7. Business combinations

Acquisition of MF-SIA LLC
On 27 November 2018, the Group acquired 100% of shares of MF-SIA LLC, and obtained control over the SIA group of companies (SIA Group). All legal entities of the SIA Group are based in the Russian Federation and are non-listed.

The SIA Group specialises in wholesale purchases and resale of pharmaceuticals and medical supplies. The Group has licenses to perform pharmaceutical activities and contracts with many major manufacturers of pharmaceutical products and medical goods in Russia and globally.

The Group acquired SIA Group with the purpose of developing logistic capacities and improving performance of Magnit Cosmetic and Magnit Pharmacy stores by using the acquired companies' expertise in pharmacy retail, their existing portfolio of direct contracts with pharmaceuticals manufacturers, and licensed and automated warehouse logistics.

Assets acquired and liabilities assumed
The assets and liabilities of the SIA Group recognized in the consolidated financial statements as at 31 December 2018 were presented based on a provisional assessment of their fair values, as the Group had not finalized the valuation and allocation of the purchase price by the date of issue of the consolidated financial statements for the year ended 31 December 2018. Also, the Group has not finalized the fair value assessment of some assets (including deferred tax assets) and liabilities (contingent liabilities and provisions), as the Group has not received all comprehensive information about the facts and circumstances as at the valuation date.

In October 2019, the Group finalised an independent valuation of the property and intangible assets owned by the SIA Group, as well as trade receivables, inventories, deferred tax assets, contingent liabilities and provisions. The Group concluded that the deferred tax asset of RUB 2,649,636 thousand previously recognized in the 2018 financial statements in the provisional fair value assessment of the SIA Group's assets and liabilities is not recoverable. The fair value of the property, plant and equipment at the date of acquisition was RUB 4,766,411 thousand, i.e., RUB 1,175,996 thousand above the provisional estimate.

Comparative information for 2018 was restated to reflect the adjustments to the provisional estimate and purchase price allocation. As a result, the recognized goodwill increased by RUB 2,787,809 thousand. The adjusted amount of goodwill on acquisition is therefore RUB 25,511,824 thousand.

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7. Business combinations (continued)

The adjusted fair value of assets and liabilities of the SIA Group at the acquisition date is as follows:

	Final fair value estimate recognized on acquisition	Provisional fair value estimate recognized on acquisition	Adjustments
Assets			
Property, plant and equipment (Note 8)	4,766,411	5,942,408	(1,175,997)
Right-of-use assets (Note 9)	208,199	–	208,199
Intangible assets (Note 10)	12,776	12,776	–
Long-term receivables	800,468	–	800,468,
Deferred tax assets (Note 28)	–	2,649,636	(2,649,636)
Inventory	2,380,439	2,150,364	230,075
Trade and other receivables	4,101,778	4,251,463	(149,685)
Cash and cash equivalents	187,758	187,758	–
Taxes receivable	712,732	712,732	–
Advances paid	886	886	–
	13,171,447	**15,908,023**	**(2,736,576)**
Liabilities			
Short-term loans and borrowings	11,691,781	11,691,781	–
Trade and other payables	20,359,795	20,387,412	(27,617)
Accrued expenses	999,045	920,195	78,850
Taxes payable	335,045	335,045	–
	33,385,666	**33,334,433**	**51,233**
Total identifiable net liabilities at fair value	**(20,214,220)**	**(17,426,411)**	**(2,787,809)**
Goodwill arising on acquisition (Note 11)	25,511,824	22,724,015	2,787,809
Consideration transferred on acquisition	**5,297,604**	**5,297,604**	**–**

The carrying value of amount of trade receivables is RUB 4,902,246 thousand. The fair value of trade receivables approximates their carrying value. Trade receivables are not impaired, and it is expected that the full contractual amounts will be collected.

The goodwill of RUB 25,511,824 thousand is attributable to expected synergies arising from the acquisition. The entire amount of goodwill is allocated the cash generating unit, which includes Group activities within Magnit Cosmetic and Magnit Pharmacy formats, including the related stores and warehouses. The recognized goodwill is not expected to be tax-deductible partly or in full.

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.

The Group purchased 1,513,601 own ordinary shares and transferred them as purchase consideration for 100% of shares of SIA Group. The fair value of the shares is calculated by 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 based on market quotes at the date of acquisition of MF-SIA LLC. The value of one share at the date of acquisition was RUB 3,500. The fair value of the consideration given was RUB 5,297,604 thousand. The Group transferred its own shares as the consideration for acquisition of MF-SIA LLC.

Transaction costs of RUB 259,504 thousand were included in administrative expenses in the consolidated statement of comprehensive income for 2018.

Cash and cash equivalents of the SIA Group at the acquisition date are included in cash flows from investing activities in the consolidated statement of cash flows for the year ended 31 December 2018.

8. Property, plant and equipment

Property, plant and equipment as at 31 December 2019 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Assets under construction	Total
Cost						
At 1 January 2019	**14,004,240**	**294,355,010**	**114,262,265**	**43,165,668**	**23,156,927**	**488,944,110**
Additions	19,019	–	22,869,304	1,723,433	30,024,652,	54,636,408
Capitalization	–	40,690,438	–	–	(40,690,438)	–
Disposals	(9,683)	(7,967,388)	(5,886,738)	(2,623,593)	(162,049)	(16,649,451)
At 31 December 2019	**14,013,576**	**327,078,060**	**131,244,831**	**42,265,508**	**12,329,092**	**526,931,067**
Accumulated depreciation and impairment						
At 1 January 2019	–	(50,803,350)	(71,203,070)	(22,100,208)	–	(144,106,628)
Charge for the period	–	(21,212,009)	(17,760,147)	(4,934,458)	–	(43,906,614)
Impairment	–	(1,264,805)	(21,144)	(947)	(264,200)	(1,551,096)
Disposals	–	7,820,139	5,230,515	2,568,604	–	15,619,258
At 31 December 2019	**–**	**(65,460,025)**	**(83,753,846)**	**(24,467,009)**	**(264,200)**	**(173,945,080)**
Net book value						
At 1 January 2019	**14,004,240**	**243,551,660**	**43,059,195**	**21,065,460**	**23,156,927**	**344,837,482**
At 31 December 2019	**14,013,576**	**261,618,035**	**47,490,985**	**17,798,499**	**12,064,892,**	**352,985,987**

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8. Property, plant and equipment (continued)

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 (as reported)	**16,040,282**	**267,229,195**	**104,253,052**	**40,221,686**	**21,650,557**	**449,394,772**
Adjustment (Note 4.2)	(1,991,026)	(1,201,622)	–	–	(5,166)	(3,197,814)
Cost (as restated)	**14,049,256**	**266,027,573**	**104,253,052**	**40,221,686**	**21,645,391**	**446,196,958**
Additions	49,661	153,250	14,693,139	5,446,876	30,155,739	50,498,665
Acquisition of subsidiary (Note 7)	412,694	3,967,287	217,909	67,108	101,413	4,766,411
Capitalization	–	28,419,534	–	–	(28,419,534)	–
Disposals	(507,371)	(4,212,634)	(4,901,835)	(2,570,002)	(326,082)	(12,517,924)
At 31 December 2018	**14,004,240**	**294,355,010**	**114,262,265**	**43,165,668**	**23,156,927**	**488,944,110**
Accumulated depreciation and impairment						
At 1 January 2018 (as reported)	**–**	**(40,344,375)**	**(60,350,243)**	**(18,873,251)**	**–**	**(119,567,869)**
Adjustment (Note 4.2)	–	32,121	–	–	–	32,121
Accumulated depreciation (as restated)	**–**	**(40,312,254)**	**(60,350,243)**	**(18,873,251)**	**–**	**(119,535,748)**
Charge for the year	–	(14,965,758)	(15,176,110)	(5,318,282)	–	(35,460,150)
Impairment for the year	–	–	–	–	–	–
Disposals	–	4,474,662	4,323,283	2,091,325	–	10,889,270
At 31 December 2018	**–**	**(50,803,350)**	**(71,203,070)**	**(22,100,208)**	**–**	**(144,106,628)**
Net book value						
At 1 January 2018	**14,049,256**	**225,715,319**	**43,902,809**	**21,348,435**	**21,645,391**	**326,661,210**
At 31 December 2018	**14,004,240**	**243,551,660**	**43,059,195**	**21,065,460**	**23,156,927**	**344,837,482**

In 2019, the weighted average capitalization rate on borrowed funds was 8.10% per annum (2018: 7.81%). The information on interest expenses included in the cost of qualifying assets is disclosed in Note 27.

Impairment Property, plant and equipment and Right-of-use assets
Based on observed external evidence of impairment of non-current assets, except for goodwill, as at 31 December 2019, the Group made a conclusion on the unfavourable market and economic conditions in the market where the Group operated.

The Group tested the non-current assets with signs of impairment, including property and equipment and right-of-use assets, for impairment. Based on the impairment testing, the Group recognized impairment losses of kRUB 1,458,360 for the tested assets, including impairment of property and equipment and right-of-use assets in the amount of kRUB 1,038,962 and kRUB 419,399, respectively, in the consolidated statement of comprehensive income for the year ended 2019.

In addition, the Group recognized losses from impairment of property and equipment resulting from a fire at the Group's distribution center in Voronezh and agricultural assets in the amount of kRUB 512,134 in the consolidated statement of comprehensive income for the year ended 31 December 2019.

Group approach for impairment testing
Impairment test was carried out in the context of independent cash generating units (CGU). Such units for the Group are each individual stores.

In determining units that generate substantially independent cash management of the Group considered a number of factors, including how it controls performance of CGUs, how it make decisions about liquidation of assets or continuance of CGU operations.

The Group compared recoverable amount of an individual CGU with its carrying amount for the purpose of impairment test. The recoverable amount is measured as higher of its fair value less costs of disposal and its value in use. From practical point of view, the Group does not disclose impairment by individual CGU due to significant volume of information.

Main assumptions
Future cash flows are based on the current budgets and forecasts for 10 years period approved by the management along with terminal value of forecasted free cash flows that are expected to be generated beyond the forecast period. One the main assumption applied in the model of expected cash flows is increase of revenue by 3.7%.

Cash flow forecasts for capital expenditure are based on past experience and include ongoing capital expenditure required to maintain the level of economic benefits from CGU in its current position.

Pre-tax discount rate represents the Group's pre-tax weighted average cost of capital which is then adjusted to reflect the risks specific to the respective assets and is equal to 10.74%.

The Group's management believes that all of its estimates are reasonable and consistent with how the Group manages its assets and operations and reflect management's best knowledge.

Sensitivity analysis
The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% higher than management's estimates, the impairment of non-current assets would increase by RUB 163,704. If the revised estimated discount rate consistently applied to the discounted cash flows had been 0.5% lower than management's estimates, the impairment of non-current assets would decrease by RUB 189,785. If the revenue rate of growth had been 0.5% lower than management's estimates, the impairment of non-current assets would decrease by RUB 84,645.

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9. Lease

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Right-of-use assets and lease liabilities
The carrying amounts of the Group's right-of-use assets and their movements during the period is presented below:

	Right-of-use assets		
	Buildings	Land	Total
As at 1 January 2019	**281,326,403**	**4,851,289**	**286,177,692**
Additions	77,216,535	472,138	77,688,673
Derecognition	(7,772,693)	(142,391)	(7,915,084)
Depreciation charge	(41,740,978)	(224,692)	(41,965,670)
Impairment charge (Note 8)	(419,399)	–	(419,399)
As at 31 December 2019	**308,609,868**	**4,956,344**	**313,566,212**

	Right-of-use assets		
	Buildings	Land	Total
As at 1 January 2018	**262,039,719**	**4,697,439**	**266,737,158**
Additions	61, 915,266	175,752	62,091,018
Business combinations (Note 7)	–	208,199	208,199
Derecognition	(5,906,506)	(57,740)	(5,964,246)
Depreciation charge	(36,722,076)	(172,361)	(36,894,437)
Impairment charge (Note 8)	–	–	–
As at 31 December 2018	**281,326,403**	**4,851,289**	**286,177,692**

In 2019 depreciation of a right-of-use assets in the amount of RUB 724,932 thousand were capitalized to the value of property, plant and equipment.

The carrying amounts of the Group's lease liabilities and their movements during the period is presented below:

	31 December 2019	31 December 2018 (Restated)
At 1 January	**322,741,247**	**292,925,489**
Increase in lease liabilities	77, 703,737	62, 004,170
Repayment of lease	(33,242,289)	(24,527,812)
Interest accrued	32,414,202	30,405,545
Interest paid	(32,414,202)	(30,405,545)
Lease derecognition	(9, 900,264)	(7, 768,426)
Foreign exchange (gain)/loss	(92,272)	107,825
At 31 December	**357,210,159**	**322,741,246**

	Year of maturity	Weighted average effective interest rate, %	31 December 2019
Short-term liabilities	2020	9.08	36,609,206
Long-term liabilities	2021-2069	8.94	320,600,953
Total			**357,210,159**

	Year of maturity	Weighted average effective interest rate, %	31 December 2018
Short-term liabilities	2019	9.54	32,160,057
Long-term liabilities	2020-2069	9.41	290,581,189
Total			**322,741,246**

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9. Lease (continued)

Amounts recognized in profit or loss are presented below:

	31 December 2019	31 December 2018 (Restated)
Depreciation and impairment of property, plant and equipment	41,660,136	36,894,437
Interest expense on the lease	32,414,202	30,405,545
Foreign exchange (loss)/gain	(92,271)	107,825
Gain on lease derecognition	(1,985,180)	(1,804,180)
Lease expenses related to short-term lease (included to General and administrative expenses)	249,969	335,792
Lease expenses related to lease of low-value assets (included to General and administrative expenses)	103,472	33,401
Variable lease payments (included to General and administrative expenses)	628,765	215,162
	72,979,093	**66,187,982**

10. Intangible assets

As at 31 December 2019, intangible assets consisted of the following:

	Licenses	Lease rights	Software	Trademarks	Other	Total
Cost						
At 1 January 2019	**282,546**	**–**	**2,636,596**	**31,721**	**122,017**	**3,072,880**
Additions	300,305	–	2,890,995	871	45,110	3,237,281
Disposals	(78,970)	–	(905,579)	–	(67,754)	(1,052,303)
At 31 December 2019	**503,881**	**–**	**4,622,012**	**32,592**	**99,373**	**5,257,858**
Accumulated amortisation and impairment						
At 1 January 2019	**(138,561)**	**–**	**(1,197,228)**	**(5,938)**	**(54,004)**	**(1,395,731)**
Charge for the year	(88,854)	–	(825,120)	(3,252)	(59,363)	(976,589)
Disposals	66,469	–	896,514	–	66,156	1,029,139
At 31 December 2019	**(160,946)**	**–**	**(1,125,834)**	**(9,190)**	**(47,211)**	**(1,343,181)**
Net book value						
At 1 January 2019	**143,985**	**–**	**1,439,368**	**25,783**	**68,013**	**1,677,149**
At 31 December 2019	**342,935**	**–**	**3,496,178**	**23,402**	**52,162**	**3,914,677**

As at 31 December 2018, intangible assets consisted of the following:

	Licenses	Lease rights	Software	Trademarks	Other	Total
Cost						
At 1 January 2018 (as reported)	**266,432**	**838,516**	**2,383,011**	**29,706**	**113,238**	**3,630,903**
Adjustment (Note 4.2)	–	(838,516)	–	–	–	(838,516)
Cost (as restated)	**266,432**	**–**	**2,383,011**	**29,706**	**113,238**	**2,792,387**
Business combination (Note 7)	–	–	12,776	–	–	12,776
Additions	83,765	–	792,353	2,130	79,349	957,597
Disposals	(67,651)	–	(551,544)	(115)	(70,570)	(689,880)
At 31 December 2018	**282,546**	**–**	**2,636,596**	**31,721**	**122,017**	**3,072,880**
Accumulated amortisation and impairment						
At 1 January 2018 (as reported)	**(134,425)**	**(87,012)**	**(1,081,804)**	**(2,963)**	**(56,739)**	**(1,362,943)**
Adjustment (Note 4.2)	–	87,012	–	–	–	87,012
Accumulated amortisation (as restated)	**(134,425)**	**–**	**(1,081,804)**	**(2,963)**	**(56,739)**	**(1,275,931)**
Charge for the year	(62,161)	–	(666,968)	(3,090)	(66,707)	(798,926)
Disposals	58,025	–	551,544	115	69,442	679,126
At 31 December 2018	**(138,561)**	**–**	**(1,197,228)**	**(5,938)**	**(54,004)**	**(1,395,731)**
Net book value						
At 1 January 2018	**132,007**	**–**	**1,301,207**	**26,743**	**56,499**	**1,516,456**
At 31 December 2018	**143,985**	**–**	**1,439,368**	**25,783**	**68,013**	**1,677,149**

Amortization expense is included in general and administrative expenses (Note 27).

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11. Goodwill

Goodwill as at 31 December 2019 and 2018 consisted of the following:

	2019
Goodwill as at beginning of the year	**26,879,317**
Goodwill impairment	–
Goodwill as at the end of the year	**26,879,317**

	2018
Goodwill as at beginning of the year	**1,367,493**
Goodwill arising on acquisition, at acquisition date (Note 7)	22,724,015
SIA acquisition adjustment (Note 7)	2 787 809
Goodwill impairment	–
Goodwill as at the end of the year	**26,879,317**

Carrying amount of goodwill allocated to each of the cash generated units:

	As at 31 December 2019	As at 31 December 2018
Stores Magnit Cosmetic and Magnit Pharmacy formats	25,511,824	25,511,824
Manufactury company TD Holding LLC	1,367,493	1,367,493
Total	**26,879,317**	**26,879,317**

Stores Magnit Cosmetic and Magnit Pharmacy formats CGU

The Group also performed an annual impairment test on goodwill related to the acquisition of SIA Group as of 31 December 2019 and 2018. In assessing whether the goodwill has been impaired, the current value of CGU, comprising Magnit Cosmetic and Magnit Pharmacy formats, to which the goodwill had been allocated in full was compared with its estimated value in use.

For the purposes of annual impairment testing of goodwill from the acquisition of the SIA Group as of the acquisition date, the value in use of the generating unit was determined using a discounted cash flow model. Future cash flows were calculated based on forecast of operating cash flows, approved by the management of the Group, taking into account inflation 2.8-3.2% (2018: 5%), expected synergies from acquisition, existing long-term contracts with suppliers of pharmaceutical and medical goods, as well as other macroeconomic assumptions.

Future cash flows were determined based on the forecast of free cash flows for six years subject to the effect of their terminal value.

The discount rate was determined based on the weighted average cost of capital of the Group and amounted to 10.74% (2018: 16%). As a result of the analysis, there is headroom and management did not identify an impairment for this CGU.

Key assumptions used in value in use calculations and sensitivity to changes in assumptions
The calculation of value in use for the acquisition of the 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 in the cash-generating unit comprising the Magnit Cosmetic and Magnit Pharmacy formats, including related stores and warehouses, is in the range from 43.8% to 44.6% (2018: from 33.2% to 40.6%), in accordance with the approved strategic development plan and expected increased efficiency of sales. A decrease in buyer demand may lead to a decrease in gross margin. A decrease in gross margin by 5% would result in a decrease in expected operating cash flows but would not cause an impairment loss.

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 13.74% (i.e. + 3%) would reduce the expected discounted cash flows but would not cause an impairment loss.

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 11.1% to 28%. The forecast is based on Group's activities in the cash-generating unit comprising the Magnit Cosmetic and Magnit Pharmacy formats, 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 2.8-3.2% (2018: 5%).

A decrease in customer demand may lead to a decline in sales. A decrease in revenue by 5% would result in a decrease in expected operating cash flows but would not cause any impairment loss.

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11. Goodwill (continued)

Manufactory company TD-holding LLC
The Group performed its annual impairment test on goodwill related to the acquisition of TD-holding LLC as of 31 December 2019 and 2018. In assessing whether the goodwill has been impaired, the current value of cash 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 3.3% (2018: 5%), 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 10.74% (2018: 16%).

The impairment test did not reveal any impairment of goodwill.

The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best knowledge.

12. Inventory

Inventory as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Goods for resale (at lower of cost and net realisable value)	208,653,823	172,454,333
Materials and supplies	10,219,763	9,686,170
	218,873,586	**182,140,503**

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.

The Group accounted for the write down of inventories to their net realisable value within cost of sales in the consolidated statement of comprehensive income for the year ended 31 December 2019 in the amount of RUB 358,375 thousand (31 December 2018: RUB 1,287,546 thousand). These amounts are included in "Cost of sales".

13. Trade and other receivables

Trade and other receivables as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Trade receivables – third parties	8,782,045	4,093,128
Other receivables – third parties	6,272,129	3,349,862
Other receivables – related parties (Note 6)	1,834	25,123
Expected credit losses	(1,062,568)	(656,795)
	13,993,440	**6,811,318**

Other receivables mainly relate to vendor allowances.

Trade receivables are non-interest bearing and are generally repaid on a short-term basis within 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 7).

The Group uses a provision matrix to calculate expected credit losses (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 2019:

2019	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before ECL	12,482,031	1,251,200	168,101	376,577	778,099	**15,056,008**
ECL	25,024	37,536	33,620	188,289	778,099	**1,062,568**

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13. Trade and other receivables (continued)

Set below is ageing analysis of trade and other receivables as at 31 December 2018:

2018	Current	Overdue <90 days	Overdue 90-180 days	Overdue 180-360 days	Overdue >360 days	Total
ECL rate	0.1-1.5%	3-5%	10-20%	50%	100%	
Carrying amount before ECL	5,950,478	662,920	216,945	115,020	522,750	**7,468,113**
ECL	12,200	20,946	43,389	57,510	522,750	**656,795**

Set out below is the movement in the allowance for expected credit losses:

	2019	2018
As at 1 January	(656,795)	(753,913)
Accrual of provision for expected credit losses	(505,958)	(177,508)
Release	100,185	274,626
As at 31 December	**(1,062,568)**	**(656,795)**

14. Advances paid

Advances paid as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Advances to third party suppliers	4,904,086	4,666,315
Advances for customs duties	751,668	710,629
Other advances	114,204	46,495
Advances to related party suppliers (Note 6)	–	24,364
	5,769,958	**5,447,803**

15. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 and 2018 consisted of the following:

	2019	2018
Cash on hand, in RUB	2,262,150	2,255,279
Cash in banks, in RUB	452,565	4,795,522
Cash in banks, in foreign currency	5,456	20,765
Cash in transit, in RUB	4,981,127	8,746,776
Cash placed on accounts with minimum account balance, in RUB	1,200,000	9,540,000
Deposits in foreign currency	–	1,389,412
	8,901,298	**26,747,754**

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 2019 and 2018.

As at 31 December 2019, cash of RUB 1,200,000 thousand was placed on accounts with minimum account balance maturing in January 2020. Interest accrued as at 31 December 2019 was immaterial.

As at 31 December 2018, cash of RUB 1,389,412 thousand was placed in US dollar deposits, and cash of RUB 9,540,000 thousand in rubles was placed on accounts with minimum account balance maturing in January 2019. Interest accrued as at 31 December 2018 was immaterial.

16. Share capital, share premium and treasury shares

	2019 No. ('000)	2018 No. ('000)
Authorized share capital (ordinary shares with a par value	200 850	200 850
of RUB 0.01)	200,850	200,850
Issued and fully paid share capital (par value of RUB 0.01 each)	101,911	101,911

	2019	2018
Share premium at 1 January	**87,257,340**	**87,635,960**
Sale of treasury shares	–	(378,620)
Transfer of rights to equity instruments under share-based payments program (Note 31)	122,073	–
Share premium at 31 December	**87,379,413**	**87,257,340**

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16. Share capital, share premium and treasury shares (continued)

	2019 No. ('000)	2018 No. ('000)
Balance of shares outstanding at beginning of financial year	**98,665**	**101,911**
Sale of treasury shares	–	1,514
Purchase of treasury shares	(1,302)	(4,760)
Transfer of treasury shares under share-based payments program (Note 31)	105	–
Transfer of treasury shares under employment contract with the Chief Executive (Note 31)	82	–
Balance of shares outstanding at the end of financial year	**97,550**	**98,665**

In 2018, the Group transferred 1,513,601 treasury shares as consideration for acquiring a business (Note 7).

The fair value of the consideration transferred was RUB 5,297,604 thousand. The difference between the fair value of the shares and their carrying amount was recorded as a decrease in share premium in the amount of RUB 378,620 thousand.

In 2018, the Group purchased 4,760,089 own ordinary shares at the open market for RUB 17,727,687 thousand.

In 2019, the Group purchased 1,302,397 own ordinary shares at the open market for RUB 5,109,648 thousand.

In 2019, the Group transferred 105,258 treasury shares to key management personnel as compensation under the Long-term management incentive program (Note 31). The fair value of the compensation was RUB 432,634 thousand. The difference of RUB 35,979 thousand between the carrying amount of the treasury shares and the fair value of compensation granted under the long-term incentive program was recognized as share premium.

In 2019, the Group transferred 82,355 treasury shares to the Group' Chief Executive under his employment contract (Note 31). The fair value of the consideration transferred was RUB 396,440 thousand. The difference of RUB 86,094 thousand between the carrying amount of the treasury shares and the fair value of consideration transferred was recognized as share premium.

17. Dividends declared

In 2019, the Group declared dividends to shareholders relating to 2018 and the 9 months of 2019.

	2019
Dividends declared for 2018 (RUB 166.78 per share)	16,370,754
Dividends declared for 9 months 2019 (RUB 147.19 per share)	14,445,374

In 2018, the Group declared dividends to shareholders relating to 2017 and the 9 months of 2018.

	2018
Dividends declared for 2017 (RUB 135.5 per share)	13,808,989
Dividends declared for 9 months 2018 (RUB 137.38 per share)	13,628,984

In 2019, the Group paid dividends of RUB 29,993,007 thousand (2018: RUB 13,808,982 thousand).

As at 31 December 2019, dividends payable totaled RUB 14,452,943 thousand (31 December 2018: RUB 13,629,822 thousand). Dividends payable as at 31 December 2019 were paid in January 2020.

18. Trade and other payables

Trade and other payables as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Trade payables to third parties	140,630,829	122,585,005
Other payables to third parties	20,905,617	8,420,259
Other payables to related parties (Note 6)	94,560	95,921
	161,631,006	**131,101,185**

Average trade payables turnover was 45 days in 2019 and 41 days in 2018. Interest may be charged on the outstanding balance based on market rates in accordance with individual 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.

Trade and other payables denominated in foreign currencies (mainly US dollars and euros) as of 31 December 2019 totaled RUB 7,258,346 thousand, including RUB 5,785,691 thousand in USD and RUB 1,472,655 thousand in EUR (31 December 2018: RUB 6,659,643 thousand, including RUB 5,041,053 thousand in USD and RUB 1,618,590 thousand in EUR).

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19. Accrued expenses

Accrued expenses as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Accrued salaries and wages	8,124,514	7,235,456
Other accrued expenses	8,895,591	5,849,429
	17,020,105	**13,084,885**

20. Taxes payable

Taxes payables as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Value added tax	–	763,424
Social insurance contributions	2,378,411	2,105,510
Personal income tax	1,171,380	1,100,611
Property tax	631,732	822,291
Other taxes	109,484	–
	4,291,007	**4,791,836**

21. Loans and borrowings

Long-term and short-term loans and borrowings as at 31 December 2019 and 2018 consisted of the following:

	Year of maturity	Effective interest rate	31 December 2019	Effective interest rate	31 December 2018
Long-term loans and borrowings					
Unsecured bonds	2021-2022	7.72%	40,737,574	–	–
Unsecured bank loans	2021-2027	8.11%	47,817,777	8.57%	65,837,515
Unsecured bank loans from related parties	2021-2022	8.09%	33,200,000	8.25%	28,200,000
Less: current portion of long-term borrowings and loans			(2,122,989)		(301,375)
Total long-term borrowings and loans			**119,632,362**		**93,736,140**
Short-term loans and borrowings					
Unsecured bank loans	2019	–	–	7.7%	70,535,826
Unsecured bonds	2020	7.96%	10,001,047	–	–
Unsecured bank loans	2020	6.75%	52,454,420	–	–
Current portion of long-term borrowings and loans			2,122,989		301,375
Total short-term loans and borrowings			**64,578,456**		**70,837,201**

All loans, borrowings and bonds are denominated in Russian rubles. Loans and borrowings were received on fixed rate.

22. Government grants

	2019	2018
At 1 January	**3,037,701**	**1,155,991**
Received during the year	614,318	1,967,114
Recognized in profit or loss	(383,086)	(85,404)
At 31 December	**3,268,933**	**3,037,701**
Short-term	62,857	62,340
Long-term	3,206,076	2,975,361

The government grants were received to compensate a part of direct costs incurred for the construction and modernization of property, plant and equipment. The government grants were received in cash and in the form of benefit from obtaining loans at a below-market interest rate.

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23. Revenue

Revenue for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Retail	1,332,928,824	1,216,851,273
Wholesale	35,776,570	20,164,184
	1,368,705,394	**1,237,015,457**

Revenue from contracts with customers is represented by the amounts disclosed in the table above and income from advertising services and sales of packing materials (Note 28) and for the 2019 is RUB 1,378,925,154 thousand (2018: 1,243,118,248 thousand).

24. Cost of sales

Cost of sales for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Cost of goods sold	1,022,098,438	906,730,547
Transportation expenses	34,607,615	34,210,972
	1,056,706,053	**940,941,519**

Cost of goods sold is reduced by rebates and promotional bonuses received from suppliers.

Cost of goods sold includes losses due to inventory shortages.

In 2019, payroll expenses of RUB 22,108,828 thousand (2018: RUB 22,015,986 thousand) were included in cost of sales.

25. Selling expenses

Selling expenses for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Advertising	7,715,200	8,601,093
Packaging and raw materials	3,215,294	3,531,063
Depreciation	4,755,885	3,937,790
	15,686,379	**16,069,946**

26. General and administrative expenses

General and administrative expenses for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Payroll	95,517,926	83,622,350
Depreciation of right-of-use assets (Note 9)	41,660,137	36,894,437
Depreciation of property, plant and equipment (Note 8)	40,701,825	31,522,360
Payroll-related taxes	26,159,360	24,210,938
Rent and utilities	25,719,454	21,824,472
Bank charges	6,516,095	6,058,852
Repair and maintenance	5,747,572	4,420,757
Taxes other than income tax	3,240,165	3,804,346
Security	1,797,235	1,551,342
Amortisation of intangibles	976,589	798,926
Provision for unused vacation	681,018	600,813
Accrual/(reversal) of provision for expected credit losses (Note 13)	400,437	(97,118)
Other expenses	5,843,860	5,532,323
	254,961,673	**220,744,798**

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27. Finance costs

Finance costs for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Interest on loans and borrowings	13,359,504	8,955,433
Interest on bonds	2,037,062	469,054
Interest on lease liabilities	32,414,202	30,405,545
Total interest expense for financial liabilities	**47,810,768**	**39,830,032**
Less: amounts included in the cost of qualifying assets	(29,119)	(288,225)
	47,781,649	**39,541,807**

28. Other income

Other income for the years ended 31 December 2019 and 2018 consisted of the following:

	2019	2018
Sales of packing materials	3,840,142	3,702,421
Fines and penalties	3,341,220	1,759,906
Advertising income	6,379,618	2,400,370
Gain from cancellation of lease contracts (Note 9)	1,985,180	1,804,180
Other	850,307	847,658
	16,396,467	**10,514,535**

29. Income tax

The Group's income tax expense for the years ended 31 December 2019 and 2018 is as follows:

	2019.	2018
Consolidated statement of comprehensive income		
Current tax	3,302,256	5,300,659
Adjustments in respect of current income tax of previous year	(1,068,227)	(79,397)
Deferred tax	781,221	1,562,645
Income tax expense reported in the consolidated statement of comprehensive income	**3,015,250**	**6,783,907**

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2019 is as follows:

	At 1 January 2019	Recorded in the consolidated statement of comprehensive income, 2019	At 31 December 2019
Deferred tax assets			
Right-of-use assets/lease liabilities	(9,041,780)	(1,873,756)	(10,915,536)
Accrued expenses	(338,284)	(496,146)	(834,430)
Inventory	(831,505)	(131,334)	(962,839)
Trade and other receivables	(128,665)	128,665	–
Advances paid	(254,167)	122,283	(131,884)
Deferred expenses and intangible assets	(163,988)	163,988	–
Other	(544,185)	285,448	(258,737)
Total deferred tax asset	**(11,302,574)**	**(1,800,852)**	**(13,103,426)**
Including offset with deferred tax liability	11,302,574	1,800,852	13,103,426
Net deferred tax asset	**–**	**–**	**–**
Deferred tax liabilities			
Property, plant and equipment	25,701,441	2,907,220	28,608,661
Inventory	–	319,556	319,556
Trade and other receivables	–	173,278	173,278
Other	893,591	(817,981)	75,610
Total deferred tax liability	**26,595,032**	**2,582,073**	**29,177,105**
Including offset with deferred tax asset	(11,302,574)	(1,800,852)	(13,103,426)
Net deferred tax liability	**15,292,458**	**781,221**	**16,073,679**

29. Income tax (continued)

The tax effect of main temporary differences that give rise to deferred tax assets and liabilities as at 31 December 2018 is as follows:

	At 1 January 2018	Recorded in the consolidated statement of comprehensive income, 2018	At 31 December 2018
Deferred tax assets			
Right-of-use assets/lease liabilities	(6,692,861)	(2,348,919)	(9,041,780)
Accrued expenses	(149,449)	(188,835)	(338,284)
Inventory	(1,053,737)	222,232	(831,505)
Trade and other receivables	(147,479)	18,814	(128,665)
Advances paid	(103,410)	(150,757)	(254,167)
Deferred expenses and intangible assets	(57,140)	(106,848)	(163,988)
Other	(308,865)	(235,320)	(544,185)
Total deferred tax assets	**(8,512,941)**	**(2,789,633)**	**(11,302,574)**
Including offset with deferred tax liability	8,512,941	2,789,633	11,302,574
Net deferred tax asset	**–**	**–**	**–**
Deferred tax liabilities			
Property, plant and equipment	21,427,892	4,273,549	25,701,441
Other	814,862	78,729	893,591
Total deferred tax liability	**22,242,754**	**4,352,278**	**26,595,032**
Including offset with deferred tax asset	(8,512,941)	(2,789,633)	(11,302,574)
Net deferred tax liability	**13,729,813**	**1,562,645**	**15,292,458**

The income tax expense 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 consolidated statement of comprehensive income:

	2019	2018
Profit before tax	**12,579,472**	**30,954,175**
Theoretical income tax expense at 20%	**(2,515,894)**	**(6,190,835)**
Adjustments for:		
Non-taxable income	(663,373)	(599,018)
Unrecognized deferred tax assets related to losses carried forward of Group companies	(904,209)	(73,451)
Reversal of income tax liability as a result of filing amended tax returns	1,068,226	79,397
Income tax expense	(3,015,250)	(6,783,907)
Effective income tax rate	**23.97%**	**21.92%**

As at 31 December 2019 unrecognized deferred tax assets in respect of previous years losses received by the Group companies amounted to RUB 3,627,296 thousand. (as of 31 December 2018: RUB 2,723,087 thousand).

In accordance with applicable law the Group did not reflect the deferred tax liability as of 31 December 2019 for investments in subsidiaries, since it intends to apply a zero tax rate to applicable dividend income in accordance with applicable law, since participation in the capital of subsidiaries is more than 50% and they are owned by the Group for more than one year.

30. Earnings per share

Earnings per share for the years ended 31 December 2019 and 2018 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 ordinary share for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Profit for the year attributable to shareholders of the parent	9,564,222	24,170,268
Weighted average number of shares (in thousands of shares)	97,615	101,146
Basic and diluted earnings per share (in RUB)	**97.98**	**238.96**

In 2019, the Group granted the right to obtain equity instruments to the Group's key management personnel (Note 31), which could potentially have a dilutive effect on future earnings per share. These instruments do not have a material effect on diluted earnings per share for 2019.

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31. Share-based payments

Long-term incentive program for key management personnel
In 2018, the Group approved a long-term incentive program for its key management. Contracts with the participants in the share-based payment program were concluded on 29 December 2018, which is the grant date for the rights under the program. The service period under the program in 2018 was 1 day, therefore the costs of the program were immaterial for disclosure. In accordance with the program, the Group will provide to its key management personnel the right to receive equity instruments based on the results of their service for 2018, 2019, 2020, 2021, and 2022.

For the purposes of implementing the long-term incentive program for key management personnel, a treasury stock repurchase program was adopted.

The long-term incentive program for key management personnel of the Group consists of an "option" component and a "share" component.

Option component
Options providing for the transfer of a variable number of shares depending on the excess of the market value of the Group's shares over the strike price.

The date of granting options is the date of conclusion of the contract with the program participants. The exercise price for options is RUB 4,700 per share. The maximum number of shares that all program participants may purchase is 1,755,319. The plan provides for five tranches (based on the results for five consecutive years, starting from 2018). The program participant receives the right to exercise options when all of the following conditions are met:

- Excess of the market value of the Group's shares at the date of calculation over the strike price;
- Growth of the Group's consolidated EBITDA (Profit before interest, taxes, depreciation and amortization) of 10% CAGR (total comprehensive annual growth rate for calculating interest using the compound interest formula) compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019);
- Program participant continues to work in the Group on the exercise date of the option.

For each tranche, deferred execution (transfer of shares) is provided for three years, subject to continuing provision of services by employees. Each employee under this plan receives 15 options, each giving the right to an estimated number of shares for three years in five tranches. The total number of shares that employees can acquire depends on the excess of the market price of the share over the strike price. The higher the market price, the more share the employee receives. If the market price drops below the strike price, then the right to the shares is cancelled.

Share component
Share-based payment to the participant of the program of a fixed number of shares depending on the fulfillment of the conditions for achieving the goals of the program.

The date of granting the right is the date of conclusion of the contract with the program participant. The maximum number of shares that all program participants can purchase cannot exceed 1,755,319. The plan provides for five tranches (based on the results for five consecutive years, starting from 2018). The program participant receives the right to shares if all of the following conditions are met:

- Group's consolidated EBITDA growth of 10% CAGR compared to EBITDA for the year ended 31 December 2018 (determined based on the audited published consolidated financial statements of the Group for 2019 containing information on the EBITDA for 2018 considering retrospective restatement in connection with the application of IFRS 16 Leases);
- A program participant continues to work in the Group on the exercise date of the option.

For each tranche, deferred execution (transfer of shares) is provided for three years, subject to continuing provision of services by employees. Each employee under this plan receives 15 options, each giving the right to an estimated number of shares for three years in five tranches.

Assumptions used in determining fair value
To assess the fair value of share-based payments to employees, the Group uses Monte Carlo simulation. In determining fair value, the Group has used the following assumptions:

Dividend income (%)	6
Expected average volatility for the period (%)	28.78
Average risk-free interest rate for the period (%)	7.84
Estimated time for exercise of options (years)	7
Weighted average share price (RUB)	3,920

31. Share-based payments (continued)

Movement for the period
For the 2018 tranche, the dates of transfer of rights are 27 May 2019, 2020 and 2021. For the 2019 tranche, the dates of transfer of rights are 27 May 2020, 2021 and 2022. The final date of transfer of 100% of the rights under the program with respect to the remaining tranches is 27 May 2025.

For the year ended 31 December 2019, in the consolidated statement of comprehensive income the Group recognized an expense in respect of share-based payments of RUB 1,892,833 thousand.

As at the reporting date, the management of the Group expects that with respect to all tranches the program targets will be achieved and the number of shares to be transferred is fixed in the amount of not more than 3,510,638 shares of the Group.

During the year ended 31 December 2019, the Group transferred 105,258 shares repurchased from shareholders as part of the program. The fair value of consideration transferred was RUB 432,634 thousand. The difference between the carrying amount of the treasury shares and the fair value of the consideration transferred under the program of RUB 35,979 thousand is recorded as share premium. The weighted average price per share at the execution date was RUB 4,110.

Share-based payments under the employment contract with the Chief Executive Officer of the Group
According to the terms of the employment contract concluded with the Group's Chief Executive Officer, the Chief Executive Officer is entitled to the Group's equity instruments provided that he continues to work in the Group on the exercise date of the option. The number of shares of the Group to which the rights will be transferred is fixed and amounts to 164,710 ordinary shares of the Group. Share-based payment is deferred and involves the transfer of shares during 3 years, including: 50% of fixed number of equity instruments no later than 31 May 2019, 25% no later than 31 March 2020, 25% no later than 31 March 2021, subject to continued work in the Group.

The grant date is considered the date of conclusion of the employment contract with the Chief Executive Officer. The fair value of the equity instruments transferred is determined at the grant date and does not change until the option is fully exercised.

During year ended 31 December 2019, the Group transferred 82,355 shares repurchased from shareholders as part of the fulfillment of obligations under the employment contract concluded with the Group's Chief Executive Officer. The fair value of equity instruments provided during the period was RUB 396,440 thousand. The difference between the carrying amount of the treasury shares and the fair value of the consideration given to the Chief Executive Officer of RUB 86,094 thousand is recorded as share premium. The weighted average price per share at the execution date was RUB 4,134.

For the year ended 31 December 2019, in the consolidated statement of comprehensive income, the Group recognized an expense in respect of share-based payments under the employment contract with the Chief Executive Officer of RUB 559,509 thousand.

32. 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 2019, further efforts were made to implement mechanisms to counter tax evasion involving 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.

Management believes that at 31 December 2019, it 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 2019 and 2018, the Group accrued no provisions for tax positions.

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32. Contingencies, commitments and operating risks (continued)

Litigation
The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, neither of which, individually or in aggregate, had a material adverse effect on the Group. 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.

Capital and rent commitments
As at 31 December 2019 and 2018, the Group entered in a number of agreements related to the acquisition of property, plant and equipment. Capital commitments are presented net of VAT:

	2019	2018
Within 1 year	3,793,382	10,211,095
2 to 5 years inclusive	6,968	6,705
	3,800,350	**10,217,800**

33. Financial risk management objectives and policies

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 to equity ratio.

The capital structure of the Group consists of loans and borrowings disclosed in Note 21, cash and cash equivalents disclosed in Note 15 and equity attributable to shareholders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 16.

Debt-to-equity 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 debt-to-equity ratio in 2019 of 2.82 (2018: 2.17).

The debt-to-equity ratio as at 31 December 2019 and 2018 was as follows:

	2019	2018
Loans and borrowings	184,210,818	164,573,341
Long-term and short-term lease liabilities	357,210,159	322,741,246
Cash and cash equivalents	(8,901,298)	(26,747,754)
Net debt	**532,519,679**	**460,566,833**
Equity	**188,532,813**	**212,442,026**
Net debt-to-equity ratio	**2.82**	**2.17**

Debt is defined as long-term and short-term loans and borrowings. Equity includes all capital and reserves of the Group.

The change in the target net debt-to-equity ratio is due to the changes in the capital structure in 2019.

Fair values
Set out below is a comparison by class of the Group's financial instruments that are recorded in the consolidated financial statements.

The fair value of the financial assets and 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	
	2019	2018	2019	2018
Long-term loans and borrowings	79,653,488	93,736,140	81,873,746	94,010,140
Bonds	39,978,874	–	40,094,910	–

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 loans and borrowings 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 2019 and 2018, the fair value of the Group's financial instruments, except as described above, approximates their carrying value.

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33. Financial risk management objectives and policies (continued)

Set out below are changes in liabilities arising from financing activities:

	1 January	Proceeds from loans and borrowings	Repayment of loans and borrowings	Loans acquired in business combinations	Finance costs	Interest paid	31 December
2019							
Short-term and long-term loans and borrowings	164,573,341	695,756,324	(677,163,335)	–	15,362,852	(14,318,365)	184,210,818
2018							
Short-term and long-term loans and borrowings	126,460,055	600,693,859	(572,272,534)	10,416,658	9,136,262	(9,860,959)	164,573,341

Information about changes in lease liability are presented in Note 9.

	As at 1 January	Dividends declared	Dividends paid	As at 31 December
2019				
Dividends paid	13,629,822	30,816,128	(29,993,007)	14,452,943
2018				
Dividends paid	831	27,437,973	(13,808,982)	13,629,822

Foreign currency risk management

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 purchases are denominated in a different currency from the Group's functional currency).

As at 31 December 2019 the foreign currency balances were presented by trade and other payables disclosed in Note 18 (as at 31 December 2018: by cash (Note 15) and trade and other payables (Note 18)).

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 Group's exposure to foreign currency changes for all other currencies is not material.

Foreign currency risk management

The Group manages its foreign currency risk by scheduling payments to foreign suppliers close to the date of transfer of ownership of goods to the Group.

	Change in USD exchange rate	Effect on profit before tax	Change in euro exchange rate	Effect on profit before tax
2019	+13.00%	783,588	+13.00%	220,460
	-11.00%	(663,036)	-11.00%	(186,543)
2018	+14.00%	708,705	+14.00%	227,075
	-14.00%	(703,516)	-14.00%	(226,246)

Interest rate risk management

The Group is exposed to insignificant interest rate risk as the Group's entities borrow funds primarily at the fixed rates.

Credit risk management

Credit risk is the risk that a counterparty will not meet its contract obligations on time, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and other receivables) and investing activities (cash, short-term loans).

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 consolidated statement of financial position.

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33. Financial risk management objectives and policies (continued)

Offsetting of financial assets and liabilities
The Group offsets its financial assets and financial liabilities when all the conditions for offset are met. The effect of the offsetting is presented below:

	Gross amount			Net amount	
	Trade and other receivables	Trade and other payables	Amountof offset	Trade and other receivables	Trade and other payables
2019	28,340,288	(175,977,854)	14,346,848	13,993,440	(161,631,006)
2018	19,470,056	(143,759,923)	12,658,738	6,811,318	(131,101,185)

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.

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 1 month	1-3 month	3 month to 1 year	1-5 years	More than 5 years	Total
2019							
Trade and other payables		127,097,996	34,533,010	–	–	–	161,631,006
Repayment of lease liabilities		5,558,534	11,065,328	50,541,221	254,023,784	195,440,197	516,629,064
Loans and borrowings	7.60	9,376,666	2,474,305	63,637,393	129,767,356	1,186,754	206,442,474
		142,033,196	**48,072,643**	**114,178,614**	**383,791,140**	**196,626,951**	**884,702,544**

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	More than 5 years	Total
2018							
Trade and other payables		105,452,122	25,649,063	–	–	–	131,101,185
Repayment of lease liabilities		5,187,013	10,247,757	46,946,613	238,616,951	182,899,536	483,897,870
Loans and borrowings	8.14	5,123,937	24,953,099	50,813,588	105,104,729	2,471,011	188,466,364
		115,763,072	**60,849,919**	**97,760,201**	**343,721,680**	**185,370,547**	**803,465,419**

The Group has access to financing facilities of RUB 399,561,000 thousand of which RUB 263,940,663 thousand remained unused at 31 December 2019. The Group expects to meet its other obligations from operating cash flows and proceeds from maturing financial assets.

34. Subsequent events

On 5 March 2020, Magnit PJSC placed exchange-traded documentary interest-bearing non-convertible bonds in the amount of RUB 15 billion maturing in 1,092 days from the date of placement.

The Chinese economy and its development prospects were negatively affected by global trade tension and the emergence of the Covid-19 coronavirus.

Measures to curb the spread of the virus may affect business operations around the world.

Restrictions on the movement of goods and services may affect the Group's supply chains.

Management Statement of Responsibility

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.

Chairman of the Management Board,
President and CEO
Jan Gezinus Dunning

The Annual Report was preliminary approved by the Board of Directors on April 09, 2020 (minutes w/o No. as of April 10, 2020) and approved by the annual General shareholders meeting of PJSC «Magnit» held on June 04, 2020 (minutes w/o No. as of June 05, 2020).

Glossary

Average ticket	a figure calculated by dividing total sales at all stores during the relevant year by the number of tickets in that year
CAPEX	the money an organisation or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land
Consumer Confidence Index (CCI)	a survey, administered by The Conference Board, which measures how optimistic or pessimistic consumers are regarding their expected financial situation
Customer Decision Tree (CDT)	a graphical representation of a customer's buying decision process expressed in a tree format
CPI (Consumer Price Index)	a price index that measures changes in the price level of a weighted average market basket of consumer goods and services for a certain period of time
Cross-docking	is a transshipment platform used to consolidate incoming products for outgoing destinations.
CSR (Corporate Social Responsibility)	a responsible attitude in managing a company's impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment
CVP	Customer Value Proposition
Drogerie	a retail store selling beauty, hygiene and household related products as well as certain non-prescription medications
End-to-end process (E2E process)	a process which takes a method or service from its beginning to its end, delivering a complete functional solution
EGAIS	national automated information system for the control of alcohol production and distribution
ERP (Enterprise Resource Planning)	integrated management of main business processes, often in real time and mediated by specialised software and technology
EVP	Employer Value Proposition
Fast-moving Consumer Goods (FMCG)	inexpensive products that people usually buy on a regular basis, such as packaged foods, beverages, toiletries, over-the-counter drugs, and other consumables
Federal state informational system "Mercury"	automated system for electronic certification of goods subject to state veterinary control in Russian Federation
HACCP (Hazard Analysis and Critical Control Points)	a systematic preventative approach to food safety from biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level
LFL (like–for–like) sales	the method of comparing current year sales figures to prior year's sales figures excluding the expansion effect
Net debt	a liquidity metric used to determine how well a company can pay all of its debts if they were due immediately
Platon Electronic Toll Collection (ETC) system	a Russian electronic toll collection system which collects tolls from trucks over 12 tonnes, with the proceedings going to a federal fund for road maintenance
Private label (PL)	brand owned not by a manufacturer or producer, but by a retailer or supplier, who gets its goods made by a contract manufacturer under its own label
Real GDP	an inflation-adjusted measure that reflects the value of all goods and services produced by an economy
Real disposal income (RDI)	the post-tax and benefit income available to households after an adjustment has been made for price changes
Return on Investment Capital (ROIC)	a profitability or performance ratio measuring the percentage return that investors in a company are earning from their invested capital
Sales density	the revenue generated for a given area of sales space, presented as a monetary value per square metre
Selling space	the area inside stores used to sell products, excluding areas rented out to third parties, own–production areas, storage areas and the space between store entry and the cash desk line
SKU (stock keeping unit)	a number assigned to a particular product to identify the price, product options and manufacturer of the merchandise
Sustainable development	development that meets the needs of the present without compromising the ability of future generations to meet their own needs
Traffic	the number of tickets issued for the period under review
WACC (weighted average cost of capital)	the rate that a company is expected to pay on average to all its security holders to finance its assets

ABBREVIATIONS

ACRA	Accounting and Corporate Regulatory Authority
AGM	Annual General Meeting
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CRM	Client Relationship Management
EBITDA	Earnings before interest, taxes, depreciation and amortization
ESG	Environmental, Social, Governmental
FY	Financial Year
GDP	Gross domestic product
GDR	Global depositary receipts
GHG	Greenhouse gases
H	Half of the year
HR	Human resources
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
IR	Investor relations
IT	Information Technologies
JSC	Joint Stock Company
KPI	Key Performance Indicators
LLC	Limited Liability Company
LSE	London Stock Exchange
LTI	Long-term incentive
M	Month of the year
M&A	Mergers & Acquisitions
MICEX	Moscow Interbank Currency Exchange
MOEX	Moscow Exchange
PJSC	Public Joint Stock Company
p.p.	Percentage point
Q	Quarter of the year
RTS	Russian Trading System
RUB	Russian rouble
SPO	Secondary public offering
Sq.m	Square metre
STI	Short-term incentive
VAT	Value-added tax
WMS	Warehouse management system
Y-o-Y	Year Over Year

About the Report

The Annual Report of Magnit PJSC for 2019 (also referred to as Magnit or the Company) was prepared based on the information available to Magnit PJSC and its subsidiaries (referred to as Magnit) as of December 31, 2019, 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 2019 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 the Legislation of the Russian Federation, including the Regulation on Information Disclosure by Issuers of Equity. Among other things, the following principles and requirements were used and taken into account during its preparation:

- Securities approved by the Bank of Russia on December 30, 2014 as No. 454-P;
- Letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014 "On the Corporate Governance Code";
- the Moscow Exchange;
- 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 Magnit PJSC operates. By their nature, such forward-looking statements are characterised 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 Magnit PJSC, this Annual Report contains information obtained from third parties and from sources which Magnit PJSC finds to be reliable. However, the Company does not guarantee the accuracy of this information, as it may be abridged or incomplete. Magnit PJSC 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. Magnit PJSC 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.

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