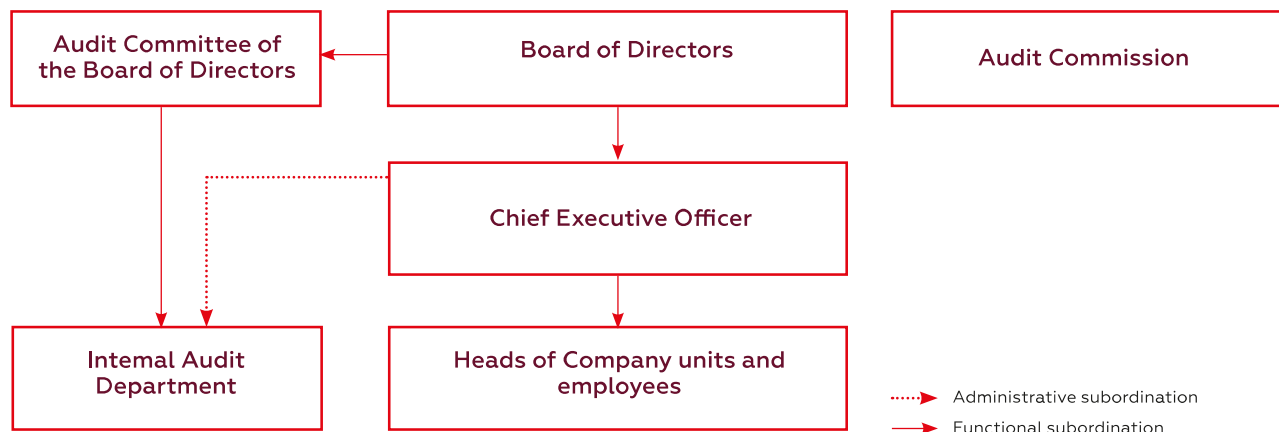


Structure of the Company's internal control bodies:



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

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

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

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

## Internal audit

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

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

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

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

1. via the Audit Committee of the Board of Directors

2. via the Audit Committee of the Board of Directors

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

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

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

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

management system.

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

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

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

### Efficiency assessment

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

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

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

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

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

### Remuneration in 2018

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

### External audit

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

#### IFRS auditor

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

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

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

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

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

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

### RAS audit

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

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

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

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

### Audit Commission

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

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

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

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