

# 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; and
- 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 dated 12 December 2019, minutes of 13 December 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:

The internal control system is based on the principles of the COSO concept recommended by the Corporate Governance Code. According to the COSO model<sup>1</sup>, 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 among the participants in the internal control and risk management system, as well as decision-making in corresponding areas, is implemented via the Company’s information systems. The relevant information is defined, recorded and transmitted in such a form as 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.

### 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.

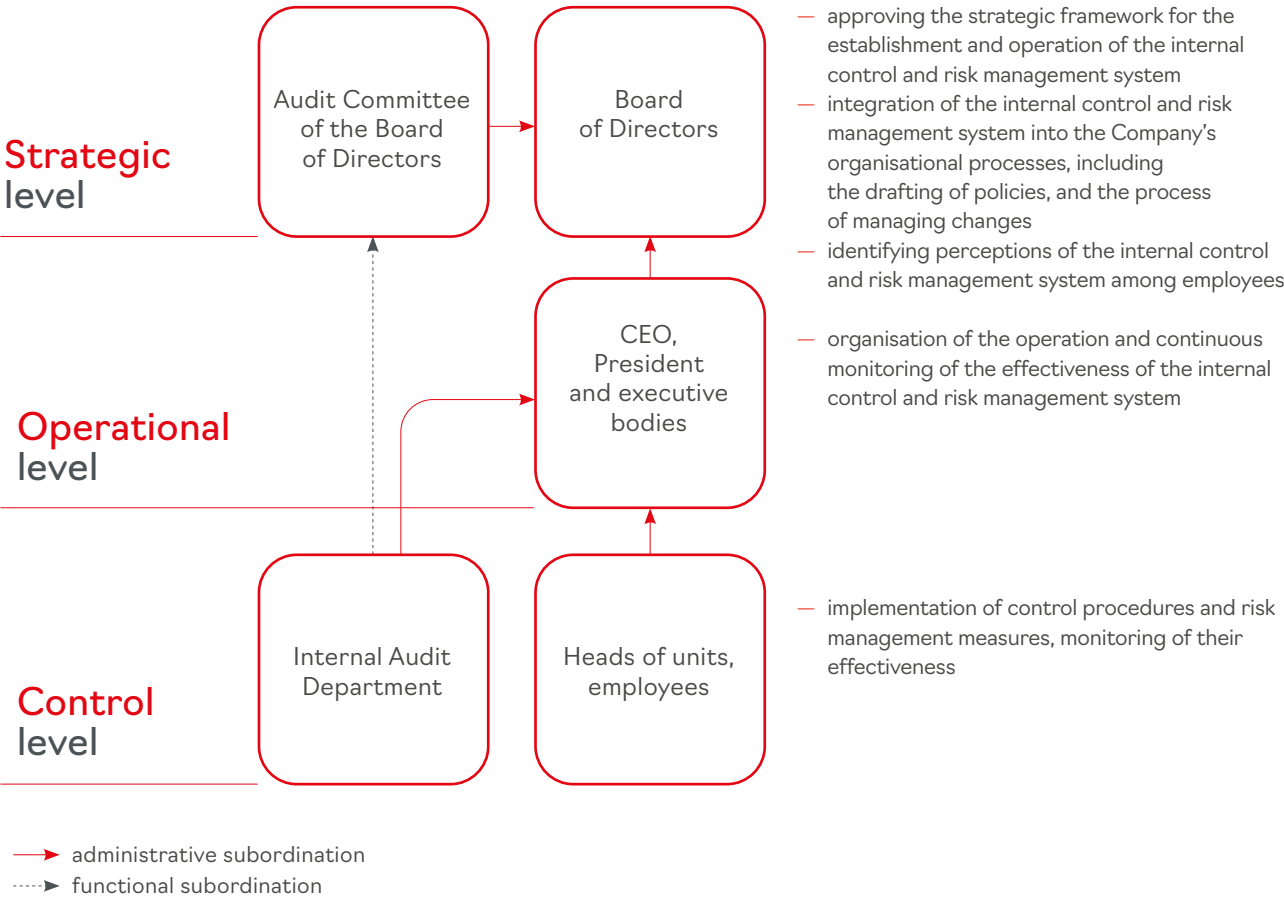
The key document regulating the activity of the Internal Audit Department is the Regulations on Internal Audit at PJSC Magnit where the main responsibilities of the department are defined as:

- 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

### Structure of the Company’s internal control bodies



<sup>1</sup>THE COMMITTEE OF SPONSORING ORGANISATIONS OF THE TREADWAY COMMISSION (COSO) IS A VOLUNTARY PRIVATE ORGANISATION ESTABLISHED IN THE UNITED STATES THAT IS DEDICATED TO PROVIDING THOUGHT LEADERSHIP THROUGH THE DEVELOPMENT OF FRAMEWORKS AND GUIDANCE ON ENTERPRISE RISK MANAGEMENT, INTERNAL CONTROL AND FRAUD DETERRENCE.

# Internal Control and Risk Management System (continued)

- preparing 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).

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.

On 10 September 2021 the changes were made in the management of the Department. A new Director of the Internal Audit Department was appointed.

In 2021, 21 audits were conducted by employees of the Internal Audit Department. Based on the results of the audits, 217 corrective actions were developed and approved. Some of them were implemented in 2021, the rest will be implemented from the beginning of 2022.

At the beginning of 2022, changes were made in the structure of the Internal Audit Department due to the Company's acquisition of the Dixy chain. Within the organisational structure of Dixy, an internal audit unit was formed that functionally reports to the Director of the Internal Audit Department of PJSC Magnit.

### Efficiency assessment

In 2021, 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, risk assessment, control procedures, information, communications, and monitoring.

According to the assessment, the current level of organisation and functioning of the internal control and risk management system was deemed to be 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, a member of Self-regulatory Organisation of Auditors Association "Sodruzhestvo" (SRO AAC) (Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations 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 10 June 2021 as the auditor of the Company's consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Ernst & Young LLC has been auditing the consolidated statements of PJSC Magnit and its subsidiaries prepared in accordance with the international Financial Reporting Standards since 2010. The partner of Ernst & Young LLC since 2020 is Ilya Ananyev.

The auditor inspected the 2021 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 accuracy of the consolidated financial statements for 2021, prepared in accordance with IFRS.

The auditor's total remuneration paid by the Group in 2021 amounted to RUB 134.96 mln (excluding VAT), including:

- remuneration for the audit and audit-related services – RUB 76.64 mln (56.79% of the total amount paid), including RUB 61.85 mln paid for the statutory audit and review of the consolidated financial statements of the Company
- remuneration for other audit-related services ("non-audit services") – RUB 58.32 mln (43.21% of the total amount paid).

These amounts include payments made for the services for the provision of which the auditor was hired in 2020, and which were completed in 2021.

In September 2021 the Audit Committee of the Company's Board of Directors approved the Audit Fees Policy.

 For more details on this Policy and measures taken by the Company following the results of the AGM in 2021, see Corporate Governance Framework Development.

Therefore, aggregate volume of services for which the auditor was engaged by the Group in 2021 amounted to RUB 123.96 mln (excluding VAT), including:

- audit and audit-related services – RUB 83.82 mln (67.62% of the total volume of services), of which RUB 77.85 mln relate to the statutory audit and review of the consolidated financial statements of the Company

- other audit-related services ("non-audit services") – RUB 40.14 mln (32.38% of the total volume of services and 47.89% of the total volume of audit and related services).

The bulk of the "non-audit" services for the provision of which the Group hired the auditor in 2021 are consulting services related to the implementation of IT solutions for inventory forecasting and replenishment.

### RAS Audit

The audit firm Faber Lex Limited Liability Company (TIN 7709383532), location: Krasnodar, 144/2 Krasnykh Partizan Street, was approved at the AGM held on 10 June 2021 as the auditor of the Company's accounting (financial) statements for 2021 prepared in accordance with the Russian Accounting Standards.

AF Faber Lex LLC is a member of the Self-Regulatory Organisation of Auditors Association SODRUZHESTVO (SRO AAS) No. 441 dated 20 March 2020 with the main registration number entry (ORNZ) 12006114232.

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 in all its material aspects.

The total remuneration paid by the Group's companies to AF Faber Lex LLC in 2021 amounted to RUB 6.59 mln (excluding VAT), including:

- remuneration for the audit services – RUB 6.095 mln (92.49% of the total amount paid), including RUB 316.2 thousand paid for the audit of the PJSC Magnit accounting (financial) statements for 2020
- remuneration for other audit-related services ("non-audit services") – RUB 495 thousand (7.51% of the total amount paid).